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INTER-ORGANIZATIONAL RELATIONSHIPS:

THE EVOLUTION OF PARTNERSHIP GOVERNANCE IN SALES AND MARKETING COOPERATION – A CASE STUDY

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ABSTRACT

The dissertation is a case study on how the governance of the sales and marketing partnership between a telecommunications services provider and an information technology equipment supplier evolved during a two-year research period. The research is based on rich process data collected alongside operational, practical day-to-day operations, and on thematic interviews from both partnering organizations.

The research data is organized into a case narrative, which is used in interpreting the events and development of the partnership governance as structure and management through four theoretical lenses. The research design is based on Alternate Templates Strategy (ATS) and the theories used are Theory of the Growth of the Firm, Resource Based View, Transaction Costs Economics and Stakeholder Theory. The theories are refined into theoretical lenses by forming distinct batteries of research questions that are systematically, one-by-one, applied in the analysis of the case narrative. Based on established interpretations and their combination, the final stage of the research process is generalization of the case-dependent argumentations into propositions.

The study provides understanding of partnership governance processes that affect the partnership performance and outcomes, as well as impact both the premises for and the development of the partnership. New insights to identifying and managing partnership's stakeholders; setting of joint, measurable goals; legitimateness building activities; sensemaking and communication of the partnership in relation to the partners' common history and current strategies or operations; as well as structuring the cooperation and facilitation of interactions between people, contribute to extant IOR literature. In addition, recommendations for partner managers provide suggestions for partnership governance in practice.

Moreover, the study contributes to the development of the ATS as a systematic process research approach and method.

Keywords: partnership management, alliance management, hybrid organizations, operational partnership, Alternate Templates Strategy, process research

TIIVISTELMÄ

Väitöskirjassa tutkitaan kumppanuuden hallintotavan (governanssin) kehittymistä telekommunikaatio-palveluiden ja informaatioteknologian laitetoimittajan välisessä myynti ja markkinointi – yhteistyössä. Tutkimusmateriaali koostuu käytännön operatiivisessa yhteistyössä kahden vuoden aikana syntyneistä sähköposteista, muistioista ym. dokumenteista sekä keskeisten henkilöiden haastatteluista.

Tutkimuksen toteutustapa perustuu menetelmään, jossa kumppanuuden tapahtumia ja kehitystä kuvaavaa, tutkimusaineistoon perustuvaa narratiivia tulkitaan erillisten teoreettisten linssien kautta (Alternate Templates Strategy; ATS). Muodostamalla eri organisaatioteorioihin pohjautuvia, keskenään erilaisia kysymyspatteristoja narratiivi analysoidaan systemaattisesti neljä kertaa. Valitut teoriat ovat: Theory of the Growth of the Firm, Resource Based View, Transaction Costs Economics ja Stakeholder Theory. Tutkimusprosessin viimeisessä vaiheessa analysoinnin tuloksena syntyneet erilliset tulkinnat yhdistetään ko. partneruutta koskeviksi argumenteiksi, jotka edelleen yleistetään propositioiksi.

Työ lisää tietämystä kumppanuuden hallintotapaan liittyvistä prosesseista, jotka vaikuttavat sekä kumppanuuden saavutuksiin ja tuloksiin että kumppanuuden kehittymiseen ja kehittymisen edellytyksiin. Organisaatioiden välistä yhteistyötä koskevaan kirjallisuuteen työ tuo uusia näkökulmia, jotka liittyvät kumppanuuden sidosryhmien tunnistamiseen ja johtamiseen; yhteisten, mitattavien tavoitteiden asettamiseen; kumppanuuden vakiinnuttamiseen; kumppaneiden yhteisen historian ja voimassaolevien strategioiden ja toimintojen huomioimiseen viestinnässä ja yhteisen näkemyksen muodostamisessa; sekä yhteistyön organisointiin ja ihmisten välisen vuorovaikutuksen edistämiseen. Lisäksi tutkimuksen perusteella voidaan antaa suosituksia kumppanuuden johtamiseen käytännössä.

Asiasanat: organisaatioiden väliset suhteet, kumppanuus, kumppanuuden hallintotapa, kumppanuuden johtaminen, prosessitutkimus

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Postgraduate studies have been an exciting process of renewal for me: after more than twenty years of practical management, entering the academic world has been challenging and inspiring but also a lot of work. However, I have loved it and I am really grateful to my employer, TeliaSonera Finland, for giving me the opportunity to participate in the doctoral program of ExIMA – Executive School of Industrial Management - at the Helsinki University of Technology, and study in addition to working my regular job.

The research process of my dissertation was by no means straightforward. My tasks at work changed quite often and it took time to determine the final context for the study. Fortunately, there was stability in the research process too: the topic was always firmly in the area of inter-organizational relationships. More importantly, the two VIP's, my supervisor and instructor remained the same. I sincerely thank my supervisor, Professor Paul Lillrank, for his patience, for his sharp questions that made me think, and for those numerous rules of thumb stemming from his solid experience. For example, I'm sure I will always remember that in illustrations "the wisdom is in the arrows".

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I want to thank Professor Kimmo Alajoutsijärvi from University of Oulu, Department of marketing, and Professor Senja Svahn from University of Jyväskylä, the School of Business and Economics, for their valuable comments and critique as the pre-examiners of the dissertation. Simultaneously with the pre-examination, the draft version of the manuscript was given a language check. I address special thanks to Bill Wall, Professor of English at Fairleigh Dickinson University in Madison, New Jersey.

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As the two older children no longer reside at home, in the final phases it was Jarmo and Perttu who, on a daily basis, shared the agony and delight related to my dissertation writing. Sometimes they were able to help me by just listening and letting me clarify my thoughts aloud. Quite often, we also practiced the art of debating on different issues. I also had a chance to withdraw to our summer house for several, week-long writing sessions without the need to worry about cooking, cleaning or other home-bound work.

My deepest, most sincere and loving thanks belong to Jarmo - my partner in marriage.

Espoo, November 2007

Päivi T. Karjalainen

Table of contents

List of figures

List of tables

1 INTRODUCTION

Information and communications technology (ICT) services business relies heavily on cooperation between different players, e.g. the technology producers, teleoperators and system integrators. The collaboration started off first in the field of developing the technology - in research and development. Today, sales and marketing cooperation is also essential in transforming the customer requirements into optimal technical and commercial solutions that fit customer needs. Reliable, networked, and up-to-date information systems and applications play a strategic, central role in customers' business operations. As one consequence of the increased importance of the ICT services, inter-organizational relationships (IORs) are seen both as a necessity and as an opportunity for the ICT-services providers in coping with the intensified competition on the market.

Generally, sales and marketing partnerships in the IOR literature most closely resemble Parkhe's (1993) definition of alliances as "relatively enduring interfirm cooperative agreements, involving flows and linkages that use resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm."

Sales and marketing partnerships or alliances are most often referred to in research that focuses on identifying and on categorizing different types of IORs (Kaplan & Hurd, 2002; Cousins, 2005; Anderson & Narus, 1990; Bucklin & Sengupta, 1993; Perry et al., 2004; Todeva & Knoke, 2005). On the other hand, IOR literature investigates sales and marketing alliances through their purposes: alliances are formed to create growth for either or both of the partners, as for example, through entries into new markets or by enhancing market coverage and/or brand reputation (Anslinger & Jenk, 2004; Dussauge & Garrette, 1998; Varadarajan & Rajaratnam, 1986). Sales and marketing cooperation can also be an element in partner organizations' competition strategies (Townsend, 2003; Beverland & Bretherton, 2001; Adler, 1966), or the strategic sales alliance can be formed to create new knowledge and learning (Jones et al., 2003) .

Operational sales and marketing partnerships aim at enhancing the image, credibility, and market penetration of the individual partners by bundling brands and cross-selling services through the extended sales force, which can satisfy customer needs more broadly and more rapidly (Kaplan & Hurd, 2002). In horizontal alliances, firms at the same level in the value chain collaborate to conduct business activities. "A large amount of research on business [IORs and] networks focuses on firms' vertical interactions, with suppliers and customers. Little research has been done on horizontal connections…" (Hadjikhani & Thilenius, 2005).

Research on alliances has focused mainly on the issues related to alliance formation (Spekman et al., 1998) concentrating on the reasons for allying, choosing of the partners as well as on the characteristics and structures of the relationship. Less effort has been put on research aimed at understanding the alliance management (Draulans et al., 2003), but its importance is quite often brought up, as Boddy et al. (2000) summarize: "Implementing and managing an alliance is harder than deciding to collaborate". Some cues of studies in alliance management can be found, however, in articles with a 'consultative orientation'[1] (e.g. Isabella, 2002; Lewis, 1990) or as a part of literature reviews concerning marketing alliances (e.g. Rich, 2003). Rare examples of empirical research on alliances related to sales and marketing are Smith's paper (1977) on "selling alliances" that aims at identifying the factors which make a difference in the efficiency of co-marketing IORs and a study on alliance conflicts unfolding during the implementation of a marketing alliance (Nordin, 2006).

Although it is often recognized and pointed out that IORs develop and evolve over time, the temporal, processual perspective on the alliance has been largely neglected (Ring & Van de Ven, 1994). However, as life cycle analysis is a widely accepted approach in the marketing, management and organizational literature, alliance researchers have explored the phases or stages through which the inter-organizational relationship (IOR) emerges, grows and dissolves.

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[1] 'Consultative orientation' refers to articles that offer practitioners advice, recommendations or best/preferred practices, but don't present any of the research that they possibly are based on.

Spekman et al. (1998) consolidated from several authors a table (presented as table 1.1) of the alliance life cycle stages (Dwyer et al., 1987; Larson, 1992; Lorange & Roos, 1993; Murray & Mahon, 1993; Ring & Van de Ven, 1994). The life cycle provides a theoretical, 'idealistic' frame of the alliance phases and emphasizes in a compact way that the role of alliance management is strongly dependent on the alliance's internal development phase. In addition, external factors affect the IOR development and the role of alliance management: Both the competitive environment of the partnership as well as the actions and decisions made by the partner organizations have an impact on the partnership by creating objectives, goals, requirements, needs, and the like, that the partnership has to adapt to. It is valid to expect that the role of the partnership governance is even more multifaceted than presented in table 1.1. Both the partnership boundary with the environment and between the partners (what parts of each partner belong to the partnership) has to be taken into account (Borys & Jemison, 1989).

Table 1.1 Alliance life cycle stages

	Anticipation	**Engagement**	**Valuation**	**Coordination**	**Investment**	**Stabilization**	**Decision**
Characteristics of life cycle stage	Pre-alliance Competitive needs and motivation emerge	High energy Complementarity Congruence Strategic potential	Financial focus Business cases Analysis Internal selling	Operational focus Task orientation Division of labor Parallel activity	Hard choices Committing Resource reallocation Broadening scope	High interdependence Maintenance Assessment of relative worth and contribution	Where now?
Key business activity	Partner search	Partner identification	Valuation Initiating	Coordination Interfacing	Expansion Growth	Adjustment	Re-evaluation
Role of alliance manager	Visionary	Strategic sponsor	Advocate	Networker	Facilitator	Manager	Mediator

Alliances are commonly regarded as a special organizational form, or they are studied and examined as networks of firms; the two perspectives have also been combined (e.g. Alajoutsijärvi et al., 1999). This study will apply organizational theories as the route to make sense and gain understanding of the partnership governance. Operational IORs have been studied little, especially as virtual organizations from the management viewpoint (Spekman, 1998; Osborn & Hagedoorn, 1997)

Partnerships or alliances pose characteristics that create challenges to the utilization of any theory of the firm. Central to organizational theories is that firms have boundaries, and maintaining those boundaries is seen as a basic responsibility of the organization's management. In addition, organizations that are regarded as open systems must expend energy in boundary maintenance. But in partnerships, it is equally important that energies are devoted to activities that span boundaries (Scott, 1998: p. 89). Horizontal alliances expose special challenges to managing the IOR, because the people in organizations' boundary-spanning positions experience role stress (Nygaard & Dahlstrom, 2002).

As a summary, the extant literature is short on empirical research that explores sales and marketing partnerships from operational and partnership governance viewpoints as well as from the processual perspective, i.e., how the partnership evolves in relation to time: Besides bringing new insight from the mentioned viewpoints, the focal research contributes to the narrowing of the gap between practitioners and scientists: The research provides an example of how the chosen theory-based process research strategy, Alternate Templates Strategy, combined with narrative strategy can be systematically used in analyzing rich and "messy"[2] process data from 'real life' in arriving at propositions. Some of the propositions at the same time support earlier research findings and bring out new perspectives to issues that are significant in making partnerships work. For instance, common measurable goals are proposed to lead to better partnership performance through improving the tone of the partnership. On the other hand, some of the propositions have not been at all addressed previously in the IOR literature, as an example, tensions in the partnership are proposed to have a necessary role as drivers for the partnership development.

The main research question of the dissertation is: *What is the role of partnership governance in sales and marketing cooperation?*

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[2] A term used to describe process data by Ann Langley (1999).

1.1 The business context of the case partnership

The partners of the case are called Sigma and Epsilon. Sigma is a subsidiary of an internationally operating telecommunications services provider. Correspondingly, Epsilon is an affiliate of a globally operating information technology supplier that also offers support services to its partners. Both organizations have their own sales functions. However, Epsilon uses only a channel model in its operations, and does not sell products directly to end customers but uses partners and resellers. Sigma integrates Epsilon's products into the telecommunications network and other offerings as part of the technology platform. Depending on the sales case, the equipment may or may not become the property of the customer. The buying and selling of Epsilon technology and support services takes place between the partners. Thus, the case partnership holds characteristics of both horizontal and vertical IORs: although the products and services of both partners are needed and combined to produce the complete offering for the end customer, the promotion and selling activities are performed in a horizontal cooperation manner.

As presented in figure 1.1, the sales activities directed to the end-customers by Epsilon are marketing and lobbying, and aim at bringing out the excellence of the technologies and technical solutions of the Epsilon products and their usage. Sigma, on the other hand, markets and sells services where Epsilon technology might be used, and contracts with the customer.

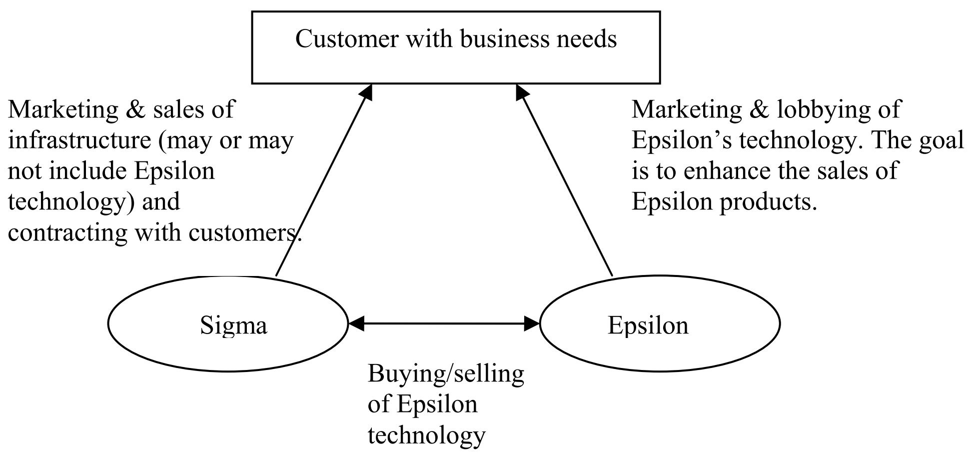

Figure 1.1 Selling and marketing efforts of Sigma and Epsilon

Active participation of customers is always needed in services; they cannot be produced beforehand but are created together with the customer (Grönroos, 2000). The customer is of paramount importance and also a crucial asset in the service business (Möller & Halinen, 2000). However, in this study, the customer is treated as a 'receiver' of the infrastructure that makes service creation possible. The restriction enables a much simpler and concise research design: the focal partnership is the relationship between the two firms, Sigma and Epsilon. Sigma operates the networks and connections that utilize Epsilon's and other producers' technology in ICT-infrastructure provision. The role of the customer is seen as a decision maker in purchasing. It is important, however, to bear in mind that the buying decisions are based on the possibilities of using the infrastructure in business - not on the technology as such.

Sigma and Epsilon had cooperated for more than fifteen years before the case partnership was announced. The collaboration had started off in technological orientation and advanced to include some commercial cooperation on the market as well. Sales performance in Epsilon was measured as 'number of devices multiplied by unit price' and correspondingly as 'monthly fee multiplied by contract period in months' in Sigma. There were two buyer/supplier contracts between the partners: a teleoperator or service-provider agreement and a system-integrator agreement.

For service providers and integrators Epsilon had a comprehensive Channel Partner Program, which was divided into four hierarchical levels. The lowest level was just a registered partner, but the higher levels required certifications with stepwise escalating pre-defined requirements, and Epsilon's Channel Partner Certification Program was one of the most valued and well known programs among customers. Especially governmental or internationally operating customer organizations had started to demand certifications from their suppliers as a guarantee of quality or as providing a basis for ICT supplier evaluations. In the beginning of the research period, Sigma acquired a certification in the Channel Partner Program. Epsilon had five other certified partners, on the same or higher level than Sigma, operating on the same market as Sigma and competing with the focal partnership. Correspondingly, Sigma collaborated with some of Epsilon's competitors. Figure 1.2 clarifies the business context by presenting a greatly simplified network structure of the focal companies' relationships on the market:

only one alternative partnership for Sigma or Epsilon and just two customers are presented. Other business connections among the players are not shown. In reality, the number of players on the market was manifold and the number of links between and among them extensive.

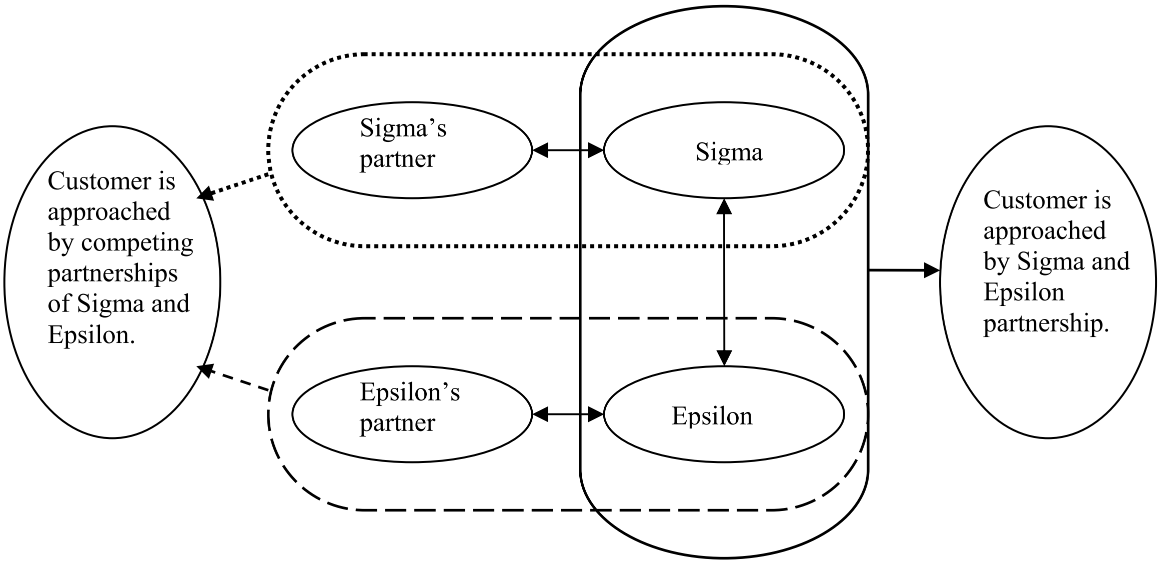

Figure 1.2 Focal companies Sigma and Epsilon form a non-exclusive partnership

In addition to the non-exclusive sales and marketing partnership, the partnering firms were each others' customers. They had a customer-supplier relationship both in the product and service provision areas, where Epsilon was the supplier. Similarly, Sigma was the supplier of telecommunications services to Epsilon. Furthermore, Sigma was part of Epsilon's eco-system of fault detection and management, i.e., the partnering firms had also a technical partnership, which included cooperation in the implementation processes of services into customers' IT-environments. The following figure presents the compound[3] relationship between the two partnering firms.

[3] Compound relationships are composed of two or more simple relationships between a pair of firms. Simple relationships are defined as separate and distinct relationships that occur between these same two firms, such as supplier to customer, competitor to competitor, or joint partners. (Ross & Robertson, 2007)

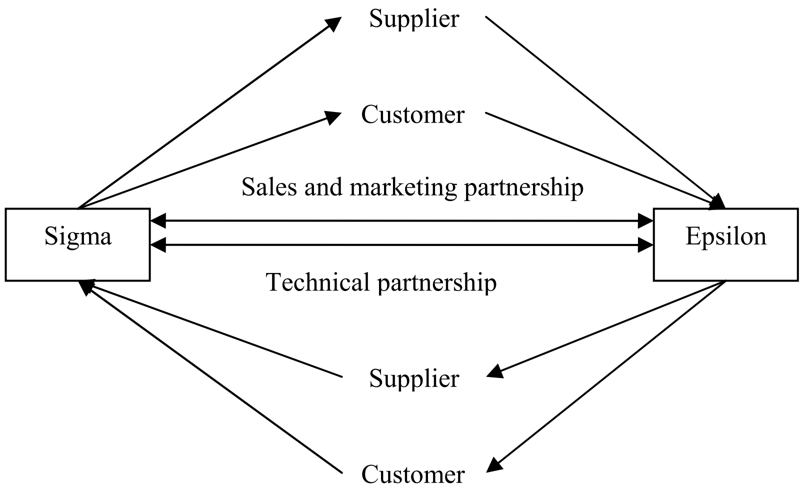

Figure 1.3 The compound relationship of Sigma and Epsilon

1.2 Phases of the partnership governance during the research period[4]

The sales and marketing partnership between the partners, Sigma and Epsilon was considered to start when Sigma was, for the first time, certified in Epsilon's Channel Partner Program, in September 2003 and the company nominated a partner manager for the go-to-market IOR from its partner management team. This team had already had an assistant role in Sigma in conducting customer satisfaction surveys that were needed in the certification process, but assumed now the responsibility of developing and running the sales and marketing cooperation from Sigma's side. Similarly, Epsilon had a dedicated channel account manager in charge of the focal partnership.

During the research period, from April 2003 to April 2005, the partnership governance activities evolved as is presented in the following figure. The actions are categorized into four different types: A) administrative tasks and services related to Epsilon's

[4] The periodization of the partnership governance activities is done and named according to the phases presented in the case narrative, which was written first in the research process. However, a comparable problem addressed by Fullerton (1988) on 'the myth of Production Era' can be identified. For clarity, it must be noted that naming of the first phase as 'Product & technology cooperation' does not mean that there would not have been any joint sales and marketing efforts during that period. The name simply holds that from the focal partnership's standpoint technology was the main focus of that period.

Channel Partner Program, C) coordination and facilitation of activities in and between the partner organizations, E) explorative activities to create a common comprehension of the partnership in the partner organizations, and P) planning and implementation of the plans to develop the partnership.

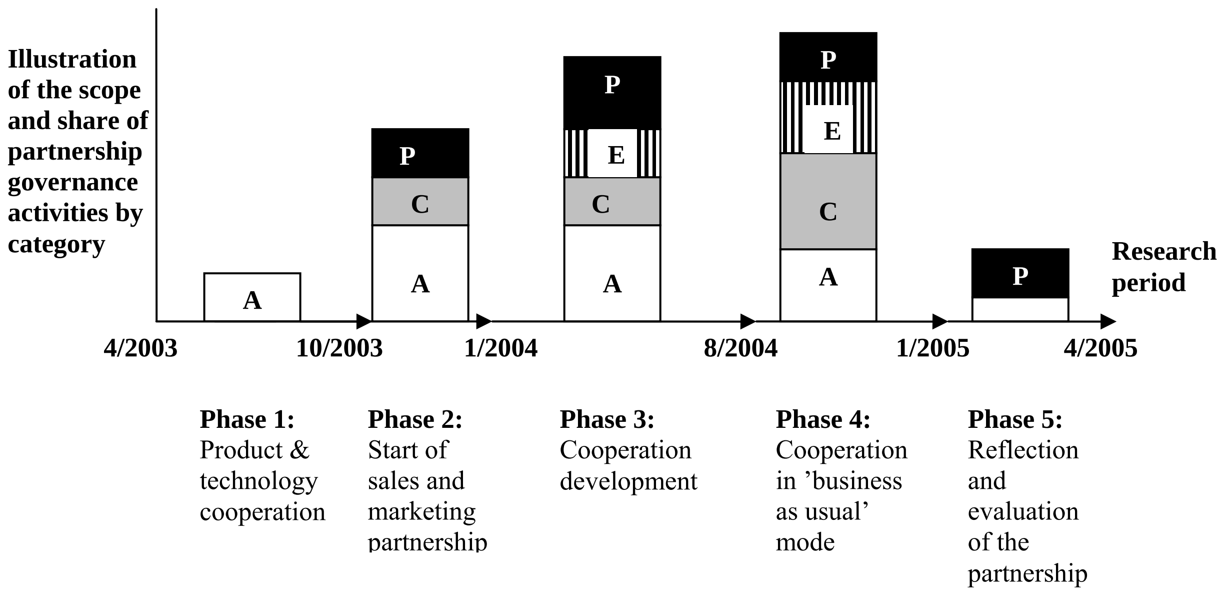

Figure 1.4 The focus of partnership governance during the research period.

Examples of activities related to administrative tasks and services (category A) are conduction of customer satisfaction surveys and updating of Sigma contacts data in Epsilon's web-system. Correspondingly, the C-category, coordination and facilitation of activities, includes management of different meetings and networking in the partner organizations. Explorative activities, category E, holds the work related to constructing a common framework of cooperative forums between the partners, gathering of market information and experimenting with Epsilon's bonus programs that were offered to certified partners. Finally, category P, the planning and implementation of the plans, contains for instance workshops, production of business plans and evaluation of the partnership performance for further development. During the last phase of the research period – due to the organizational restructuring of Sigma – especially Sigma's partner management focused on handing over the responsibilities to a new downsized partnering function.

1.3 How the research is carried out

Scientific literature on the inter-organizational relationships commonly suggests that due to the complexity of the phenomenon, several theoretical approaches should be used. The focal research enforces the Alternate Templates Strategy (ATS): several theories are used as lenses in analyzing the partnership governance structure and management activities of the case sales and marketing partnership.

The study investigates a single case, and is based on rich operational and evaluative process data on the sales and marketing partnership between Sigma and Epsilon. The research data has been used to write a 'thick description' narrative, which is then interpreted through four different sets of a priori formed research questions. This way, four distinct, sensemaking theory-based explanations of the partnership happenings and their causes and consequences are created, i.e., four different readings are generated for the case partnership.

The focal research is founded on regarding the IOR as one entity, as an organizational form or 'virtual organization', and an open system. The organizational theories chosen to the study are 1) Theory of the Growth of the Firm, 2) Resource Based View, 3) Transaction Costs Economics, and 4) Stakeholder Theory. Through a literature review of each theory in IOR and sales and marketing context, batteries of detailed research questions and their sub-questions are constructed in order to systematize the interpretation process. Altogether, 15 research questions and 37 sub-questions are formed under the umbrella of the main research question.

As the final phase of the Alternate Templates research Strategy, the new insights brought up by the four readings are studied side-by-side to provide for distinct or overlapping conceptions and supportive complementarities among them. Thus, a realistic conception of the sales and marketing cooperation between the partners is formed. The identified central arguments relating to the case partnership governance, both as structure, processes and interactions, are generalized into theoretical propositions and into recommendations for practicing partner managers. The arguments, propositions and recommendations are based on issues or factors that would improve partnership performance and success, create business opportunities, and facilitate as well as enhance the development of an inter-organizational relationship.[5]

1.4 Structure of the dissertation

The structure of the dissertation is depicted in figure 1.5. Chapter 1 introduces the research in relation to existing IOR literature and to the business context of the case partnership. The chapter on the research design, Chapter 2, presents the justification of the chosen research method by delineating the Alternate Templates Strategy (ATS) and its application to the case study. The chapter continues with the presentation of the research data, its use as raw material for the case narrative and the definitions or descriptions of central concepts used in the narrative story. Finally, the research process is depicted as a chart (figure 2.4).

Chapter 3 is the case narrative, which is presented in five distinctive parts differing both in scope and perspective. First, the narrative is set into a time frame and the research period is divided into five partnership phases. Secondly, the operational processes and issues related to Sigma as a certified channel partner of Epsilon are presented in chronological order. The third part analyzes the partnership and its achievements. Fourthly, the market from technology and competition viewpoints is considered as the operational, external environment for the partnership. The last section compiles the evaluative comments of the informants into a consolidated assessment of the operational partnership.

In Chapter 4, each theory that is used for analyzing and interpreting the case narrative according to the Alternate Templates Strategy (ATS) is introduced in general by the basic concepts and underlying assumptions of the theory. Previous literature on the theories' usage in inter-organizational relationships and sales-and-marketing contexts is reviewed, and used in refining the theoretical lenses for the study. Each lens comprises a

[5] Comparable with Allison's (1971) statement:"The readings do not settle the matter of what happened and why, but they do uncover underemphasized features, and afford a rich source of hypotheses about the causes of various outcomes."

set of detailed research questions and related sub-questions used as the tools for focusing on specific issues in the narrative. Finally, the research lenses derived through the theoretical perspectives are summarized as a table of the research question batteries.

The findings, facilitated by the use of the batteries of the research questions, i.e., the four theoretical interpretations of the case narrative, are presented in Chapter 5. The readings are presented one-by-one, highlighting the specific issues and viewpoints that each theory brings out in the case narrative. As the final phase of each interpretation, the correlation between the research questions and elicited information is delivered in a tabular form to summarize and increase the transparency of the research method.

Finally, Chapter 6 presents the combined results of the systematic study of the narrative and theoretical interpretations. Consolidated arguments based on the case analysis and different theoretical viewpoints are then transformed into propositions. Managerial implications of the research, as well as the theoretical and methodological contributions, are discussed. Lastly, the research method and study limitations are assessed, and directions for future research suggested.

Chapter 1	**Introduction**
Chapter 2	**Research design**
Chapter 3	**The case narrative**
Chapter 4	**Theoretical lenses**
Chapter 5	**Interpretations through theories**
Chapter 6	**Discussion and conclusions**

Figure 1.5 Structure of the dissertation

1.5 Contributions of the research

The contributions of the research can be grouped into three categories: 1) contributions stemming from the context of the study, 2) enhanced understanding and sensemaking of partnership governance processes and practices both theoretically from the structural and managerial viewpoints as well as from the practical partner manager perspective and 3) methodological contributions.

First, the research contributes to the field of empirical research on inter-organizational relationships in implementation of partnerships or alliances, from the operational and managerial viewpoints. In terms of business context, previous empirical IOR research has outweighed research on horizontal alliances in sales and marketing cooperation by studying mostly vertical relationships and "from the level of analysis of the firm (Nordin, 2006)". In the focal study, the perspective is explicitly partnership internal by concentrating on the governance of the IOR and regarding the partnering firms as part of the operational environment. The partnership is conceived as an organizational entity and organization theories are used in studying it. For instance, Stakeholder Theory is used in a novel way to identify the stakeholders and their expectations, impacts and influences on the partnership. Central to the research is the use of the case narrative which is based on longitudinal process data and evaluative interviews of central people from both parent companies.

Secondly, the study provides understanding of partnership governance processes that affect the partnership performance and outcomes, as well as impact both the premises for and the development of the partnership. The research leads to eight propositions that are generalized from argumentations based on the sensemaking of the case and focus on learning from the interpretations done through four theoretical lenses and the combination of the readings.

It is proposed that measurable, jointly set goals for the partnership improve the partnership performance in two ways: by creating a better tone for the cooperation and by enhancing the possibilities to evaluate the achievements. Partnership stakeholder management, in turn, is essential in setting those goals by the comprehension of the expectations of the different parties. It was found that besides the legitimateness of the partnership as such, also the partnership governance legitimacy is important from the IOR sustainability viewpoint. The study supported previous literature (Human & Provan, 2000) in that internal and external legitimateness building activities are interrelated and prioritization of internal activities in the early phases of an IOR is favorable from the partnership development viewpoint.

The common history of the partner organizations was discovered to be an undervalued resource in the focal partnership. It is suggested that also in sales and marketing partnerships which, de facto, aim at selling *new* products and services, the other relationships and common history of the partnering firms could be used, for instance, as sales arguments and references. A recent paper by Ross & Robertson (2007, emphasis added) introduces the concept of compound relationships and supports the above: "Th[e] multiplicity of relationships can lead to both *opportunities* and challenges for each of the two firms in the dyad." The research also yielded that presentation of the sales and marketing cooperation in a framework that related the focal IOR to the other existing cooperative activities between the partners increased the legitimateness and helped sensemaking of the partnership as well as facilitated interactions between people, which are essential for the partnership's continuous development.

The study extends previous literature conceptions on the role of tensions and conflicts (Das & Teng, 2000; Ness & Haugland, 2005; Pitelis, 2005) especially in marketing oriented inter-organizational relationships by claiming that tensions are triggers and drivers of partnership development and that those tensions stem from both internal *and external* environments of the partnering firms. Moreover, practical experiments in the partnership governance context were found essential in the partnership development process.

As a summary from the propositions, it can be concluded that the research contributes to Nooteboom's (2006) "emerging cognitive theory of the firm". All the propositions hold an undertone of a need to cross the cognitive distance of the partnership stakeholders either within the partnering firms or between them. Moreover, it can be elaborated that the role of the virtual partnership management function clearly evolved, during the research period, to include characteristics of an intermediary or a 'go-between' (Nooteboom, 2003; 2004b) for the partnership.

In addition to the theoretical contributions, the research yields seven practical recommendations for partner managers. Those recommendations are derived either from the propositions or directly from the interpretations. Examples of the latter are suggestions to ‘consider the possibility that different parts of the organization may be in different phases in terms of partnership culture’ and to ‘recognize and deal with tensions in the partnership rather than harbor them up’.

Thirdly, the research contributes to the scientific literature on process research by systematizing the Alternate Templates Strategy as a research approach and method. In the focal study, ATS is presented as a research process comprising the following steps: 1) the choice of theories to be used in the research as theoretical lenses, 2) formulation of research question batteries based on each theory, 3) readings of the case narrative through the theoretical lenses, and 4) combination of the distinct readings, and building up argumentations and propositions based on the interpretations. Special attention is paid to provide an answer to Langley’s (1999) question of “How the various theoretical perspectives, derived in the ATS research process, can be combined?”

2 RESEARCH DESIGN

The research contributes to the discourse on inter-organizational relationships by exploring the role of partnership governance in sales and marketing cooperation. The study is conducted in a single-case context, and the research is based on rich process data of a two year period from April 2003 to April 2005. The goal of the research is to create new insight of operational partnerships for the benefit of both scholars and practitioners. The phenomenon investigated is the development of the governance structure and management processes of the partnership.

2.1 Requirements for the research method

The contemporary literature on inter-organizational relationships commonly utilizes several theoretical viewpoints. It is argued that "the research on inter-organizational relationships is necessarily cross-disciplinary and cross-perspective due to the complexity and heterogeneity of the phenomenon" (Oliver & Ebers, 1998). Moreover, Osborn & Hagedoorn (1997) state that focusing solely on economic, strategic or social aspects of alliances may hide more than is revealed, and according to Smith et al. (1995), insight into cooperation will require cross-level examinations. Based on those argumentations, the first requirement set for the research method, to be used in the focal study, is that it should investigate the partnership governance development from different angles (Requirement 1).

Observations of practical management clearly support the use of several theoretical viewpoints. Although "theory often gets a bum rap among managers because it's associated with the word 'theoretical', which connotes 'impractical' (Christensen & Raynor, 2003), most managers are "voracious users of theory". "Every action that managers take, and every plan they formulate, is based on some theory in the back of their minds that makes them expect the actions they contemplate will lead to the results they envision" (Ibid., 2003). The managers often simultaneously refer to different concepts stemming from different theories. For instance, in the sales and marketing context of the research case, examples of terms frequently used concurrently were ‘market position’, ‘core competences’, ‘cost efficiency’, ‘competitive advantage’, ‘growth’, ‘customer orientation’ and ‘added value’.

However, in order to justify combining of different theoretical views, it is important to make sure that the different perspectives are compatible. As an example, the theories should share the same assumptions about the human nature, such as ‘people are boundedly rational”. Thus, the second requirement for the research method is that the assumptions underlying the theoretical perspectives, to be combined, must not be contradictory. Furthermore, the theories must share the same ontological and epistemological groundings. (Requirement 2)

By definition, the inter-organizational relationship implies that at least some activities are shared among the parties, and therefore the division of labor needs to be coordinated and integrated. To capture the nature of the role of partnership governance, a processual research approach is imperative: many dimensions affecting the performance and day-to-day procedures change and develop during the life-cycle of the partnership. The IOR should not be viewed as a static entity (Sobrero & Schrader, 1998). Moreover, the approach should resemble the ‘river metaphor for strategic management’ introduced by Lamberg & Parvinen (2003), because the past is irreversible and affects the evolution of the partnership.

Ancona et al. (2001) distinguish three kinds of adoption of the temporal lens to research: 1) timing norms, 2) time lags and 3) temporal leadership. In the research context, *the timing norms* present themselves possibly through different temporal cultures of the IOR parties. The organizations might relate differently to time dimensions of past, present and future and behave differently because of that. Timing norms also partly determine the time elapsed for new practices to become diffused and legitimized within an organization (Lawrence et al., 2001). *Time lags* are observable in how different kinds of work relate to changes, e.g., it has been observed that changes are much slower in a product development than in manufacturing groups (Sterman et al., 1997). On the organizational level, the interdependence of processes – the work flow – affects the rate of change. *The temporal leadership* refers to the need of managing in multiple time frames. The management team entrains the organization to technology and competitive cycles and creates temporal structures for the organization, and at the same time, must "maintain a timeless organizational vision that provides an anchor for the strategic pacing of the organization" (Ancona et al., 2001).

Based on the above, in addition to the process view, it is important that the research method takes into account that time might be a different kind of dimension to different parties. Thus, the third requirement becomes: The research method should allow for a perspective over time and appreciate process data (Requirement 3).

Besides scientific relevance, the research should reveal practically relevant results. Beyond this, it is necessary for the practitioners to understand how the results are arrived at, i.e., the method should be theoretically rigorous, systematically progressing and able to provide a transparent research approach to the case. In short, the method should meet both academic and practical needs (Requirement 4).

As a summary, the principles or requirements set for the research method are:

1. The method uses several theoretical lenses/ viewpoints
2. The theoretical perspectives must be compatible ontologically, epistemologically and apply to same assumptions.
3. The theoretical lenses must fit the processual nature of the research context and allow explanation of the phenomenon in relation to time.
4. In addition to providing a contribution to the academic field, the method should, at the same time, be understandable for practical managers.

"Strategies for theorizing from process data" is the title of Ann Langley´s seminal article published in Academy of Management Review in 1999. In that paper, Langley identifies and describes in a systematic way seven strategies that can "overcome the overwhelming nature of boundary-less, dynamic and multi-level process data". From those seven research methods, three are applicable to be used in a single case context; namely Narrative Strategy, Alternate Templates Strategy and Temporal Bracketing Strategy.

Besides used as research strategy, narratives are commonly used in connection with other strategies as a way to document process data into a consolidated, detailed story.

Narratives are often used also in metaphorical analyses, where the first step "is to produce a diagnostic reading of the situation being investigated". This 'reading' may then be used to explore and create interpretations through different metaphors, for instance, of "the complexity of organizations in both descriptive and prescriptive manner" (Morgan, 1986). In this context, the term 'diagnostic reading' corresponds directly to the term 'narrative'.

Metaphors can also be used to provide for several viewpoints in organization research, as Cornelissen (2006) states referring to several authors (e.g., Weick, 1989; Cornelissen, 2004; Morgan, 1980; and Tsoukas, 1991): "…a long line of commentators in organization studies… have emphasized the use of metaphor as a cognitive and heuristic device to view and understand phenomena in a new light and to recognize conceptual distinctions that were inconceivable before, and in providing the groundwork and models for extended organizational theorizing and research". Thus metaphors as a research method meet the first requirement set for this study. However, metaphors "*typically* involve a transfer from one epistemic sphere to another (Cornelissen, 2006; emphasis in original)", and satisfying the second requirement set for this study could be troublesome and difficult. Furthermore, as the managers in the practical context did use terms that directly stem from known organization theories, the Alternate Templates Strategy is chosen for the research method used in this study.

The Alternate Templates Strategy (ATS) "provides a powerful means of deriving insight from a single rich case" by producing explanation and alternative interpretations of the same events through "internally coherent sets[6] of a priori theoretical premises"(Langley, 1999). In this research, the ATS is coupled with the Narrative Strategy, i.e., a descriptive story is written on the case.

[6] In the focal research, the internal coherency is considered to be achieved when the basic assumptions remain the same throughout the study.

2.2 Alternate Templates Strategy (ATS)

The Alternate Templates Strategy as a research method was popularized by Graham T. Allison who used three different theoretical templates in studying decision making in the Cuban Missile Crisis (Allison, 1971). ATS has also been used in studies concerning the implementation processes of information systems, as well as in strategic management studies on globalization (Langley, 1999). The different theoretical interpretations provide the base for comparison needed to derive insight from a single rich case (Lee, 1989; Yin, 1994 in Langley, 1999).

In his conclusions on the study of the Cuban Missile Crisis, Allison (1971) states that "each conceptual framework consists of a cluster of assumptions and categories that influences what the analyst finds puzzling, how he formulates his question, where he looks for evidence, and what he produces as an answer". In other words, the chosen theoretical lens has an effect on what is asked and on what grounds. Allison sums up (p. 249) by asking if the explanations are due to "different answers or different questions?" In the focal study, the use of different questions is made as explicit as possible: the research questions are used to highlight different sides of the phenomenon, and create a more thorough understanding of partnership governance.

The research question for the whole dissertation is: "What is the role of partnership governance in sales and marketing cooperation?" and the theoretical perspectives are used as channels through which the partnership governance can be studied. As the figures 2.1 and 2.2 demonstrate, each of the chosen theories to be used in the ATS framework is, based on the relevant previous literature, refined to a specific theoretical lens. Particular, pertinent details can be picked up from the case narrative by using the batteries of research questions and itemized sub-questions related thereto.

The theories are chosen in such a way that they each provide a means to investigate the case from a distinct perspective. Some theory might have a long track record in being used in the research of inter-organizational relationships or it might be that the theory has not been used in that context at all, previously. Thus, the number of research questions may be varying from theory to theory. In fact, it is more likely than not, that the research question batteries are different both in scope and scale. The theories have different roles in the process of forming the total comprehension of the case, and the number of research questions does not indicate the importance of the specific theory from the viewpoint of the whole.

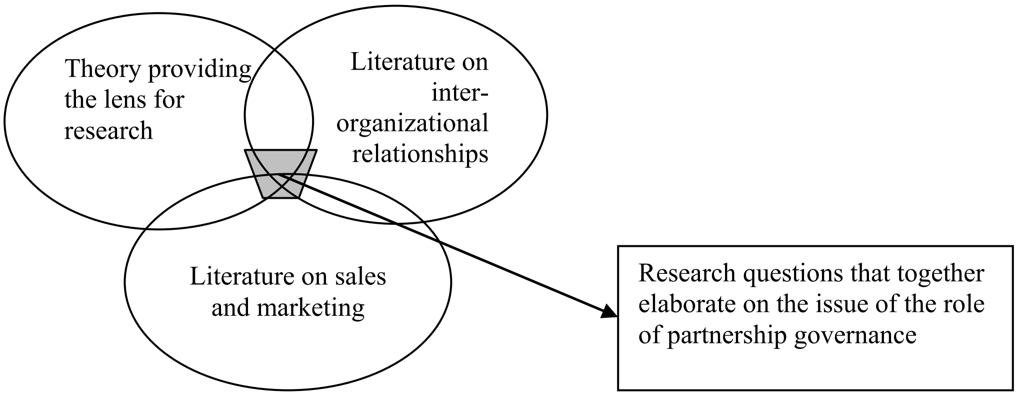

Figure 2.1 Formation of research questions

The case is analyzed as many times as there are theoretical lenses. The interpretations are done in a bottom-up manner by finding detailed information from the case first to the itemized sub-questions and then responding to research questions attached to each theory. The batteries of questions can be described as 'smart weapons' that ensure a sharp focus, and a systematic, more transparent approach in forming the theoretical interpretations of the case.

DISSERTATION RESEARCH QUESTION			
Research questions based on Theory 1	**Research questions based on** Theory 2	**...**	**Research questions based on** Theory N
Itemized sub-questions	Itemized sub-questions		Itemized sub-questions

Figure 2.2 The batteries of research questions

The research questions have the form of 'How?'. The answers thereto provide information either on the development or change of different artefacts that are related to the partnership governance, as for instance management tasks, processes or transactions, or provide descriptions of the partnership governance during the research period through a processual approach[7]. The sub-questions, correspondingly, have the form of "What?" and they are used in finding the relevant specifics and details, pertinent to each theory, from the narrative text, in order to provide answers for the research questions. These answers are used in making the interpretation through each theoretical lens.

2.3 Theoretical perspectives: the choices for ATS lenses

The most common reason for the formation of alliances is that the partners aim at gaining mutual, synergy-based benefits that neither would be able to achieve alone; the purpose of the alliance is to create value through common resources or increased effectiveness (Spekman et al., 1998). The partners are concerned with growth and development possibilities that are created together for the benefit of both.

Edith Penrose's (1959) Theory of the Growth of the Firm offers a way of incorporating the different forces 'that influence which resources are deployed and how' into a simple but elegant framework (Moran & Ghoshal, 1999). Penrose sets the management team and the team's learning processes in center stage and, thus, matches exactly the focus of the phenomenon studied, the role of the partnership governance. The theory provides tools for examining the choices and opportunities that the partnership management made and utilized in governing the IOR. The Theory of the Growth of the Firm also recognizes that 'history matters' and "growth is essentially an evolutionary process and based on the cumulative growth of collective knowledge, in the context of purposive firm (Penrose, 1995)".

In the focal research, TGF as a theoretical lens is expanded by perspectives derived from the "emerging cognitive theory of the firm" (Nooteboom, 2006) to take into account the following viewpoints that do not receive attention in Penrose's theory: 1) opportunities for growth by collaboration with other firms, 2) the learning and

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[7] Processual approach is defined in the following way: Process is the unfolding chain of events in the partnership. An event is defined as any incident where the parties engage in joint interaction, as well as unilateral actions or perceptions of the partners or other parties that affect the partnership. (Modified from Ness & Haugland, 2005)

identification of opportunities by other than managerial resources, and 3) the importance of mutual understanding as well as ability and willingness of people to collaborate[8]. Nooteboom proposes that "the central task [of management] no longer lies in identifying opportunities and guiding novel combinations [of resources and activities] but on a meta-level of managing cognitive focus in order to enable people to understand each other and collaborate with each other, in their identification and implementation of opportunities, and to set cognitive focus in answer to the question how to combine exploitation and exploration, within and between organizations. In other words, managerial resources are seen as lying primarily in guiding and coordinating cognition in the firm". (Ibid., 2006)

To benefit from the alliance, the partners deploy the resources brought together through combinations and exchanges. Combinations refer to all the many ways in which resources are pressed to services and can be replications of existing services that are because of the partnership made more readily available, or the combinations can produce resources that did not exist before the alliance and/or are created in a new, better way. Exchanges, correspondingly, refer to the mechanisms that are needed to realize the potential of resource combinations. The exchanges facilitate the reallocation of resources to more productive uses and stimulate the perception of new combinations. Three necessary conditions must be satisfied before any purposive resource deployment can be turned from a possibility into an opportunity: 1) the access to the requisite resources must be enabled, 2) some benefit must be gained to motivate the deployment, and 3) some service must be perceived to flow from the deployment. (Moran & Ghoshal, 1999).

In the alliance literature, the frequently used theoretical perspective that focuses on the internal partner/partnership characteristics or processes is the Resource Based View (RBV). A commonly used exchange theory, respectively, is the Transaction Costs Economics (TCE). The concepts of both of the theories are familiar to practical managers and are obvious choices for theoretical lenses. Although the RBV and TCE

[8] It can be argued, however, that those matters of different opinions, interests and views as well as authority, monitoring, control, incentives and motives, and the like, would be included in Penrose's ideas as she considers "setting the tone of the organization" as a central management task.

theories are mostly used in the literature for analyzing situations at a specific time, the approach can be made more temporal by utilizing longitudinal research data and, thus, bringing out the development that has happened over time. In addition, as the resources may themselves be processes, they have a temporal character.

As Penrose's theory has inspired the resource or competence based theories of management and organization, it has gained quite a standard status as a reference in connection with RBV literature. However, the citations to Penrose (1959) relatively seldom really refer to the theory but are just mentioned.[9] Most of that literature focuses on the utilization of resources, not on learning and the creation of new resources (Foss, 1999; Ghoshal et al., 2002). These focuses are, however, included in the dynamic capability view, developed by Teece et al. (1997). Moreover, since the RBV literature has not implemented Penrose's view of cognitive differentiation between people (Nooteboom, 2006), it is justified to separate the TGF and RBV theoretical lenses in the focal study. In addition, TGF as a theoretical lens does not focus on efficient utilization of resources or appropriation of returns from them.

Besides internal partner and alliance qualities and characteristics, the partnership governance is affected by external factors. The partner organizations and particular individuals in them are examples of parties that are interested in the outcomes of the partnership and need to perceive that possibilities of the partnership are turned into opportunities. They are the stakeholders of the partnership governance: the fourth theory to be taken into the ATS as a theoretical lens is the Stakeholder Theory (SHT). SHT has not been explicitly used in the IOR research and provides a contribution to the academic field of IOR discourse. For practitioners 'stakeholder' is a common concept.

The four theories, TGF, RBV, TCE and SHT, fall into the same Burrel & Morgan (1979) paradigm as well as correlate with the Morgan & Smirchich (1980) conceptions of open systems: the ontology, epistemology and assumptions of the theoretical perspectives coincide and, thus, fit the second requirement set for the research. A lot of

[9] An exception to this general conception is, however, research on managerial beliefs on what is perceived to be the set of feasible expansion paths for a firm, by Mishina et al. (2004).

IOR research in the sales and marketing context has been conducted from the networks perspective in the IMP Group (Industrial/international Marketing and Purchasing). Alajoutsijärvi et al. (2001) have studied the dominant metaphors applied in those studies, and the paradigm applied to this study corresponds closely to the metaphor of "network as a business system" described in the above mentioned article.

The third requirement of claiming for the temporal research approach is achieved in the following way: Theory of the Growth of the Firm, as such, includes the historical perspective. Examination of the changes in the partnership resources through the Resource Based View and in the governance structure through Transactions Costs Economies is done by comparing situations at specific points of time. Stakeholder Theory provides focus on the stakeholders' expectations and evaluations on the partnership and its performance. Finally, the fourth requirement is met, since all the theories apply concepts familiar to practitioners in their day-to-day work. The justifications for the chosen theories are summarized in the following table.

Table 2.1 Theoretical perspectives to be used in the research applying ATS

Theoretical lens	**Why chosen?**	**Note**
TGF Theory of the Growth of the Firm	The goal of the partnership is to create growth for the partners. TGF takes into account that 'history matters'. *The issues are familiar to practical managers.*	Penrose's theory is expanded by the cognitive theory of the firm. All human resources contribute to identification of opportunities.
RBV Resource Based View (RBV)	Partner resources and their combinations are the basis for the value creation. *Commonly used in alliance research. The concepts are familiar.*	Resources can be also processes. The development of the resources is studied in relation to time.
TCE Transaction Costs Economics	Cooperation between partners takes place in a governance structure that causes costs. Frequency of exchange processes affects the efficiency of the IOR *Commonly used in alliance research. The concepts are familiar.*	Opportunism and trust are central, practical issues in sales and marketing cooperation. Changes in the governance are compared in relation to time.
SHT Stakeholder Theory	Stakeholders influence the partnership by setting goals, restrictions and expectations, and represent the operational environment of the IOR. They judge the success and legitimateness of the partnership. *Stakeholder is a familiar concept to practical managers.*	Different stakeholders have different kinds of influence and decision power on the partnership. The stakeholders evaluate the partnership over the research period.

2.4 Research data

The major part of the raw material for the research data was gathered alongside the practical every-day work of the partner manager of the case partnership in Sigma. Most of the documentation that emerged during the research period was produced in the cooperative activities between the parties Sigma and Epsilon. The raw data collecting and archiving was supported by the fact that the interactions both in the partnering firms and between them were routinely conducted in electronic form. E-mail was the main medium for daily dialogues and, for instance, as a means for distributing the minutes of meetings. Epsilon's web pages that were specifically designed for partnership management served also as an archive for common plans and other 'official' documents or processes. Sigma correspondingly used intranet as the channel for internal, company-wide communication.

The number of e-mails used as research data was 1137; the average number of e-mails was more than two e-mails each working day. Partnership management chaired and conducted altogether 36 meetings during the research period and minutes of meetings were written on each. Other sources of research data were presentation materials of various partnership promoting or training events as well as published press releases and relevant articles of the partner organizations or competing partnerships; the number of relevant, public articles in the local market during the research period was 34.

During the research period, partnership management arranged a survey and a joint workshop among the sales personnel of each company, and the results of these endeavours were also used as raw data for the research. Partnership management produced a common business plan twice and, correspondingly, Sigma partner management held three internal partner reference group meetings that were documented in the form of a Partner plan.

Interviews were an important source of raw data for the research: altogether ten members from the partner organizations were interviewed between February and April 2005. Six of the informants were from Sigma and four from Epsilon and both the strategic and operational viewpoints to the partnership were covered. Each interview lasted about one and a half hours, was recorded and transcribed word-for-word, resulting 142 pages of interview data. The discussions were semi-structured and thematic; the interviewees took, without exception, an evaluative and development perspective to the themes which were 1) roles and competences in the cooperation, 2) characteristics of the partnership and 3) processes and outcomes of the IOR.

The research data was exceptionally rich, and the different types of data provided for triangulation of the raw material. The operational data created and used in the actual every-day situations coupled with the more evaluative interview information provided two temporally distinct perspectives to the case. During the research period, the researcher acted as a partner manager for the partnership and her thorough knowledge of the IOR and its business context allowed the interviews to concentrate only on essential issues in the partnership and its governance. No unnecessary ‘noise’ information was produced in the discussions, but the interviews complemented the already existing knowledge and provided evaluative insight for the case narrative.[10]

The informants were selected to include the most knowledgeable, influential and salient stakeholders, who were widely acknowledged in the partnering organizations as central people and opinion leaders from the partnership governance viewpoint. Each Sigma interviewee had at least two roles in relation to the sales and marketing partnership: the interviewed solution sales manager was the primus motor for the first certification process. The sales team member, top sales management representative, and Sigma’s sales pricing expert were active members in the partnership management. The interviewed technical cooperation expert and vendor manager were also members of the internal reference team.

[10] At a later stage, the case narrative manuscript was sent to the informants to allow them to comment and verify the story and suggest alterations in the event that their thoughts did not align with the narrative contents. The different views were discussed and modifications were made to the final version of the case narrative.

People interviewed from the local Epsilon organization were correspondingly representing the executive, top sales and channel partner management of the firm. Both of the channel account managers that were at sequent times responsible for the Sigma partnership and the top sales manager were actively involved in governing the partnership. The first CAM was also involved in technology orientated cooperation activities with Sigma.

To control the obvious danger of bias of the researcher in the study stemming from her role as the partner manager for the partnership, her contribution to the research data was strictly limited to documented material, e.g., e-mails, presentation materials, minutes of meetings, business plans and reports produced in the course of partnership operations.[11]

The collected raw material was processual with the following characteristics (Langley, 1999): the data 1) dealt with sequences of events, 2) involved multiple levels and units of analysis whose boundaries were ambiguous, 3) were temporally embedded in the events but varied in terms of precision, duration and relevance, and 4) were eclectic, drawing from phenomena such as changing relationships, thoughts, feelings and interpretations.

2.5 Organizing the research data into a case narrative

Narratives are almost always used in the process research (Langley, 1999). In the focal study, the narrative was used for three purposes: First, the narrative was a means of organizing the raw data from different sources into a coherent story. Secondly, the narrative was used as the research data on which the theoretical interpretations were conducted by applying the theoretical lenses. And thirdly, the narrative reduced bias in the research because it was submitted for comments to all interviewees for review. Thus, it was possible to remove false or contradictory matters from its contents. In

[11] It must be noted that the role of the researcher during the research period was not an action researcher, but she was performing in a normal partner manager role. She did not make purposeful interventions to the happenings, but was acting in her operative role and doing tasks necessary at the time.

addition, two colleagues of the Sigma partner manager verified the contents concerning the sales organization of Sigma.[12]

The research data was first conceptualized from the chronological viewpoint: 1) data that described, analyzed or evaluated the cooperation between the partners before the certification, 2) data that correspondingly dealt with the sales and marketing partnership since the first certification up to the end of the research period, and 3) data that were future orientated, evaluative and/or concerned with planning and learning viewpoints.

The chronological review of the data was a good way to analyze research data that had been published or produced in the course of the partnership operations and could be nicely put into the time slots. Similarly, it was quite a straightforward task to extract the planning and evaluative data from the whole.

However, it proved out that the interviews-based research data had such a 'processual' nature that it was impossible to categorize them according to the time dimension. The informants might in the same sentence cover the past, present and future aspects of the same matter. Thus, the interviews were analyzed according to the issue by classifying the discussions into nine categories: 1) Sigma's certification in the Epsilon Channel Partner Program including the processes and benefits related thereto; 2) The operational, competitive environment of the partnership, for instance the players on the market and the effects of emerging technology; 3) Assessments of the qualities of the focal partners in relation to the competitive situation, compared to each other and as valuations of the partners' strengths and weaknesses; 4) and 5) the partners' way to operate described e.g. through the partnership organizations' values, culture and processes, classified separately for each partner. The informants discussed both their own organization and their perceptions of the partner's characteristics from the IOR perspective; 6) Operations, actions, roles and partnership management in the IOR; 7) Assessments of the partnership achievements; 8) Pre-requisites for successful cooperation; and 9) Needs and calls for change in the focal business-to-business relationship.

[12] Another way to control for bias was to write the narrative before the choosing of the theoretical lenses to reduce the possibility that narrative was written with the specific theories in mind.

2.6 Structure of the case narrative

When the categorization of the interviews was checked against the other research data, it was noted that it was possible to supplement other data to that structure, and the categories were taken as the starting point for compiling the descriptive narrative of the research case. However, to create a comprehensive picture of the case it was decided that the partnership events would be presented also according to calendar time. Because it was possible to identify landmarks that indicated a certain shift in the partnership, the two year research period was divided into phases based on those landmarks.

In the first chapter (3.1) of the narrative, the partnership events are set into the time-frame according to calendar. This chapter can also be regarded as an introduction to the partnership as it provides an overall listing of the main incidents and episodes during the research period. From the partnership governance viewpoint, it is possible to identify incidents that can be used as landmarks in dividing the research period into phases. Naming the five phases is simply done according to the main focus of the partnership governance during each phase. The purpose of the periodization is to create of a general time-based framework of the partnership.

Basically, the first narrative chapter recites ‘who did what and when’ grounded on the documents attained during each phase. However, there is one exception to this rule of thumb: From the partnership viewpoint, an important step in structuring and developing the cooperation between Sigma and Epsilon was the documentation and description of the many different cooperative forums that had evolved during many years. The focal partnership management established this framework during phase four of the research period, and inputted the sales and marketing cooperation into the whole. Those forums, developed in the sales and marketing partnership, are presented in more detail in the first part of the narrative – in chapter 3.1.4 – covering, for instance, descriptions of their missions and responsibilities.

The second chapter of the narrative, chapter 3.2, concentrates on issues that have a connection to Epsilon’s Channel Partner Program, which was the skeleton of the partnership and set the stage for the sales and marketing cooperation. Due to the significance and amount of work related to the certification issues, the chapter is named 'Sigma as a certified Channel partner of Epsilon'. The subject matters, derived from hands-on-experience of people involved, are presented quite in detail and in chronological order to illustrate the development and learning that happened in the course of time in the partnership governance. Next, the third part (chapter 3.3) of the narrative concentrates on analyzing the partnership as well as on its achievements. Relevant stakeholders in the partnership governance activities from both parties provided the information, opinions and viewpoints in discussions and interviews. Other sources of data were topical communication between Epsilon and Sigma as well as joint surveys conducted internally in the partner organizations.

In the fourth chapter (chapter 3.4), the market from both technology and competition viewpoints are considered as the operational, external environment for the focal partnership. The data is derived, in addition to the partnership internal documents and interviews, from press releases, market reviews, and various publicly available information sources, such as published interviews or news services. Finally, the last chapter (chapter 3.5) compiles the evaluative comments of the ten interviewees into a consolidated assessment of the operational partnership during the research period: What had the partnership been like when thought of as an apprenticeship and how could the partnership performance be enhanced and become more effective? In other words, the evaluations were future-orientated as opposed to the analyses, which typically were stated in present or past tense mode. The structure of the case narrative is presented below.

Chapter 3.1	**Partnership phases during the research period**
Chapter 3.2	**Sigma as a certified channel partner of Epsilon**
Chapter 3.3	**Partnership characteristics**
Chapter 3.4	**The market environment**
Chapter 3.5	**Evaluation of the partnership**

Figure 2.3 Structure of the case narrative

The following table clarifies the use of the research data that was obtained through the interviews in structuring the case narrative. For summary, also the other forms of research data, classified as operational and public data (including internal data published in partners' Intranets) is presented in relation to their contribution to each of the narrative chapters.

Table 2.2 Summary on the use of the research data in the case narrative

Narrative chapter	Type of research data used	Additional description of the data
1. Partnership phases	Operational data	Identification of the landmarks: records of announcements Placements of meetings, workshops, and other events or incidents into corresponding phases: Calendar records; E-mails Topical issues in each phase*:* E-mails; Minutes of meetings; Presentation materials
2. Sigma as a certified partner	Operational data	Correspondence (e-mails) in and between the partner organizations; Minutes of meetings, Presentation materials; Information obtained from Epsilon's web pages; Contacts with third parties such as customers and training organizations (e-mails)
	Interviews	Data on the reasons and background for Sigma's decision to certify in the Channel Partner Program; First certification
3. Partnership characteristics	Operational data	Practical cooperative work of the partnership management, documented for instance in the joint business plans, in the Partner plan produced by Sigma's Internal reference team, and in e-mails; Documentation and presentation materials of workshops, and other joint events; Survey among partners' sales force
	Interviews	Projections on: the products and services of the parties; the knowledge, expertise, and partnering capabilities; partners' image and reputation in the partnership organizations and on the market; Customer relationships; Personal relationships; Technical cooperation; Assessments of partnership achievements; The impact of common history on the partnership
4. Market environment	Public data or internally published data	Articles and interviews published in printed media and electronic newsletters; Press releases; Market reviews; Web pages of organizations of interest; Customer satisfaction surveys; Market research data; Partners' strategies
	Interviews	Customer needs and perspective; Technology development; Competing partnerships
5. Evaluation of the partnership	Interviews	Views on the success factors on sales and marketing cooperation in general and relative to the focal partnership; Analysis of the past cooperation reflected to future

2.7 Central concepts in the narrative

The central concepts and terms that are used in the case narrative are defined and described below. The same definitions apply to the whole research.

- Partnership is defined as a business-to-business relationship where the parties of the IOR cooperate, collaborate, execute common actions and seek continuity in their mutual efforts. The organizations have announced that the relationship is called a partnership. The partnership is voluntary in nature and the agreement does not in any way restrict other potential or existing partnerships of the parties, for instance, with each other's competitors.
- Partnership governance includes coordination, integration and management of the structure, processes and interactions of the partnership on individual, groups and organizational levels. Partnership governance is not limited to horizontal or vertical cooperation nor is it only engaged with formal types of collaboration. Partnership governance is about the different aspects of interdependence of the parties (Smith et al., 1995).
- In the partnership organizations, the functions carrying out the partnership governance tasks are called partner management in Sigma and channel account management in Epsilon. Correspondingly, the dedicated responsible operative persons in the companies are partner manager in Sigma and channel account manager (CAM) in Epsilon. In the study, the common, virtual function of managing the partnership is called partnership management.
- Epsilon categorized its partners, on corporate level, into certified, specialized and registered partners. Channel partner certification had three different levels: Glass, Crystal and Diamond. Each status had a list of pre-defined requirements to be met to qualify. The requirements became more demanding according to the level and consisted of *individual basic certifications*, end-customer satisfaction surveys meeting a pre-determined average score, and *specializations* in certain technological solutions (e.g. security, local area networks and voice solutions). The metrics for the partner certification was the quality of service, defined as value for customer that the

partners provided based on their capabilities and skills. On Crystal and Diamond levels the partner's capabilities were audited yearly by an external consultant. The corporate certification had to be re-certified annually.

- Individual basic certifications had a hierarchical structure: the first level was called 'associates', the second 'professionals' and the highest level, correspondingly, 'experts'. In addition, 'sales expert' certifications were mandatory for the corporate certification.

- Specializations comprised of a combination of several individual specialist certifications in defined roles (e.g. system, sales, design or support engineer). Depending on the role, different basic certifications were required. Specializations may be technology or service specializations.

The individual basic and specialist certifications were validated through tests taken in controlled exam environments at test centers or in Internet. Training and coaching for the tests were most commonly offered through Epsilon certified learning partners, for the basic technology also by schools or polytechnics.[13] The individual certifications usually were valid for two years, with the exception of associate and professional level basic certifications that were good for three years.

- The goals of Sigma's Focused sales and marketing partnership program were defined as increasing sales, creating new sales opportunities and supporting sales cases. Partner management was to manage partners' relationships together with Internal reference teams within Sigma and conduct planning activities into Partner plans.

Because of the utilization of the Stakeholder Theory (SHT) as a theoretical lens in the study, the term 'legitimacy' became relevant in two different meanings. To make a distinction between the meanings and avoid possible misunderstandings and confusion, the following terms are defined to be used in different contexts:

- legitimacy is used as a stakeholder attribute, and
- legitimateness relates to the legitimacy of the partnership as an organizational form or the legitimacy of partnership governance.

[13] For example, it typically took two years to attain the associate level certification when studied at school.

2.8 Research process in the ATS framework

The theoretical lenses are used to interpret the case narrative from the four chosen perspectives. The different readings comb out distinct details and factors, uncover various features of the case partnership, and create understanding of the role of the partnership governance during the research period from several perspectives. The theoretical lenses provide for identification of important issues that are or should be incorporated in the partnership governance. In addition, in the focal research the process data enables sensemaking of the partnership governance activities and their effects on partnership outcomes: e.g., How did partnership management facilitate the contact building between the partner organizations' sales people? or How did the partners' account managers cooperate?

The same basic assumptions are applied to all four theoretical interpretations and the readings are done by the same analyst. The research outcomes are propositions that are based on arguments based on the focal case and grounded in the different readings or combinations of them. Similarly, practical recommendations for partner managers can be compiled based on the multi-faceted study of the focal sales and marketing partnership.

The research process consists of stages: it starts with the writing of the case narrative based on the case context and research data. Next, the theoretical lenses are refined from the chosen theories, and the lenses are used to interpret the case partnership by using the sets of research questions as tools. In the final phase, the distinct readings and new insight brought out are studied to form the results of the research. Reflections from the case narrative may also be incorporated in the propositions and recommendations. The following figure 2.4 illustrates the research as a process. Although, the distinct interpretations are presented graphically by the same shape-and-size ellipses, the interpretations need not be of equal 'sizes'. Most important is that they bring out new perspectives to the research.

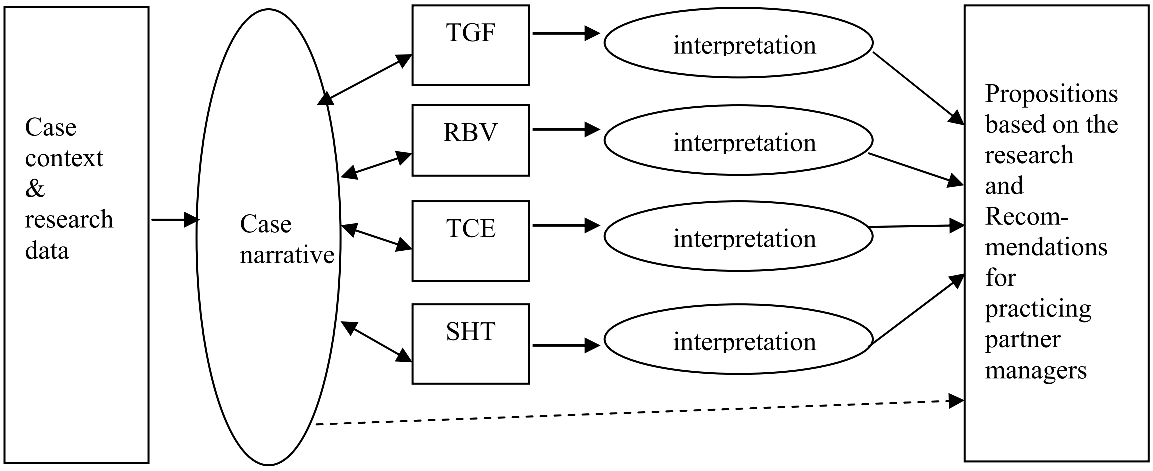

Figure 2.4 The ATS-research process: from data to propositions

Combining the interpretations is the ‘tricky’ part of the Alternate Templates Strategy, as Ann Langley states in her article, on theorizing from process data (1999): “…despite its advantages, the use of [ATS] often leaves the researcher and the reader puzzled as how the various theoretical perspectives can be combined”.

Langley, herself, partly answers the question of conjoining the views in other parts of the same article, citing Weick (1989): “Whatever strategy is used, there will always be an uncodifiable step [in connecting data and theory] that relies on the insight and imagination of the researcher” and by presenting that “theory building involves three processes: (1) induction (data-driven generalization), (2) deduction (theory-driven hypothesis testing), and (3) inspiration (driven by creativity and insight)”.

To further elaborate on the issue of ‘How the various theoretical perspectives can be combined’, the problem is analyzed following Allison’s (1971, p. 250) example: He makes a point that, in his research, the question “Why did the United States blockade Cuba?” was understood in three different ways: First, the ‘why’ asked for reasons accounting for the strategic problem of the blockade as a solution to the political situation. Secondly, the dilemma was interpreted as, “What outputs of which organizations led to the blockade? Thirdly, the basic ‘why’ was understood as “a question about the problems perceived by relevant players and their pulling and hauling from which the blockade emerged.”

In this research, the question 'How to combine the readings' is considered from the following viewpoints: First, 'On what grounds can the different theoretical interpretations be combined?', secondly, 'How the combination process is done?', and, thirdly, 'How the ultimate goal of the research affects the way the combination is done?'

The first question *'On what grounds can the different theoretical interpretations be combined?'*, was already, partly, taken into account when the requirement of the theories' compatibility was disclosed in Chapter 2.1. In addition, it is pivotal that the case narrative describes essential issues and events that reveal information on the phenomenon studied in this research.

Miles & Huberman (1994) bring out that "most qualitative researchers work alone in the field" and constitute a 'vertical monopoly': " Each [researcher] is a one-person research machine: defining the problem, doing the sampling, designing the instruments, collecting the information, reducing the information, analyzing it, interpreting it, writing it up." The authors also conclude (p. 245) that "the critical question is whether the meanings found in qualitative data are valid, repeatable, and right".

In the focal study, the 'rightness' of the research findings rests on the case narrative, i.e., how accurate it is in describing the actual reality of the case. The readers and reviewers of the study must trust on the triangulation of the data and verification of the narrative story by the informants. Once the narrative is 'accepted' and considered accurate, all the data used for the interpretations is presented in the documentation of the study. The research is systematically followed through and transparent, and, in principle, it is possible for somebody else to do the same steps and repeat the process. However, drawing on the conclusions is the inspirational, creative and innovative section that is an essential step of research. It is not claimed that the interpretations, or propositions and recommendations presented as the results are the only possible outcomes that can be derived from the case.

The ‘vertical monopoly’ of the research strengthens the justification and legitimateness of combining the readings; it can be argued that the unrecognized, unconscious bias of the researcher remains the same in each interpretation.

The following conception of the research process answers the second question, *‘How the combination process is done?*’

Essential to the process of combining the interpretations is that conclusions are not drawn prematurely; it is important to keep the readings separate until the final combination phase. Moreover, to keep the theoretical lenses ‘clean’ or ‘pure’ the research is conducted as separate stages. All the theoretical perspectives are first refined to the sets of research questions and readings done one-by-one after that. The sequential procedure ensures that the focal point of the research is not missed. This principle is supported by Yin (1994, p. 115), when he warns that, as the research process progresses, the investigator may slowly begin to drift away from the original topic of interest. Yin further suggests that “constant reference to the original purpose of the inquiry” may help to reduce this potential problem.

Finally, the question of *‘How the ultimate goal of the research affects the way the combination is done?’* is answered:

As Eisenhardt (1989) describes, “Case studies can be used to accomplish various aims: to provide description, test theory or generate theory”. In addition, case studies can be exploratory, descriptive or explanatory (Yin, 1994). In the focal research, the main goal of the study is to learn and create new insight of partnership governance in the sales and marketing context, and the combination of the different case narrative readings is done with the target of ‘doing findings’. The goal is to bring out matters, such as ‘what had been missed’, ‘what could have been done better’, ‘what did work’, and so on, from the case. Therefore, the combination of interpretations is presented in the form of arguments that are extrapolated into theoretical propositions and as recommendations for practitioners.

3 THE CASE NARRATIVE

3.1 Partnership phases during the research period

The research focuses on a two year period from April 2003 to April 2005, during which time, in September 2003), Sigma achieved for the first time the Crystal certification in Epsilon's Channel Partner Program.

Phase one represents the time before the first certification. The certification process had been started over a year earlier, but intensified in April 2003. However, the common history of Sigma and Epsilon spanned a much longer period in the past, over fifteen years, and influenced the development of the business relationship between Sigma and Epsilon through people. Some of the persons involved in the partnership activities had a long track record in cooperating with the other company. Phase one was an era of product and technology cooperation.

Sigma's channel partner certification was a landmark for the start of the sales and marketing cooperation between the partners. After the certification, Sigma assigned a named partner manager for cooperation with Epsilon from its sales organization's partner management team that was part of the business development function of the sales organization. (*Start of phase two*)

During the two year period, there were two other episodes that resembled clear landmarks in the partnership management of Sigma-Epsilon cooperation: First, at the year end 2003/2004, Sigma widened its strategy to include other than sales aspects in the partner management *(Start of phase three*). The second change was in August 2004, at the change of fiscal year for Epsilon, when Epsilon was re-organized and a new channel account manager for Sigma was nominated (*Start of phase four*).

Phase three, the first half of the calendar year 2004, was a time of learning the essentials of the sales and marketing focused partnership. It was important to gain understanding of the other party's business model, practices, systems and operations. Besides learning-by-doing through the everyday business activities, a lot of information-gathering and dissemination had to be done. The period could be described as a phase of tracking opportunities: what the partners could accomplish together and what were the common interests and goals.

In phase four, the familiarization of the new channel account manager into the partnership affairs accelerated the process of reaching a phase of 'business as usual' in the partnership management. Bringing a new person into the core team forced the members to share their experiences and knowledge, and a consolidated frame for the cooperation was formed.

The same partner management team existed in Sigma's organization until the end of the year 2004. In the beginning of the year 2005, Sigma's organization structure was changed and several partner management team members assumed new responsibilities (*Start of phase five*). This meant that the established processes, routines and working methods as well as achievements had to be reflected and evaluated during the transition period that lasted the first quarter of the year.

Due to the operational nature of the study, the incidents of the research period (besides the landmarks described) were quite ordinary: meetings, negotiations, workshops, and the like, that were preceded by organizing and other preparing work. The events were results from this practical work of the partners, both separately and together. The outcomes of the cooperation emerged from long-term, continuous activities rather than from the consequences of some unique, remarkable or strategic decisions or actions.

The partnership phases are presented according to calendar time in table 3.1, which also lists the landmarks that made out the beginning of phases two, three, four and five of the partnership during the research period.

Table 3.1 Partnership phases during the research period (4/2003-4/2005)

Phase #	Focus from partnership governance viewpoint	Calendar period	Landmark/ the episode that marks the start of the phase
1	Product & technology cooperation	→ 9/2003	Not available, cooperation had a more than 15 years' history before the research period
2	Start of sales and marketing cooperation	10/2003 – 12/2003	Certification audit Sigma dedicated a partner manager to the partnership
3	Cooperation development	1/2004 –7/2004	Sigma's partnership strategy changed to include all cooperation
4	Cooperation in 'Business as usual' mode	8/2004 – 12/2004	Epsilon's re-organization Channel Account Manager changed
5	Reflection and evaluation of the partnership	1/2005 – 4/2005	Sigma's re-organization

3.1.1 Phase one: Product and technology cooperation

During the product and technology cooperation phase, Sigma developed services that used Epsilon's technology as their platform. Most of the services were in the area of data communications utilizing Epsilon routers and switches. The Epsilon equipment was integrated firmly inside the services and gained a status quo position in the particular area of Sigma's offering. Over the years, many Sigma experts became trained deeply into Epsilon IP technology (Internet Protocol based technology). Both of the parties were forerunners in their respective fields, and the cooperation led to some solutions that the industry standards later relied on.

During the next few years, in tow with Internet development, Epsilon grew to a global player. Epsilon operated all over the world and developed global business practices. For example, the Channel Partner Program had become the core of Epsilon's way of doing business with partners. The program was launched around the year 2000. Compared to Epsilon, Sigma's business was smaller, but locally, Sigma was one of the biggest customers for Epsilon in the data communications area.

Epsilon’s core business competence could be summarized as IP-technology which had been started to be utilized also in the voice communications area and represented a potential growth area for Epsilon. Sigma, in turn, had a burden of legacy networks and systems as well as a history of other partner relationships in voice communications. The cooperation in Voice over IP (VoIP) area was different compared to data communications. Epsilon was more in a challenger position in Sigma’s VoIP service development compared to the first-comer advantage it had had in the data communications. Epsilon had to seek cooperation on more fronts than product development with Sigma.

One of these new ways was to cooperate in the frame of the Channel Partner Program. On the market, the lack of the certified channel partner status for Sigma had, in some cases, been a hindrance to success in competition. Sigma became convinced of the importance of the Channel Partner Program and certification.

At the end of phase one, Sigma achieved the second highest corporate Epsilon channel partner certificate.

3.1.2 Phase two: Start of sales and marketing cooperation

The Crystal certification audit at the end of September 2003 was the starting point for phase two, which lasted till the end of that year. Approximately at the same time as the audit, a joint ‘kick-off happening’ for Sigma and Epsilon sales personnel was arranged and enhanced cooperation was promoted. Although the event was jointly planned by the parties’ marketing professionals, Epsilon was the sponsor and held a host profile during the official program. In the unofficial part of the event program, the Sigma and Epsilon account managers and other sales people were mixed in competing teams to facilitate contact-building and bonding between people. Epsilon also arranged a party for the Crystal certification participants. Additionally, Sigma and Epsilon approached their end-customers together at Sigma’s main customer event of the year in September and published the following press release:

> Sigma widens the offering of its IP based voice communications services by launching a new flexible and cost effective solution that is grounded on strong Epsilon IP technology and Sigma's data and voice communications competences.

Within Sigma, the partner management team modified the already existing 'Focused sales and marketing cooperation program' to include Epsilon in it. Preparations for the re-certification and upgrading of the partnership status to Diamond level were started. As a result of the kick-off event, some sales people of the partners planned and conducted activities together for the end-customers.

The Crystal certification was seen by Sigma as only the first step in the certification process, ultimately the goal from the beginning being to qualify for the Diamond certificate. Basically, the corporate Diamond certification requirements meant that Sigma had to achieve more individual certifications and one new corporate, technology specialization in addition to the Crystal level requirements. Partner management took the responsibility and started actions that would lead to the Diamond certification.

3.1.3 Phase three: Cooperation development

The change of Sigma's focus in the partnership combined with the preparatory activities to upgrade Sigma's partnership to the highest certification level in Epsilon's Channel Partner Program demanded a new way of cooperating.

Either the partner or channel-account management organized a meeting or negotiation, on average every other week, during the half–year period from January to July 2004. In addition, two-person communication via phone or e-mail was frequent. Most of the matters needing correspondence were associated with the certification and sales activities.

The sales cooperation was not yielding as good results as was anticipated. To tackle the problem, Sigma and Epsilon conducted in-house surveys among the sales people to find out what their opinions about the cooperation were.

In February 2004, Epsilon granted Sigma an award at its annual global partner meeting. Sigma was nominated as the Service provider of the year in its geographic area. In March, Sigma took part in an Epsilon-arranged customer conference: Sigma had a speaker at the seminar, promoted a stand at the exhibition, and the parties conducted cooperative marketing actions.

Somewhat later, Sigma's partner management formed an internal Partner relationship team that had representatives from different functions of the firm to act as a reference group for its work with Epsilon. The team met for the first time in May 2004 and had fourteen members covering the Epsilon cooperation of several technology areas, solution design and sales, contract management, procurement, logistics, implementation and maintenance. The first meeting concentrated largely on the current situation, sharing information and learning about the different aspects of the Epsilon cooperation. The mission of the team was formulated as 'better governance and management of the cooperation'. The need to track down and conceptualize a general view of the many cooperative forums between Sigma and Epsilon was acknowledged.

According to the general partnering management principles of Sigma, a 'partner plan' on Epsilon was prepared using the partner relationship team contributions. The 'partner plan' held the basic facts about the business relationship between Sigma and Epsilon as each other's customers. The major portion of the business from Epsilon to Sigma was conducted in accordance with the service-provider agreement, since, from end-customers' viewpoint, the Sigma services also included the support. Between the partners, the concept was called 'Epsilon inside'.

Figure 3.1 depicts the 'Epsilon inside' concept levels: the customers bought the Sigma produced, described, supported and updated service resting on Epsilon hardware and software platform. Epsilon's technical and customer support backed up the services through coordinative Sigma functions, which had direct contacts to Epsilon's regionally centralized engineering and marketing organizations. Sigma's partner management was responsible for coordinating the online tools, user rights and necessary authentications: The registered users got different views to the vast information sources of Epsilon's web system depending on their roles and user identification status.

<table>
<tr><th colspan="5">SIGMA SERVICE OFFERED TO END CUSTOMERS:
service contract formed between Sigma and the customer</th></tr>
<tr><td colspan="4">Service description</td><td rowspan="4">Updates:
EPSILON SOFTWARE
o small fixes
o upgrades</td></tr>
<tr><td colspan="4">Sigma service production</td></tr>
<tr><td>Hardware support</td><td>Software support</td><td>Technical assistance</td><td>Epsilon online connections</td></tr>
<tr><td colspan="4">EPSILON HARDWARE</td></tr>
</table>

Figure 3.1 Sigma service concept as layers, with 'Epsilon inside'

The Crystal certification allowed Sigma the possibility of participating in bonus programs that offered rebates (normally 10-20 % of sales volume once a threshold volume was achieved) to Epsilon partners which met the set sales and customer satisfaction targets. The CAM had applied the participation for Sigma for the first time, but the program was not well understood inside Sigma, and thus the opportunities were not fully taken advantage of. Partner management set itself the task of working out the system and implemented the applications for the next term.

In June 2004, training on Epsilon's online ordering tools was arranged. The instructor was from Epsilon customer service organization, and the participants from several Sigma corporate countries. The occasion was judged to be a success both in terms of professional and practical content, and in getting to know people from different parts of the organizations.

Finally, before the summer holiday, a Partner's Day was organized at the end of June to reflect upon the past term, i.e., Epsilon's fiscal year, and to plan for the future. Invitations were sent to people who had been active in the different areas of cooperation ranging from sales to R&D. The total number of participants was about thirty people.

3.1.4 Phase four: Cooperation in 'Business as usual' mode

In August 2004, at the change of Epsilon's fiscal year, a new channel account manager was named for the Sigma partnership. By this time, the partnership had established itself to a stage where a structure of the partnership governance in sales and marketing area had formed: The meetings had been focused and manned according to the content of the issues. The partner and channel account management led the following types of meetings: 1) sales meetings, 2) marketing meetings and 3) meetings on business cases. The meetings were arranged correspondingly four, five and four times between August and December in the year 2004.

An important outcome of the partnership-management work was the description and documentation of the many different forums in the Sigma-Epsilon relationship. The established partnership framework was seen as a working model and basis for the cooperation between the partners. The framework was presented to different audiences visually as shown in figure 3.2.

The anniversary date of Sigma's certification was in September, and a re-certification audition was held in the beginning of November, 2004. Sigma did not succeed in achieving the Diamond certificate, but remained on the Crystal level. The required, additional technology certificate was about 75 % ready; moreover, one of the highest level individual certifications was still missing. The audition as an event was deemed a success, and the auditor's comments were overwhelmingly positive in nature. Because this audition was conducted with the Diamond level requirements in mind, the idea was that Diamond status could be granted remotely in the next few months, without arranging an additional audit meeting.

Beyond this, the participation in the Epsilon bonus program was successful, and, for the first time, Sigma was getting rebates from selling Epsilon's advanced technology products. Although the sales figures had met the targets of the bonus program, the results did not come from the area of voice communications. During the whole calendar year, the parties, particularly Epsilon, had been trying to boost that specific business area. The outcome of just two joint VoIP cases was disappointing; Epsilon had succeeded better with other partners. As a continuum for the sales personnel survey conducted in May, a joint workshop was arranged in December to find practical ideas to improve the sales cooperation.

However, there was one large, non-VoIP business case that the parties had won together at the end of the year. In that case, the top management of the partner organizations had together supported the cooperative sales process by meeting the customer organization's top management at the start of the sales process. This intervention was considered very important in completing the deal. The sold solution utilized advanced technology eligible for the Epsilon bonus program. The case created new business for both parties, since no prior customer relationships had existed with that particular organization.

Additionally, during this phase, Epsilon launched a new bonus program that focused on small and medium business customers, and Sigma joined this program.

Two internal Partner relationship team meetings were arranged at Sigma, the themes being certifications, a review of the previous year, and planning for the upcoming year. Beyond this, Epsilon formed an in-house reference team which met once a month, and consisted of the Sigma-responsible account managers, channel account manager and some technology experts from Epsilon.

Framework for the partnership

Due to the years' long collaboration, a number of forums had evolved between Sigma and Epsilon. The forums were discussion and training groups as well as meetings, assemblies or conference calls that were organized on a regular basis and had attendees from both partner organizations. Many of the groups had existed for years and lived their own lives; on the other hand, some of the forums had been founded just after Sigma's certification as Epsilon's channel partner. The different forums were sketched on a chart by pinpointing their positions along two continua: according to the operational / strategic nature of the forum on one hand and according to the technology intensity / business focus continuum on the other.

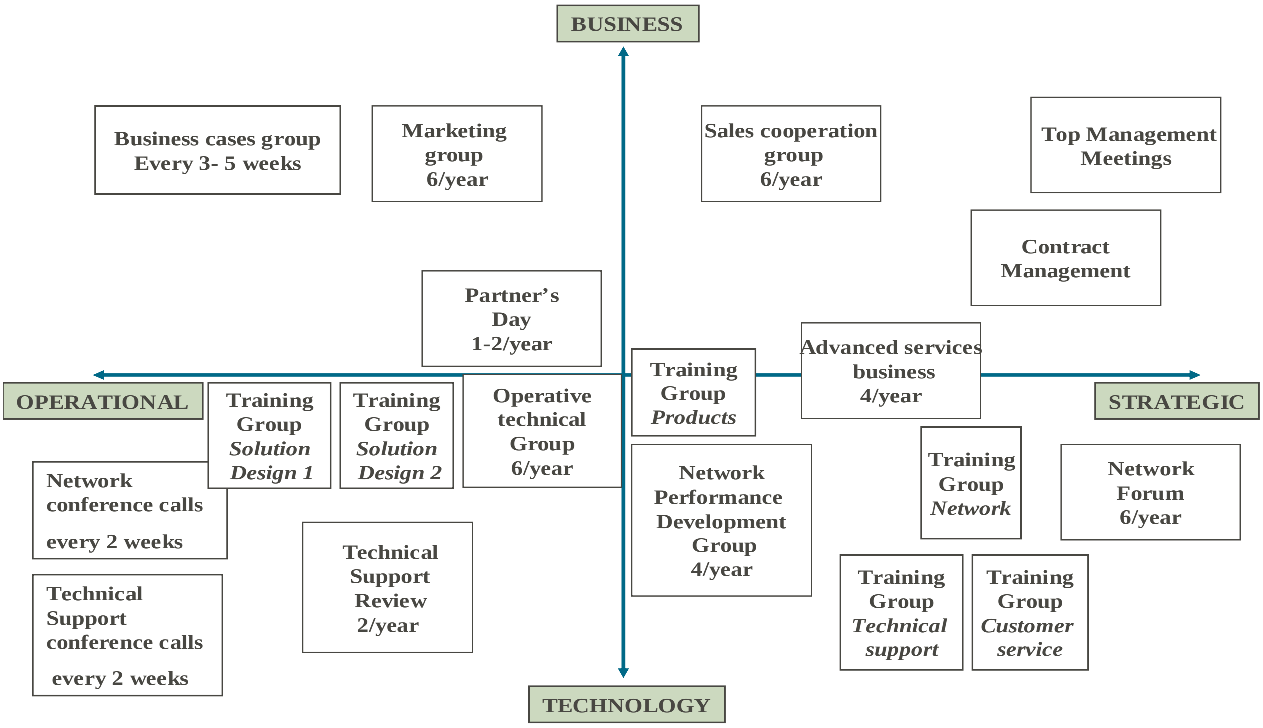

Figure 3.2 The cooperative forums of the partners Sigma and Epsilon

As an example, one of the longest existing forums was the Operative technical group. The group was formed because

> …we had so much to do with Epsilon, different kinds of matters. It was a way to gain some kind of control: what was going on, what were all the common issues, who were all the people involved. The purpose was to combine all the views and interests as well as form a common approach and bring out resources in development and other work. Still another aspect was to keep abreast of technical development. It was also important to stay in touch with the support functions, if there was something special, something generic or explicit going on. In the beginning we had the business aspects on the agenda as well, but the cycles and goals were so different and the meetings grew so big…

The partnership governance of sales and marketing cooperation covered the performance and activities of the Marketing, the Business cases and Sales cooperation groups and had close contacts to the other business-focused forums. The more technology-orientated forums were represented in the internal reference group for partner management, the Partner relationship team. The tasks of the groups led by the partnership management were described by defining the groups' mission and issues as well as the functions that were represented in each group (table 3.2). The partner management also consulted the other cooperative forums in making corresponding explications for their activities.

Table 3.2 Description of cooperative forums led by the partnership management

Group	Members	Mission	Issues
Marketing group	*Epsilon*: Channel Sales Director, Sigma Channel Account Manager, Marketing Manager *Sigma representation from functions*: Partner Management, B-to-B Marketing	• External marketing of Sigma services with 'Epsilon Inside' to corporate customers. • Internal marketing in Epsilon and Sigma to support cooperative efforts and develop the partnership.	• planning and coordination of participation in partners' customer events or campaigns • organizing joint customer events and internal Partners' Day • coordinating customer invitations, testimonies and/or speakers to events • producing promotional presentation and sales material • writing references for internal use or press releases • keeping up partners' mailing lists from the partnership viewpoint
Business cases group	*Epsilon:* Channel Sales Director, Sigma Channel Account Manager, Sales Director *Sigma representation from functions:* Partner Management, B-to-B Sales, B-to-B offering	• Coordination and planning of actions in ongoing or upcoming (B-to-B) customer cases. • Learning of past experiences.	• open offers on Sigma services with 'Epsilon inside' on the market • evaluation of cooperation opportunities • decisions of collaborating or non-collaboration • resource sharing and planning (e.g. account plans) of sales cases • feedback from the market and sales people
Sales cooperation group	*Epsilon:* Channel Sales Director, Sigma Channel Account Manager, Sales Director, Systems Engineer *Sigma representation from functions:* Business Development, Corporate Sourcing, B-to-B Offering, B-to-B Sales, Different product groups	• To develop, improve and deepen cooperation in creating business opportunities to the parties (especially in the B-to-B market). • The focus of the group adapts to technological and market changes (during the research period the group's focus was on IP voice/VoIP).	• development of sales cooperation e.g. through identification of training needs • new solutions or products, relevant product development projects • sharing of market and competition information, customer needs and challenges • customer satisfaction • feedback from sales management • bonus programs • leverage information on technology, organizational etc. changes • business plan review

The Marketing group was in charge of planning and organizing joint customer events as well as preparing promotional material for the partnership while the Business-cases group coordinated the actual cooperation by sharing information on prospects, markets and ongoing marketing and sales activities. Updating knowledge on new products or service offerings of the partners, competition and customer satisfaction issues along with planning relative to different kinds of changes was the tripartite focus of the sales cooperation group.

Another way to describe the scope and scale of the cooperation could be defined by indicating the number of people involved in the cooperation work on practical level:

- Altogether about 250 people from Sigma had identification codes to use some parts of the Epsilon global web pages and/or different partner tools.
- From Epsilon’s local organization about ten people (twenty per cent of the personnel) were involved in the Sigma cooperation.
- In addition, several people from Epsilon’s worldwide organization were regularly in contact with Sigma personnel.
- However, not a single person was full time dedicated to the partnership.
- The partner manager in Sigma had also other partners to take care of, but used about half of her working time in Epsilon related issues.
- Correspondingly, the Epsilon channel manager responsible for Sigma contributed about forty per cent of his time to Sigma matters.

3.1.5 Phase five: Reflection and evaluation of the partnership

In Sigma organization, there had been some restructuring work done already since November 2004 and the new operating model was implemented in the beginning of the year 2005. The partner management function was split in half, and one half was to continue as a partnering organization. The focus of the new team was to find partners into prospected customer cases or into development and implementation projects of new offering concepts. The new team would also be responsible for Sigma’s certifications in the Epsilon Channel Partner Program.

The other half of the former partner management function assumed enhanced responsibilities in the newly structured and downsized organization. However, the new organization was not ready to take the responsibility of the operational tasks associated with the Sigma-Epsilon partnership. As a consequence, the partner manager continued to take care of the practicalities for the first quarter of the year 2005 as a sideline.

Besides being a certification requirement, customer satisfaction surveys were demanded in the bonus programs. To qualify for rebates, Sigma's partner manager conducted the required number of surveys of customers who had bought Sigma solutions with 'Epsilon inside', particularly products in the advanced technology area.

During the first quarter of the year 2005, one meeting of each the Sales, the Marketing and the Business-cases groups was arranged. The bonus program participation in the small and medium business segment was terminated. Applications for continuing the advanced technology bonus programs were supplemented and acceptance received. In addition, a few new users registered to Epsilon's web system and individual certification exams were completed. Epsilon sponsored Sigma's internal training day for the solution sales organization and had a presentation in the program.

In February, the old corporate technology certificates were to be renewed. During the course of the re-organization, some people who had had roles in the certifications had left the company. Partner manager and specialization owners successfully cooperated in the struggle of finding new people to take exams that were required in order to maintain the specializations.

3.1.6 Summary table of main incidents or achievements according to phase

Table 3.3 Main incidents or achievements according to phase

Phase	Calendar period	Incidents or achievements
Phase one	→ 9/2003	• Product and services development cooperation especially in the data communications area • Sigma becomes the biggest local customer for Epsilon • Start of product and services development in Voice over IP (Internet protocol based) solutions (VoIP solutions) • Sigma achieves Crystal certified partner status
Phase two	10/2003 – 12/2003	• Sales cooperation kick-off event • Sigma's press release on VoIP services based on Epsilon IP technology • Epsilon participates in Sigma's main customer event • Crystal certification party • Epsilon included in Sigma's sales and marketing cooperation program • Start of re-certification efforts for Diamond certification status
Phase three	1/2004 – 7/2004	• Regular meetings arranged jointly by Epsilon channel account management and Sigma partner management • In-house surveys about the sales cooperation • Epsilon awards Sigma by the title 'Service provider of the year' • Sigma participates as a partner in Epsilon customer conference • Sigma forms internal Partner relationship team as a reference group for Epsilon cooperation and widens the scope of partner management to include all cooperation. Sigma's first 'partner plan' on Epsilon is published • Sigma gets acquainted with Epsilon bonus programs • Epsilon online ordering tools training arranged for Sigma • Epsilon and Sigma establish Partner's Day
Phase four	8/2004 – 12/2004	• Epsilon nominates a new channel account manager for Sigma • The partnership framework is taken as a basis for governance • Sigma re-certification on Crystal status level • Sigma receives first rebates from Epsilon bonus programs • A joint sales cooperation workshop organized • Two cases won together in the VoIP area, one large case in data communications area • Epsilon forms an internal reference team • Epsilon updates its re-certification policy
Phase five	1/2005 – 4/2005	• The Sigma partner management function is re-organized • The former Epsilon partner manager in Sigma takes care of the practicalities during the first quarter of year • Considerable rebates for Sigma from the Epsilon bonus programs • Epsilon sponsors Sigma solution sales organization's training day • Renewal of the technology specialization certificates • Sigma's 'partner plan' on Epsilon is updated

3.2 Sigma as a certified channel partner of Epsilon

3.2.1 Reasons for certification[14]

As a global organization, Epsilon had created a worldwide partner program that consisted of certifications on the individual, technological and corporate levels. The program had gained a status of quality and valuation among the cooperating organizations as well as among customers and end-users. The customers saw the certification as a way to guarantee suppliers' competence and know-how of Epsilon's technology, and also as a tool to govern competition:

> Call for bids had been received, where the customer announced to accept offers only from suppliers with Crystal or Diamond certification.

Not all customers went to such an extreme, but more and more customers were starting to ask the question 'What certifications do you have?' from their suppliers.

The final trigger for Sigma to certify had been the actions of a long-term customer that had not invited Sigma to a bidding contest due to Sigma not having the Epsilon certification. The customer firm operated internationally and wanted to have offers of a solution that could be copied in other parts of the world. The call-for-bids was for the local market only, but the customer had decided to limit the number of bidders by demanding the certification. This incident revealed a major weakness in the competitive edge of Sigma, as it did not even get a chance to compete. Epsilon's Channel Partner Program was not only about setting demands for partners, but it also offered benefits in the form of providing price reductions relative to the certification status. As competition became keener, the purchasing price of equipment became more significant:

> We lost a few big cases because equipment price was too high for us.

[14] The results of the 2005 partner profitability survey that was run annually for Epsilon indicated that about half (48 %) of Epsilon's Crystal partners in the geographic area had obtained Epsilon certification to gain competitive differentiation on the market. The other primary reasons were 'brand value with customer' 28 %, 'helps sell more services' 13 % and 'discount level from Epsilon' 11 %. A majority of Crystal partners considered both the certification and specializations equally important in creating competitive differentiation.

Although pricing was another primary reason why Sigma decided to apply for the certification, the certification was also an image issue.

> Certification has a few per cent effect on the purchasing prices and thus also on the customer prices. It has a relatively high significance as a credibility and brand security matter. Attaining Crystal elevated our performance level to the same level with other Epsilon partners.

3.2.2 The first certification process

Sigma initiated the certification project in the year 2002. It was difficult to determine an exact time of the outset because no formal decision on the corporate top-management level was made on the certification: the process started in the context of every-day business environment.

The requirements for the certification were fourfold:

- The partner-to-be had to have a certain number of certified individuals who had demonstrated their technical or sales competences in Epsilon products by passing different level exams.
- For Crystal level certificate, the candidate partner had to specialize at least in two technology areas. The specializations were achieved by assigning qualified persons to pre-defined roles in each special area. Taking tests in a controlled environment confirmed the qualifications.
- The first-time certifying partner had to collect fifteen responses to a customer satisfaction survey from companies that had bought Epsilon's products as a part of Sigma provisioned solution. The survey's control was in Epsilon's web pages, where the partner could input the contact information of the customers, as well as schedule and command the sending of the questionnaires.
- The candidate partner had to demonstrate mastery in the use of Epsilon equipment in laboratory use. The laboratory equipment had to be set up in a network topology for the purposes of demonstrations, internal training and/or support. Every year the partner had to update its equipment with a specified sum of money relative to the certification status.

Meeting each of the requirements had its own challenges:

- The certification process was managed in the sales organization, but most of the experts who needed to take and study for the technically demanding individual certification tests were from other parts of Sigma's organization, not from the sales function. The lack of a formal decision of the corporate top-management on the certification put a lot of pressure on those individuals who were leading the partnership certification work:

  > - The process was like pushing a wet rope: getting people involved and committed was almost impossible. The lines of authority had to be by-passed and some toes stepped on.
  >
  > - Achieving the Crystal certification demanded me an endless amount of energy. (the primus motor for the first certification)

- Because the decision on certification was not made formally on top-management level, the choice of technology areas that the specializations could be based on, was limited. The leadership of the primus motor only carried certain organizational territories and the quickest possible route to certify was thus not possible.
- When conducting the customer satisfaction surveys for the first time, the biggest problem for the partner-candidate was to build up the customer base for the surveys. Each individual customer was allowed to receive the questionnaire only once a year, and since many customers had several vendors for Epsilon's products, they had already taken part in the study.
- The laboratory usage was to be demonstrated through detailed equipment lists: Sigma did not have registers of the serial numbers or exact whereabouts of each piece of equipment.

The first customer satisfaction survey

The certification project manager had coordinated the tasks in the different requirements sectors and the customer satisfaction surveys had proved to be a bottleneck. Conducting the surveys was delegated to the Relationship marketing department that was responsible for Sigma's own customer satisfaction surveys. The reasoning was that the surveys should be done in the same organization "to ensure that the survey is in line with Sigma's own customer satisfaction studies".

However, although the survey-related work had already started in March 2003, the number of valid, completed surveys was still minimal by May 20th, when partner management was called out for help in order to meet the deadline at the end of June. The task was formulated as:

> Could you try to get the permission from the companies and other organizations listed in the attached excel sheet to interview one or more people through e-mail regarding customer satisfaction to Epsilon? The interviewee must not necessarily be the suggested person. The main point is that the person knows something about Epsilon's products and his/her organization's matters.

To build up a list of survey candidates, Sigma's product group managers were asked to name customers to whom Epsilon's products had been supplied as part of services. Secondly, the account managers of the potential customer organizations were involved. These account managers were asked to contact the customer's personnel and ask for a permission to send them the survey. Thirdly, the surveys were sent to potential respondents according to the list that had been formed.

The entire customer satisfaction survey system was new to Sigma: the rule that a customer as an individual could only receive one survey request during a year was not known. Nor was it known that some people were out of Sigma's reach because of this rule. Moreover, Epsilon's system did not reveal the reserved contacts beforehand, but after trying to send the survey, the system reacted and informed Sigma that there was an error so that the survey could not be sent to that certain person.

Some of the customers were confused because they did not receive the survey that they had promised to take part in, and a great deal of fuss was thusly caused. Many customers did not remember that they already had answered the survey or had even received it. The names were reserved if the survey had been sent to a given person even though he or she had not answered. Sigma had to send the following explanation to its customers:

> Dear customer,
>
> We thank you for your promise to participate in the customer satisfaction survey that we are conducting as a part of our cooperation with Epsilon.
>
> It has turned out that you already have participated in the survey conducted by some other Epsilon partner. That being the case we cannot send you the survey for a second time. We are sorry for the inconvenience this situation has caused to you.
>
> Best regards….

Another problem was that the respondents who agreed to fill out the questionnaire had to do it in a very systematic and proper way. Although the survey stated the partner who had commissioned the posting, the partner's name had to be picked from a list in the course of filling the questionnaire. Additionally, the survey was lengthy and some customers got 'tired' on the journey such that they did not want to answer the, for Sigma, critical questions at all, often answering 'no' when asked for their willingness to rate the partner. Furthermore, a few respondents picked some other partner from the list.

To keep track of these current situational problems, Sigma developed an Excel based system to establish the following information: whom the survey had been sent to, who had answered, who were potential candidates to send the survey to, and so forth. Periodically the status of the surveys was reported internally to the certification project and to sales management. The Sigma organization had no inkling or knowledge that all the reports would have been available in the Epsilon system.

Table 3.4 and figure 3.3 provide an overview of the customer satisfaction surveys process by presenting the numerical data of collecting answers in relation to time. As can be seen, attaining the desired number of 15 valid answers demanded a lot of 'extra' work. Altogether, 70 customer organizations were considered as potential survey candidates, and Sigma's account managers were involved 46 times in getting the permission to approach the customers. To get the 15 responses, 41 requests were sent. Of these, 11 customers refused to answer at all and 21 customers did not answer although they had promised to do so.

Table 3.4 Execution of the first customer satisfaction surveys in relation to time

Week	Potential customers	Account manager involved	Requests sent	Reserved by other partner	Valid answers	Partner not identified	Identified another partner	Did not answer or refused
18-20	28	7	7	2	2			4
21		12			1			10
22		1	8	3	1			5
23	20	21	2		3			1
24	6	5	8	4	2	1	2	5
25	14		14	2	5		1	7
26	2		2	1	1	7		
Total	**70**	**46**	**41**	**12**	**15**	**8**	**3**	**32**

After the job was done, the Relationship marketing department commented upon the customer satisfaction survey process in an e-mail to Epsilon:

> This was a much tougher job than we thought.
> How can we delete or modify the data in the system of the people, who won't answer? We have in the system a really big number of customers, but part of them will never answer – they changed their mind. It's no use sending reminders to them etc.
> The system is also otherwise too strict – some modifications should be allowed to be done, if the situation changes.
> For instance it should be possible to see, who is using our customers to their advantage and why we cannot transfer a customer to us?
> If we have a customer, who wants to respond only to our survey and somebody has input his/her data into the system (the customer does not know nor remember having given any permission), we cannot transfer him/her to us although he wants to! This is miserable!
> We surely have the permission and data of nearly 50 customers, who could be in the system, but some of the data needs to be modified. As it is now, you cannot do it. That's why it was so difficult and took so long to get the 15! As a telephone survey the matter would have been handled long time ago.
> But anyhow, it's over for now.
> What is the next goal?

Figure 3.3 First customer satisfaction surveys as cumulative graphical sketch.

Laboratory equipment

During the first certification process, another difficulty beyond problems with the surveys was the need to provide the laboratory equipment information according to the requirements on one list. It was common knowledge that Sigma had plenty of Epsilon equipment bought for testing and training purposes; however, the problem was to locate them in detail. Many pieces of equipment had been moved to different locations, and so in order to get the serial numbers they had to be tracked.

Again, it was a problem that the top management decision was not available; it became increasingly difficult to get people to help because of their already busy time schedules. At some point, the certification project manager concluded:

> I'm still trying to look for these gadgets in our organization, but if all the missing articles are not found, these should then be bought (see the list). And the next question is: who do we get to pay for them :-)

The first audit

The fifteen customer satisfaction surveys and lists of the laboratory equipment were pre-requirements for the audit to get scheduled. Some additional laboratory equipment was purchased and the preparations for the audit were ready to begin. Sigma and Epsilon cooperated in constructing the agenda for the day and also in collecting a representative group of people for the occasion.

The partner's ability to provide the pre-defined requirements were qualified by an outside auditor, a consultant hired by Epsilon. The main areas of the audit were customer service, presales support, problem solving and troubleshooting processes along with the training and hiring policies related to Epsilon certification.

The group participating in the audit included eight people from Sigma's side; Epsilon was represented by the channel account manager and a systems engineer. On the day before the audit, a rehearsal was arranged with the channel account manager acting as a coach for the Sigma team. The CAM anticipated that the matters which might be 'challenging' were how the customer satisfaction surveys' results were utilized and what would be the actions, if the scores would not be as good as should be, and, secondly, the problem solving process, especially the escalation of severe cases.

During the audit, some minor defects in the customer satisfaction process were brought up. Another issue that needed clarification was related to training: a plan was missing from the presentation. The latter deficiency was sorted out during the day, and the project manager sought out the needed documents. The auditor accepted the certification with a remark that a description of the customer satisfaction results-handling had to be supplemented to the documentation. This was done the next day and the auditor sent a report to Epsilon, suggesting acceptance of the certification.

First certification aftertastes

Sigma was qualified the Crystal certification and the so-called anniversary date in the Epsilon Channel Partnership Program was set. The active participants in the process felt they had done a great job and appreciated the result.

> - We did something that nobody in Sigma has done before. We proved to be stubborn and great fighters. Without these qualities the Crystal would still be a dream and a goal in the future. It demanded stretching on individual level. And we, who took part in the project, know what it really meant.
> - The goal of the certification was to attain to the eligibility of answering large corporate customers' requests for tender, in cases where the certification was required.

However, almost immediately a sense of uneasiness arose in the Sigma organization, prompting expressions such as the following:

> - Of course we should hold a Diamond certificate.
> - Politically we should have Diamond status.
> - Crystal is so easy, that's a matter-of-course to have it, and we should have Diamond.

Comments like this were heard all over. The feeling was that Sigma had not proved itself without the Diamond status; Sigma was far too excellent to remain on that level. The same attitude prevailed among some customers as well, as demonstrated in a response from a customer, when he was asked to participate in the customer satisfaction survey:

> I can be the person to be interviewed in my company. Incidentally, why are you applying only for the CRYSTAL level? We have had the conception that our partner is at least on the Diamond level.

The customer's account manager in Sigma asked partner management, how to respond to the customer. The following answer was formulated:

> Please, tell the customer that also Epsilon thinks that our technological competence is on the Diamond level. However, up till this point we have not found it necessary to participate in the Epsilon partner program, because it has demanded commitment to them. Now, as the program has changed and emphasizes technical competences instead of the amount of purchases, we, of course, want to go through all the motions required officially for the partnership status, including the customer satisfaction survey."

The goal to raise the certification level to Diamond was set, and the Crystal level achievement was celebrated only modestly out of the public eye among the people who had been involved in the certification process. On behalf of Sigma, the parties that had taken part in the project were thanked with a small monetary reward. Correspondingly, Epsilon arranged a Crystal celebration party.

3.2.3 Online ordering tools training

Towards the end of the first certification year, Sigma arranged an Epsilon online-ordering-tools training seminar. The seminar was initiated by Sigma's contract management team, had corporate wide participants from three countries, lasted two days and had a tutor from Epsilon's global Customer service organization.

The participants at the seminar were people who were actually inputting the orders of Epsilon equipment into the ordering system. In addition, the partner manager took part in the training because there was at times a problem of getting customer-specific discounts into the deals. Partner management was attempting to find out how the sales organization was to be informed about the matter.

The Epsilon account managers had the authority to grant customer-dependent discounts based on their own judgement on top of the certification discounts. These discounts were especially used in situations were some other equipment supplier had a strong position in the case. If such a specific price deduction was granted, the Epsilon partner was given a Deal-ID number that had to be included in the order if and when the deal was closed.

In addition to the above, another important learning outcome that emerged from the ordering tools training seminar dealt with the many kinds of reports that were available from Epsilon's systems, such as logistics information and sales reports.

3.2.4 The second certification process

To re-certify, Sigma needed to get answers to satisfaction surveys from thirty customers; thus the required number was doubled when compared to the first certification. In addition, to achieve the highest certification status – the Diamond level – more technology certifications on the corporate level had to be gained. Epsilon's partner program offered many alternatives for the specialization areas.

Epsilon had already informed Sigma that Epsilon had a plan to restrict the number of sellers of their Voice over Internet Protocol (VoIP) products to specialized partners in that area. Epsilon also let Sigma know that discussions with authorities had already taken place regarding the legitimateness of such a procedure. It seemed that there wouldn't be any legal barriers because the technology set so many demands on the suppliers. The practice wouldn't be considered a restraint to competition.

The VoIP technology based services were already in the scope of development in Sigma. For these two primary reasons, the VoIP technology specialization was chosen as the technology certification to be included in the Diamond certificate.

Technology certifications

The partner management function took the responsibility of putting up a project for the technology certificate, but needed help from the products and service development organization in manning the specialization roles. The project manager of VoIP service development was the first person to turn to. She had a good overall view of the possible candidates for the certification roles in Sigma. Each of the specialization roles had been assigned prerequisites in the form of basic Epsilon technology exams.

Based on earlier best practices in Epsilon specializations issues, partner management realized that an owner for the VoIP specialization was needed and found a person for that role in the organization. It was agreed with the owner that it was his job to assemble the group of people needed to fulfil the requirements for the new specialization certificate.

The project was manned: It was anticipated that the sales peoples' roles would be the most difficult to actuate and to achieve due to the hectic nature of the sales work. Those roles were thus multiply manned. Due to the preliminary basic technical certificate requirements, the more technical roles had only single castings.

Passing the certification tests usually required training and/or coaching: coordinating this task was assumed as the responsibility of the partner management team. Partner management cooperated with an Epsilon certified training organization, a learning partner of Epsilon, and created a scheduled plan for the candidates. It proved out that some of the tests had so little demand on the local market that the courses had to be taken abroad, meaning more costs.

It soon became clear that although potential candidates had been found, and they themselves were willing to take part in the common effort, their superiors had two kinds of problems: First, their personnel development budgets could not tolerate the extra costs and secondly, the candidates were often important people from the operative point of view, and their input was needed in everyday work to keep the organization running.

At the time, it was becoming evident that Sigma would gain the first rebates from the Epsilon bonus program, and the first idea for solving the economic problem proposed by the partner management was that the rebates would be used for the training purposes. This suggestion was, however, rejected by the sales organization's management. The decision was rationalized by the fact that the organization had already provided the resources for the partner management, and also that the money should be used to cover at least a part of the personnel costs.

<u>Sigma's personnel policy on training</u>

Partner management started to work on the problem of how to cover the necessary training costs. The human resource (HR) department was contacted, and it was suggested that a shared project for the specialization would be founded. The project would have monetary resources to be allocated to the units that were conveying people resources in the project for common good.

The suggestion did not get supported, and a lot of communication around the issue was aroused. Ultimately, the HR people did not understand the training need from a business perspective; their main concern was to run their own strategic programs, for example programs that aimed at changing the corporate culture to be service minded. HR function on operative level focused on organizing its own efforts.

In Sigma's organization, professional development was considered to be an individual right and responsibility, and not a corporate HR concern. It was assumed that people willing to participate in studies leading to an examination or qualification would agree on the matter with their own superiors. The business units controlled the training or education budgets, and no corporate money was available for such purposes.

As a result, nothing was achieved in the discussions with the HR function until an unofficial conversation, in which the chief executive officer (CEO) of the company was asked about Sigma's goal to certify on the Diamond level. She replied that she had been told that it was an important matter.

This brief conversation led to a meeting where the CEO, the corporate customers' segment president, and the head of HR development met and agreed on the principle that the funding of the necessary trainings could be done on a hierarchy level higher than that of the business units. Partner management provided the HR function with calculations of the costs of the training as well as of the travel and accommodation expenses. It was the HR function's role to evaluate and negotiate contracts with potential Epsilon certified training institutions and inform partner management of their recommendations.

Meanwhile, the discussion on allocation of human resources to the certification project from the business units had progressed and top managers had conceded the idea. Basically, a promise to allocate the human resources to the certification project was given. Based on Epsilon estimations on the amount of work the different exams required, Sigma's partner management compiled an assessment of the relative resource needs by different organization sectors: In the Crystal certification, the relative contributions were as follows: Networks 29 %, Products and services 69 % and Business segments 2 %. The human resource needs would approximately double with the Diamond status certification, and the relative, cumulative organizational contributions would be Networks 50 %, Products and services 43 % and Business segments 7 %. Obviously, Networks was not very pleased with the plan, especially because, from their viewpoint, Business segments was the initiator of the whole certification process and would gain the benefits of it.

After all, the two streams – the financial and the personnel investments streams of negotiations put together, led to the situation where the training plan could proceed.

Other personnel policy matters

Another matter that surfaced from the personnel allocation issue was how to reward the people who took part in the project and became certified. The people were expected to perform 'normally' in their daily jobs, i.e., they were expected to study on their own free time in addition to the time they spent on the courses. Since Epsilon exams were by no means easy to pass, this was a considerable load of extra work for them. And from the certificate candidates' point of view, the employer had asked them to participate in the program; they themselves had not been the initiators and criticized the system.

> Taking and studying for the certification tests is off from other work, partly behind closed doors, meaning that the colleagues have to 'patch up' you. On top of that, you don't get any personal bonuses. The top management should show some commitment to the matter in the form of providing more feasible circumstances.

The incentive practices of Sigma were also de-centralized; each business unit had its own policy of personnel compensations. So, depending on the unit, the individuals were rewarded differently. The sums varied, and it was known that some people had been nominated to better positions and thus received a raise in salary. The situation was considered unfair by some employees, and many certificate candidates approached partner management and wanted to ensure that they would receive some sort of compensation for their efforts. It was demanded that management and bosses in general had to be made to understand what additional efforts it took to pass the exams.

> - Eleven guys went to take this one exam and only one passed. In their feedback, the time to prepare was considered the biggest problem. The workload had not been justified at all. The one person, who passed reserved three days a week to full time studies between the training course and the exam (equals three weeks). In addition, he told that he had used evenings and weekends for studying.
>
> - Besides, it has to be remembered that the specializations have basic Epsilon exams as prerequisites. This limits the number of potential candidates to 21 in the case of the VoIP specialization.

Partner management tried to create a corporate-wide policy on the issue, but did not succeed. Partner management could only promise to suggest and recommend to company's superiors that the newly-certified people would receive compensations, but the function was not in a position to guarantee anything. In practice, the partner management in its role as the leadership team did not have any tool to boost development.

In some parts of the organization, it was a common practice that people taking expensive courses had to sign a commitment that they would stay with the company for a certain period of time after the studies, or alternatively pay back the costs of the training. For these people, this practice indicated that the organization was only securing its investments without giving anything in return.

During the time of these happenings, there were also personnel reductions going on in Sigma. Some people saw the certification exams as a way to secure their positions, and, in addition, some trainees would have been willing to take part in the certification process. The problem was that the rookies could only take the lower level exams; they typically lacked the experience and insight that was needed to pass the higher level tests that were considered surprisingly difficult among Sigma personnel.

Alternative training arrangements

The calculations on the training costs delivered to the HR function had been done on the basis of buying the training services from an external, Epsilon certified partner as public courses. This was considered the most effective and efficient way to attain the required specializations. There were, however, other possibilities too: besides participating in public, commercial courses Sigma had already experimented training arrangements for internal groups by the same certified trainers. Epsilon also could offer e-learning possibilities on their web site or instructed training on a CD. In addition, Epsilon offered training vouchers for other training organization's e-learning courses to Sigma.

Discussions with the specialization candidates yielded the fact that the classroom-style, interactive training was considered the best, most efficient way to impart new learning. It was considered very difficult to allocate the time to the training, if it was not organized in an out-of-office environment. The internal group-training would have been the preferred method, but was not applicable this time because of the great number of different courses needed.

Critics of the certification tests

Another obstacle to the technology certifications was the experience of the experts. Some of them regarded the certification exams as non-valuable or nonsense. Test takers had to learn by heart matters the Epsilon way even though they themselves 'knew better'. But to pass the tests they had to understand the test compilers' vocabulary and technical gimmickry. Many of Sigma experts had a huge practical knowledge base on configuring Epsilon equipment, yet still they had difficulties in passing the exams. Some of the matters in the exams were considered not valid or were regarded as out-of-date in Sigma's environment.

> If Epsilon thinks that a pike is a fish, it is a fish. And if the pike lives on a tree, it lives on a tree no matter what the standard says. Besides you should be a native English speaker in the tests.

The role of partner management in the attainments of the certification

In summary, partner management was working to create the conditions that would make the preparing for the certification tests possible, to coordinate the training participations, to motivate and encourage the organization and people taking part, as well as solving problems related to the costs of the needed studies.

Once the people had been nominated for the training there was variation in the amount of work they created for partner management. Some of them approached the function with every problem and some cleared everything by themselves. The problems ranged from training-schedule arrangements and hotel reservations to questions about buying books or acquiring credit cards to use in tests on the Internet.

For the top management, major motivations for supporting the certification efforts were the achievements of competing companies. Two local partners of Epsilon achieved the VoIP technology specialization certificate, and this news was published in the press with high visibility for business purposes.

For Sigma, the anniversary and the re-certification dates approached, but Sigma had not as yet been able to complete all the Diamond level requirements. Partner management did a lot of lobbying and tried to influence the different parties inside Sigma, but the specialization demands were not met in time. Still, it was not the partner management that was blamed for that. Some people expressed their opinions quite strongly:

> It is ridiculous that a firm this size cannot make it, if we really mean to achieve the Diamond. It must be such a small matter to our top management that they don't bother to get interested in such a scope that it would lead to some activities.

Besides coordinating the new to-be technology certification, partner management function had to keep on track sustaining the already attained specializations. The certifications on individual level were valid for two years and on corporate level for one year at a time. Epsilon system did inform the people on their certifications update-needs. However, it proved out to be necessary inside Sigma to remind people of the expiration dates to make sure that the corporate certification was not lost.

Epsilon continuously developed its policies; for instance the policy of re-certifying exams was changed. Earlier the basic certifications had to be re-certified as such, but later the policy was changed so that certain more advanced, specialization exams would automatically update the basic technology certificates as well.

The re-certification policy update was good news, but caused one unfortunate VoIP-communications specialization-candidate to contact partner management. His basic exam had expired just two weeks before the new policy became effective, so he asked partner management to find out if it would be somehow possible to apply the new policy to his case. Despite the thorough efforts of personal contacts in the Epsilon organization, partner management did not succeed in getting any exceptional treatment for the candidate. As anticipated, the system as such could not grant any exceptions: “Since his exam decertified/expired before the October 1st, 2004 it cannot be re-certified by the special exams. He will need to take all the requirements for the exam again.” The candidate was a professional salesman familiar with constantly negotiating and compromising with customers, and the rigidity was incomprehensible to him.

Partner management recognized the urgent need to conduct a corporate training plan: the re-certification policy update was indeed a good improvement; instead of repeating the same exam over and over, the new policy would ensure that people would learn new things. In addition, Epsilon continuously changed the content of required exams: courses were dropped from the program and new ones created and added. Although Epsilon took care that the taken exams were good for the promised time period, people tended to forget that so much time had passed and that they had to renew their examinations, or possibly they had not understood the system in the first place. Anyhow, hassles and emotions burst out: “How can we be sure that the exams we take today will be valid tomorrow?”

The second customer satisfaction survey

The first customer satisfaction surveys process had been a traumatic experience in terms of meeting the deadlines. That’s why Sigma’s partner management decided ‘this time to do the surveys in time’. The first surveys were sent already in August 2004 after

Epsilon's fiscal year had changed and the new questionnaire was available. The term 'anniversary year' was not known to Sigma at the time. It turned out later that new satisfaction surveys for the next audit were only accepted after the anniversary date. Since Sigma now was in the re-certification process, the required number of responses was 30 instead of 15 for first-time certifiers.

Epsilon developed slight improvements to its survey every year and when the 2004 questionnaire was released, there was a welcome change in it: now it was no longer possible to choose some other partner but the survey sender's organization as the partner to be rated.

Sigma tries to influence the content of the customer satisfaction survey

After the first certification audit, there was time to reflect some of the tasks that had been done during the certification process intuitively, without any better judgment having been applied. Sigma's partner management and Epsilon's channel account management discussed, for instance, the administrative matters related to and the contents of the customer satisfaction surveys.

Basically, the survey was constructed of three parts: 1) background information of the respondent (12 questions), 2) general satisfaction on Epsilon (43 questions) and its products (more than 20 questions – depending on product choices), and 3) partner related questions starting with technology oriented questions (41 questions). Epsilon's channel partners were further divided into pre-sales and post-sales partners. The following is an example of the survey questions:

"How would you rate your satisfaction with your pre-sales channel partner account team on

	5	4	3	2	1	Don't know
-their responsiveness?						
-the skill level of Systems engineers?						
-their communication of new Epsilon products and technology						
-their ability to match Epsilon's products, services, and solutions to your business problems/objectives?"						

"Based on what you have experienced , how would you rate your satisfaction with Epsilon's channel partner post-sales support on the following aspects?

	5	4	3	2	1	Don't know
-the effectiveness of problem escalation and critical situation management?						
-the timely closure/resolution of support problems?						
-the timely delivery of spare parts from your Partner, correctly configured and in proper working order?						
-the effectiveness of professional services?						
-the effectiveness of on-site service(s) provided by your Epsilon Partner's directed field engineers?						
-the Partner's support center's ability to diagnose Epsilon hardware, software and network problems?						
-the effectiveness of post-sales technical telephone support services?"						

Sigma's partner management thought that instead of directing the equipment related questions to the customers, they should have been answered by Sigma. From Sigma's point of view, it was a problem that the survey content was not aligned with Sigma's strategy of becoming a service company. Sigma was encouraging customers not to worry about the technology, i.e., the equipment that was used as a platform for the services Sigma was selling. As it was now, the survey was asking exact questions about Epsilon's technology products on code names level.

Sigma perceived that the minimum that Epsilon should have done was to change the sequence of the questions. The partner-related questions should have been presented *before* the technical, product-related questions - not after. A serious administrative complaint or suggestion was about 'getting the answers home'. It should not have been possible for the respondent to get by in such a way that the consigner did not gain anything. And if radical suggestions were made, the survey should have been able to be conducted as part of the partner's own customer satisfaction studies. Besides, the survey was far too difficult and long for Sigma's customers.

Epsilon’s CAM advised that many of their partners filled in the questionnaire together with their customers. She also advised that the survey was not meant for business decision makers, but was directed to telecommunication professionals. Furthermore, the CAM made instructions on how to fill in the survey.

Sigma’s partner manager wrote a letter to the Epsilon organization trying to influence the firm in making some changes to the survey. The Epsilon channel account manager said that she had sent the letter to the top management of the corresponding geographic organization, to the service provider channel organization and to the global channel business leader. CAM was pleased with the activity of Sigma:

> I think this is the best kind of cooperation… giving feedback when necessary and making suggestions to achieve the common goals.

Although Epsilon, in all its correspondence, including published announcements and their web pages, emphasized, how ‘Customer feedback is very important’, it seemed that direct feedback to the global Epsilon was not accepted: no reply was ever delivered to Sigma’s partner management based on the letter. The local Epsilon organization sympathized but couldn’t really do anything.

Epsilon’s CAM suggested continuing the discussion with the partner help line. It proved out that they did provide answers to questions, but only to questions about the current practice. Their authority was limited and when they escalated a matter to higher management, they were met with silence. The third route taken in trying to influence the survey content was expressing the viewpoints in the Epsilon’s partner surveys.

Method development for conducting the surveys

As mentioned earlier, the Epsilon CAM created instructions for filling out the questionnaire; but the instructions were of no help; the people still answered ‘incorrectly’, i.e., finished the survey without giving a rating to Sigma. There was a change made in the survey, and it was not possible to rate another partner anymore, but it still was possible to choose not to answer the partner-related questions at all. Another problem was that some customers did not recognize the survey when it was sent as a link in an e-mail signed by Epsilon’s CEO. Some respondents regarded the e-mail as spam and deleted it.

Gradually, after long hours of working and gaining more experience in the Epsilon partner web pages, a demo version of the customer satisfaction survey was found and experimenting with the survey started. Sigma developed a method of conducting the surveys together with the customers on the phone so that Sigma’s partner manager guided the respondent in answering the questions. The customer had the real questionnaire and the partner manager used the demo. The time to fill out the survey was agreed beforehand and the process started with the identification of the e-mail containing the link to the questionnaire.

There were small problems - like having the questions in different order and so on, but those discrepancies were manageable. Through a trial-and-error method, Sigma’s partner manager became an expert on guiding the customers to answer the survey. She learned which questions were crucial and which questions could be skipped from Sigma’s point of view.

Most of the customers liked the joint method, but there were also those who wanted to fill out the questionnaire independently and they sometimes did it ‘incorrectly’. However, the hit rate of successful responses became much higher.

Figure 3.4 presents the process of conducting the second customer satisfaction survey in relation to time. In the second survey, Sigma utilized the Epsilon partner tools and the sketch is based on the statistics provided by the system.

Altogether, Sigma sent 94 requests for the customer satisfaction survey and received 48 answers, out of which 16 were not properly filled out from Sigma’s point of view. Although the overall hit rate remained at the same level as in the first satisfaction surveys, there was a considerable improvement towards the end of the project. Thus, 32 valid answers were obtained, but the first two answers that arrived already in August were disqualified because of the Sigma certification anniversary year had not yet changed. The customer satisfaction survey was concluded by sending the respondents a thank-you-note with a pair of movie tickets.

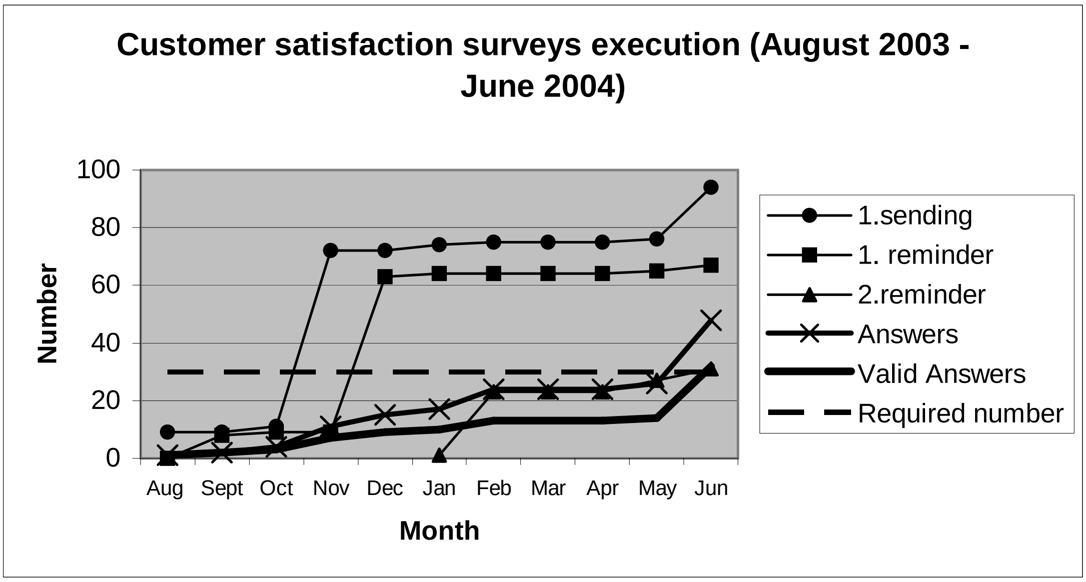

Figure 3.4 Second customer satisfaction surveys as a cumulative sketch

Sigma-Epsilon business plan

The Diamond certification requirements held that the parties had made a joint business plan into the Epsilon web system for the purpose of a “resource enabling collaborative strategic planning between partners and Epsilon channel account managers” to achieve common success. Business planning was to allow the identification of incremental revenue streams, align objectives and optimize market opportunities. In addition to describing Sigma as Epsilon’s partner and forecasted revenue based on historical data from previous years, the plan included value propositions, objectives and initiatives, critical success factors, and the partnership SWOT analysis.

The value propositions were done from three angles: 1) how Sigma would benefit from its partnership with Epsilon, correspondingly, 2) what Epsilon was planned to gain from the IOR with Sigma, and 3) what would be the competitive edge of the partnership among the end customers. The answers were formulated in the following way:

- Epsilon was to provide Sigma with both local and global resources in the areas of technical consultancy, sales management and end-customer contacts. Epsilon also offered Sigma, as part of the partner program, product and end-user industry-dependent promotions and campaigns, trade-in programs (covering also Epsilon’s competitor products), advanced technology bonus programs, seminars and forums as well as price support.
- Sigma offered Epsilon market access to its customer base through the partnership management coordination and common marketing efforts, knowledge and information sharing of products and services as well as feedback from the partnership program. Sigma was also committed to developing the day-to-day local cooperation.
- Together, the partners Sigma and Epsilon saw that the end-customers would benefit from the development and innovation of information-technology based communication services that met customer needs. The innovations could be in the areas of operating models, cost efficiency, or sales and service concepts. Through sales and marketing cooperation, the market would be provided with new ideas and opportunities creating “exceptional business value for the customers”.

The most important objective in the business plan was to improve the process of finding joint leads and business cases, especially in the IP-telephony area. The initiative was to arrange “a joint workshop to both companies’ key resources.” Another objective was to regularize and solidify the business-related meetings of the partnership framework by focusing on their agendas as well as on creating commitment of the named participants.

As critical success factors, the partners considered 1) the understanding of customer needs, 2) internal and external marketing of the partnership, 3) account manager cooperation, and 4) expanding the cooperation to include also small- and medium-sized enterprises in addition to the large corporations.

The SWOT analysis included in the joint business plan is presented as figure 3.5.

Strengths	Weaknesses
• Sigma's sales focus with local, market wide coverage. • Good service and product portfolio available market wide. • Sigma's market leader position with excellent reputation in data and mobile communication service areas. • The partnership has the most trustful vendors to fulfil customer requirements at present and in the future. • Personal management commitment on top management level to the partnership.	• Account manager level cooperation has to be improved. • Time-to-market of new services is rather slow. • SME sector cooperation needs to be activated. • Different sales cultures: Epsilon selling products and Sigma provisioned and managed services. • The resale positioning is unclear when customers want to buy Epsilon network equipment.
Opportunities	**Threats**
• Market conditions: customers are investing on information technology. Outsourcing and especially outsourcing of networks is increasing. • VoIP is rapidly gaining market share as a voice communications solution. • Epsilon equipment has a strong position with customer's local area networks and data communication solutions. • Information security solutions demand is increasing. • New business and customers to be reached in the SME sector.	• Competitors: o Fast moving, new service provider type of vendors o System integrators are moving into the market place that used to be service provider business, like VoIP telephony • Customers: o Flexibility to meet customer's special needs o Cost structure, long logistics processes o Sales will freeze, if fast results are not achieved

Figure 3.5 Sigma-Epsilon business plan SWOT analysis.

The second audit

Preparations for the second audit were much more straightforward and easier than for the first one because of the experience gained. Also, the more systematic and organized working mode combined with the connections and networking efforts of Sigma's partner management were of great help in gathering information for the pre-audit documents. The laboratory equipment list could be created quite simply from the reports that were received from the Epsilon Customer service organization, obtained through the connections built in the ordering tools training. Combining the Epsilon information with the Sigma reports and ordering data, the organizations tackled together the great difficulties that had been met in the first certification. The list was sent for verification to Epsilon's local system engineer, who was well aware of Sigma's testing laboratories.

During the first certification year, partner management had also taken part in seminars arranged for Epsilon's local partners and partner managers from different companies. They could be asked for help on non-confidential issues, too.

> I cannot directly show the escalation process description, because it is strictly company confidential. I remember that there must be a clear mapping to the Epsilon priority levels (1, 2, 3, 4) if own classifications on the priorities are used and for each class a clear time limit when it is escalated to the next level. Escalation triggers must be automatic; it's not enough to have some manual system. Those matters are also checked in practice at the audit (at least so has been done in our case).
>
> Personally, I think that Epsilon's insight into the escalation process is quite straightforward and cliquish and is applicable only to cases where exclusively Epsilon products are used. In real life, for us as well as for you the cases often have several suppliers and parties, and the same core process must work for all from own business standpoint. So, as a practical advice, I should say that stick with your existing processes as far as possible and adjust them to the Epsilon minimum requirements. That's the way to clear it the easiest way.

Similarly, with the first certification process, a rehearsal for the second audit was arranged. The number of people taking part in the audition meeting remained the same, with eight people from Sigma and two from Epsilon. Six of the Sigma people were the same as the year before, the Epsilon people and two Sigma persons as well as the auditor had changed.

The Epsilon requirements for the certification had changed a little bit from the first audit. Also, the Sigma operations had been organized somewhat differently. In the rehearsal, these changes and their consequences were contemplated and the presentation material preparations as well as the roles of the people in the audit were clarified. The new Epsilon channel account manager had a lot of experience with audits through his former engagements, but did not need to take the coaching role due to the experienced Sigma re-certification team.

Following the instructions of the earlier cited colleague partner manager, the audit agenda was built more from Sigma standpoint than following the Epsilon guidelines. The agenda was sent beforehand to the auditor for approval with an explanation on how it matched the audit requirements.

> I'm including the agenda that I have planned for Thursday in this e-mail. In addition, there is another page that describes how the agenda and the ‘Epsilon sample itinerary’ match. It's a little challenging to describe our processes and operations in that formula, since we are mostly in the service business - not so much in hardware business - with customers.
>
> Anyhow, I've tried my best to reconcile both views. Please, let me know if the agenda should be changed somehow or if it’s ok.
>
> *The auditor responded:* Thank you for your agenda. Looks good to me. I am sure we will be able to cover all the points and look forward to our meeting.

The audit was conducted according to the Diamond certification demands even though Sigma did not have enough certified individuals for the highest level. The idea was that if Sigma could accomplish all the missing components in about three months time from the audition, the Diamond certificate could be regarded as being ‘qualified’ without a further audit meeting.

In his report the auditor had no action items identified, meaning that the audition was qualified as such. He concluded among other things, a major source of strength:

> The Partner demonstrates a very good working relationship with Epsilon at all levels within both organizations.

The areas of improvement that the auditor suggested were related to customer satisfaction surveys:

> The names of the customers should be reserved each August when the survey opens but sent at regular intervals throughout the year. In addition to reviewing overall survey results, the Partner should inform the relevant sales manager when an unsatisfactory score is recorded and investigate the reasons.

In addition, the auditor suggested that the partners should create measurable objectives in the business plan for the partnership, e.g., the target number of common cases or leads per quarter year.

3.2.5 Certification related benefits

Product technology based bonus programs

In the so-called advanced technology product areas, Epsilon had created bonus programs for its partners that had specialized in the corresponding technology. The qualified partners had to make an application to participate in the programs, which ran for three or six months. There was a minimum sum of orders set and when the target was achieved a certain percentage counted from the purchase totals would be paid as a rebate to the partner. The other requirement was to conduct satisfaction surveys for the customers that had purchased the type of products in question.

Already after the first certification, the Epsilon channel account manager had done the application for Sigma to join the bonus program. Nobody in Sigma had got acquainted with the program at all: When the first program was reaching its end of life, the primus motor of the first certification was asked if it was worth while to do the specific customer satisfaction surveys. He thought that it was just a waste of time and actually the sales figure was also too low for achieving the triggering target. Afterwards, it was realized that the target could have been easily achieved just by some stock-up purchases in a modestly advanced schedule.

Sigma’s partner management was continuously trying to find a solution to the financing problem of the certification training and negotiated with both the contract and product management functions a basic understanding: if money were to be gained through the bonus programs, this money could be allocated to the certification training and exams or other possible partnership development actions.

For the second bonus program period, the partner management supplemented the applications to take part in the program and followed the situation closely as time progressed. The minimum requirements were met, the program questionnaires were sent to the customers in cooperation with the product managers, and Sigma got its rebates (a five figure sum). Partner management, for its part, configured a process chart for the company administration on how to link the rebate collection to the internal routine processes (figure 3.6). However, the idea of using the money for training was not at the end supported in the sales organization and no solution for the economic problems associated with certification training was found this way.

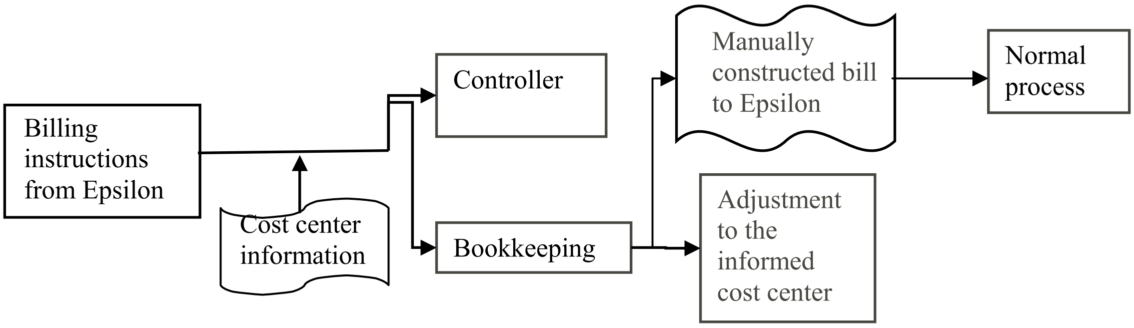

Figure 3.6 The rebate collection process for Sigma

The third bonus program period had some changes attached to it. There was a new technology added to the side of the previous ones and it was possible to gain multiple rebates from same products. In addition, the customer satisfaction survey system had been changed: the same questionnaires applicable to the certification requirements were now to be used and the results would be calculated to the required number. There were certain questions that had to be filled ‘correctly’ though and the requirements for the rating score were quite high.

During the existence of the third bonus program, the Sigma-Epsilon partnership succeeded in getting a large deal. Sigma did the normal purchasing orders, but Epsilon saw the opportunity and carefully examined their so-called bundled products order possibilities. Epsilon found a suitable package that was eligible for the bonus program. The order was modified, and also it was made sure that the timing of the orders was such that the maximum benefits were collectable as a rebate.

There were some tricks in the bonus program though: the time period for conducting the customer satisfaction surveys was two weeks shorter than the program period. It was quite close that this detail would have been missed. Another almost unnoticeable detail was that the number of required customer satisfaction surveys was dependent on the amount of the order revenues.

The number of required customer satisfaction surveys was calculated to be seven or eight. Because the rating had to be almost 4.3 on the scale of one to five, the customers had to be reminded that the partner rating had to be done on ‘international’ scale. Smart customers understood the hint and the required scores were achieved with ten customers. If the average rating had not been high enough, no rebates would have been obtained. As a result of the third bonus period, where Sigma took part, a considerable sum of rebate (a six figure sum) was reached.

New customers as a base for a bonus program

Epsilon wanted to expand into the small- and medium-sized enterprise (SME) sector. To encourage its partners in trying to hunt for new customers in the segment Epsilon had developed a new type of bonus program. In this program, the partners were awarded for deals with customers not known to Epsilon before. The criterion for being ‘unknown’ was that Epsilon had not assigned a named account manager for the firm or organization, and the customer was not in Epsilon’s customer data base. The idea in the program was that a partner could register a sales lead into Epsilon’s system and if a deal would be closed during the next half a year; a rebate would be paid to the partner.

Sigma tried to implement the program inside its SME customers sector, but without success. The program just did not fit into the service business; the details asked about the lead were too itemized. It was usually not until the delivery process that it was finally decided in Sigma what the actual Epsilon products to be used would be – the sales force was not the decision maker of the composition.

Product promotion programs for certified partners

Epsilon had many kinds of product promotions: it was really an art to configure the pricing for a certain solution to be offered to a customer: First, it had to be checked if there were active promotions for the particular products. Usually there were also several possibilities to configure the equipment solution; there could be ready-made bundles with attractive prices and so on. Another difficulty with the promotions was that they were valid for certain time periods. Because the sales negotiations often took several months, the tender preparing sales managers had to take calculated risks in their price determination of the Sigma solutions with ‘Epsilon inside’.

Secondly, the customer might belong to a segment that was eligible for a specific customer based promotion; the eligibility for a special price could also be granted due to the competitive situation on the market or due to the importance of the specific end-customer. In these cases, the equipment orders had to be accompanied with a Deal-ID number to pocket the price deductions. There were often problems in keeping this piece of information attached to the product orders in Sigma’s order/delivery process, and the matter could not be emphasized too often. Thirdly, the customer price could be influenced by returning outdated or other vendors’ equipment to Epsilon according to so-called trade-in procedure. Finally, all the different pricing variations had to be compared to the price that would be available based on the negotiated contract taking into consideration, for instance, the partner certification status. Partner management had drawn a diagram that showed the different pricing possibilities (figure 3.7).

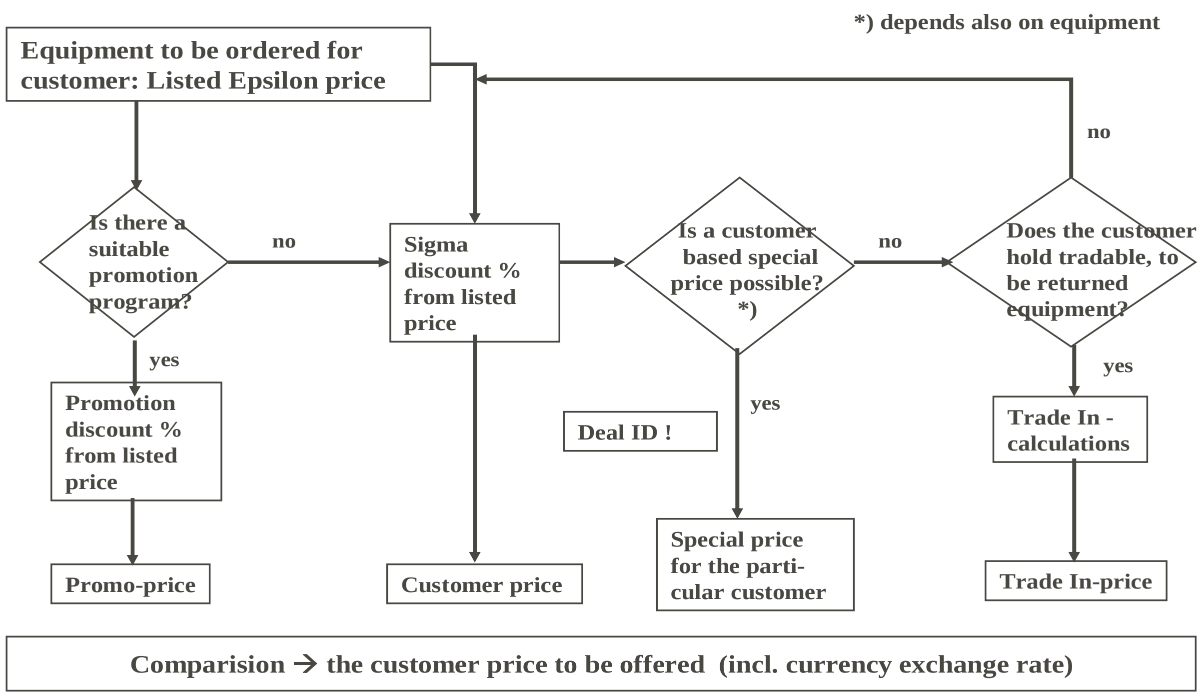

Figure 3.7 Basic pricing principle of Epsilon equipment for Sigma’s customers

One Sigma manager, who was responsible for configuring solutions that utilized Epsilon technology, responded on the complexity of Epsilon pricing policy:

> The pricing is a world in its own: basically the Epsilon web pages hold an answer to every question or even a question to every answer, but everything is at the end of a long path. Without the help of the local CAM I would never have been able to understand the logic.

3.2.6 The start of the third certification process

Because the product-based bonus program in its most developed form included the customer satisfaction surveys, the third certification process was started simultaneously, when the answers were collected for the rebate purposes. The developed, joint method of filling the questionnaire was again used to collect the responses effectively. The system turned out to be also an indicator of the reliability of the survey system. In January of 2005, the system had not functioned properly: Sigma's partner manager sent an e-mail to Epsilon customer service:

> There is a problem with your satisfaction survey registrations. I've been answering the surveys together with customers – yesterday with two. I'm 100% sure that they identified us as their partner and evaluated us. Now, however, when I look at the report these responses are categorized 'not valid' (= customers that identified no partner). The customers did choose to evaluate us and gave their opinion on both pre-sales and post-sales questions.
> There are also two other customers whose survey results have been categorized the same way. Of these two, I do not know for sure if they have answered 'yes' to those questions asking for willingness to evaluate us. But I'm now questioning these, too, due to the latter experience.
> This matter is critical due to the bonus program schedule, as you know…
> According to the report, we are not meeting the target 4,26 rating and in case these unregistered surveys don't bring the rating up, I should be sending more surveys out. But there is no use doing it, if your system is not working properly (which I strongly think).

The complaint had been correct; Sigma's partner manager was responded to and later she could conclude:

> Thank you for your response. This is to inform you that the problem has been resolved – I don't know how and by whom – but now the report is ok. Those surveys of yesterday are now ok and in the report. And my worries are over.

In the beginning of year 2005, it was already known that the partner management function in Sigma was to be organized differently and the partner manager for Epsilon would assume new responsibilities. However, agreement of a transition period lasting for approximately the first quarter of the year was made.

During the transition period, the technology specific certificates had to be renewed in February and some problems were associated with that. One person assigned to a role in the specialization had left the company and a new person had to study and take the exams. The specialization owner system that had evolved during the two years time proved valuable as the owner took the responsibility and found a candidate for the job.

The candidate, however, got ill and was on a sick leave for some time. The experience gained in the partnership management again proved valid: Sigma knew who to contact in Epsilon for granting an extra month for the renewal.

> Due to the circumstances, your specialization deadline has been extended till the 26 of March, 2005.

Using the extension possibility, Sigma was able to get the specializations re-certified and the necessary practicalities of the first quarter of the year were taken care of. The stage was set for others to take the responsibility.

3.3 Partnership characteristics

3.3.1 The need to understand the partners' way to operate

One of the reasons for Sigma to span the role of its partner-management function to cover - on surface - aspects of other areas besides the marketing and sales cooperation, was the realization that the different sides of cooperation between the partner organizations did have an effect on each other: the activities were intertwined.

The activities also did not take place in a time-independent void: some people involved in the partnership had formed their opinions and preconceptions based on their perception of episodes in the past, either on the stories they had heard or on their own previous experiences in working together with the partner. It seemed that in some parts of Sigma sales organization there was a prevalent atmosphere of mistrust and prejudice against collaborating with Epsilon in customer cases. At base the attitude of ‘let’s make business together’ was missing. The most sober-minded people shared their knowledge and wisdom they had gained in cooperative work:

> - One should not presuppose that confidentiality is understood alike; you should always be very clear and say out loud that this is a matter just between us.
>
> - Epsilon’s sales organization is very effective. They take their own paths.
>
> - The meaning of cooperation is by no means to deliver or reveal confidential information, but it is important to know what they have, what they think and plan to do next. What [products] is going to be available and what do they want from us – these matters have to be expressed quite clearly.

It was often pointed out that Sigma had had a very significant role in the early history of Epsilon; Sigma had done a lot of research and development on Epsilon products in developing commercial services. Some Sigma people felt that it was unfair that Sigma was no longer treated as ‘special’ in the Epsilon network of partners.

> And today, when the organization of Epsilon has grown tremendously, that help that we were able to provide for them [at] that time, is totally forgotten. I don’t think we should be forgotten. At that particular time Epsilon had a need for a certain kind of partner. They used us for that. What we didn’t understand was that we should have put a price tag on that. – [Now,] it’s a very tightly formed relationship of who does what and when. There’s not much leave way there.

As the partner management’s function was to promote the cooperation, it had to deal with the unwieldy circumstances and try to find a way to change the situation. There was a mismatch in the descriptive stories on how the parties behaved in customer cases. It was obvious that Sigma’s sales people who had already cooperated with Epsilon ‘in the good old days’ felt mistreated in the current business environment. Epsilon was aware of the old ways of doing business and described the situation through an example (it was emphasized, however, that the case was not from Sigma):

> We won a great project with a partner, and after a little while I got some miraculous feedback through our organization. The partner was not fully

> satisfied. Why not, we did win? But in the old times it had been a custom after each victory that the partner's sales person got a bottle of wine from the supplier recognizing the good work.
>
> So it can be such a small thing. There are such customs and traditions and accounts that we just wonder… After all we are just people and used to certain things… Changes and new ways of doing business…

Some sales people also thought that the business created by Sigma was more valuable than 'the usual integrator's business'.

> I've heard a statement that a piece of equipment sold to a service provider to be used on the platform is equal to 1.7 pieces of equipment: there will be upgrading, updates, continuity and so on. It has a lot of indirect consequences.

Apparently, the business practices of Epsilon had changed considerably as it had grown to a global corporation. The focus had switched from market share to profitability.

> Epsilon's change has been huge, tremendously big – from an innovative company to a rigid corporation. Today, Epsilon has strong policies that align its actions, pricing management etc. It is perfectly clear that when you are a challenger on the market and doing new business, you will be flexible, agile and easy as a partner. Now, when Epsilon is dominant on the market it is as stiff as an iron bar.

The fact that both the parties had a customer relationship with the same company caused some challenges to the parties. Epsilon was skeptical whether Sigma as an operator was able to offer new technology-based possibilities as services. For some customers, it was also difficult to understand the roles of the partners.

> The roles should be quite clear in our relationship; even the customers should understand them. The customer is in a customer relationship with Sigma which in turn is a customer to us. In a deal, Sigma buys the product and second level support from us and delivers the whole thing. If a customer has a problem it is the service provider he should contact. And this is the beauty of the whole business: we sell the support, the product support and R&D knowledge to Sigma at a certain fixed price. Sigma can then package thereto its own knowledge. We don't inform the customer how much our service costs to Sigma.

For the partnership management it was necessary to gain more understanding of the partners' ways to operate, especially in relation to each other.

3.3.2 The business rhythms of the partners

Epsilon had a strict forecast-based business model[15]: every Monday the sales people had to report the forthcoming orders they were predicting to get that week. Besides these weekly forecasts, they also had to make monthly, quarterly and yearly predictions of the upcoming sales. In Epsilon's corporate environment, the accuracy of forecasts was the performance metrics and only ten per cent imprecision (either positive or negative) was considered acceptable. The Epsilon account managers used to call Sigma sales people and ask exact information on the orders that were to be done each week.

> Our organization [Epsilon] could be described as an impatient bulk seller, who wants to know every week how much you're going to purchase.

On the other hand, Sigma's way to do business was based on long-term business relationships. Business deals especially in the large corporate segment were agreed on average for a three-year time frame, and it was difficult for the Sigma sales managers to understand the hurry. For them, it was not equally important if the orders were made this week or the next: they were annoyed and frustrated on the questions Epsilon account managers were asking them.

> Sometimes I'm irritated when they call and ask me when those orders are coming in or when the deal is going to become concrete. Even so that when they know that we have won a case: when will the ordering process start? In the end, it's the project organization that knows the schedules. We don't have such an accurate forecasting in our operations. This causes a huge amount of e-mails and phone calls.

From Epsilon's perspective it was also important to know who the end-customer was; in their business environment it was considered bad performance if the end-customer and an order could not be matched exactly. However, Sigma's business was based on corporate customers: the individual companies belonged to a corporation as subsidiaries. Many times, the final information on the number of products to be sold and

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[15] Epsilon had been so successful in its forecasting procedures that their predictions were regularly published in the top global financial newspapers. Epsilon also conducted research on information technology investments. Results of an Epsilon survey during the research phase five (beginning of the calendar year 2005) showed e.g. that price was the fifth most important decision factor affecting buying decisions, most important was reliability. Another interesting finding was that IT (information technology) directors had more positive attitudes towards new investments compared to business leaders.

the actual end-customer were not revealed before the installation project was in progress.

> All suppliers have their own buying procedures, but Epsilon wants much more precise information on the customer already in the ordering phase.

The Epsilon compensation model was based on meeting the set goals on individual, group and company levels. Similarly, Sigma sales function's compensations consisted of three components. There was a major difference, though: Epsilon's account management goals were all based on new products sales; so called advanced services and their sales were organized as a separate unit. However, due to the different business nature, Sigma's goals included a significant portion of ongoing billing. The business cycle was very much slower: the deals made today would have a delayed effect on the customer revenue. Moreover, often the deals were associated with business retention, renewing the contracts of current services with modifications in details.

Epsilon put great emphasis on organized, systematic cooperation in its partner relations. Channel account managers were also awarded bonuses based on the revenue created by the channel partners. In Sigma, however, no such system for partner management was developed, and it was difficult for the function to assess its achievements on business figures.

3.3.3 Partnerships as business model for Epsilon

The whole business model of Epsilon was based on partnerships: Epsilon did not sell its products directly to end-customers but only through partners, and managed the partner relationships in the channel account management function. Also, the training, production of Epsilon equipment, deliveries and so on were organized to operate as a net of independent companies. Partnerships were the natural way to do business for Epsilon. The most usual method for Epsilon to diverge into new business and technological areas was to acquire small, innovative companies.

> About 93 % of our [Epsilon] products are manufactured by subcontractors and 95 % are sold by the partners and resellers. The R&D develops new products and they are manufactured by us as long as the quality assurance processes and measures for the subcontractors are built. After that the subcontractors take over the production.

> The teleoperators' own networks are the only customers we sell directly to, because we want to have a direct support contract with them. We cannot think of a situation, where the network would fall down and there would be a third party in the repair work.
>
> The partners feed the equipment order for their customer in our web systems, and at the same time the order is opened to all our factories, which manufacture the particular product. Also, at the same time, the component suppliers of the factories see what is needed for the order. This means that nobody in this chain needs to stock a lot of goods.
>
> We have sometimes played with the thought that more than 90 % of our revenue is registered and booked into the systems without Epsilon touching it.
>
> The core competences of Epsilon are research and development, virtual networking capabilities, market making and problem solving.

However, in its strategy vision Epsilon had stated its desire to change from straightforward equipment selling business model to a company that "understands the customers' business". For their partners, Epsilon promised help in taking the new direction while changing the mindset. Epsilon wanted to become a partner which was easy to cooperate with.

3.3.4 Sigma's thrust to become a service company

In the year 2000, Sigma had made a major shift in the division of responsibilities in its corporate structure "from a technology-oriented to a customer-oriented approach": the units closest to the customers were organized into customer segments rather than according to the product or service dimension. Although the organizational structure had been changed by a management decision, the actual change was a gradual transition process, which phases could only be seen afterwards.

By the time of the research period, the effects of the structural change had emerged to a phase where sales organization was gaining more power relative to product and services development organization.

> In the early days, the sales people had a threshold in managing the subcontractor/ partner relationships; it usually was the product manager or

> some other technical person who took care of that. We still lack the partnership culture [in sales function].

Sigma had traditions of being self-sufficient in services development. Although Sigma's strategy and business development functions saw partnerships as a necessity in the competition, the implementation of the cooperation mode into practice demanded a lot of work. The drivers for the more important role of alliances were, for instance, the emerging technology, the consolidation of telecommunication and information technology businesses into ICT business, globalization and its effects on business needs.

> Part of the old Sigma culture is such self-confidence that we don't need anybody, we have all the wisdom and competence ourselves. We constantly talk about networking but don't internally understand what it means for us. We basically have the attitude that a) we don't need partners and b) all potential partners are bullshitting more or less… We lack a partnership culture and an implementation of partnership strategy.

Sigma's competitive strategy was based on its vision to become a service company; and was formulated in the following way:

> [Being a service company] is about making all the communications services work together seamlessly and appear as one system. …Technology is invisible. But it is there behind the scenes and it takes professionals to manage the technology for the customers.

The service-company strategy was well-adapted among the Sigma sales force, from Epsilon's viewpoint even in excess. Another reason why Sigma did not want to emphasize the role of the equipment was that it was wise to utilize the extant technology as far as possible.

> The sales cooperation has been complicated by the fact that the [Sigma] sales people's thoughts have cemented to the idea that they sell services – they don't bring out the technology at all.
>
> I think, from the Epsilon perspective, the reason they're entering into a partnership is obvious: they want to sell more products and services. The reason why Sigma would enter into a relationship with Epsilon on a partnership level is not all that clear. We do not necessarily want to buy more; we want to achieve better profitability through better use of the technologies that we have purchased so far.

The sales cooperation between Epsilon and Sigma on case-level could be looked at from two different perspectives: The 'Epsilon inside' perspective was applicable to established services utilizing Epsilon products and support. In these cases, Epsilon was self-evidently the vendor for the technology due to the service design. According to the second 'Epsilon as an alternative' perspective, the most suitable technology could also be some other vendor's technology, the choice depending predominantly on the customer environment.

3.3.5 The question of preference status

Some Sigma people thought that since Epsilon and Sigma had made their partnership more 'official' through the Crystal certification, Epsilon should prefer Sigma and provide Sigma better (meaning lower) prices in the customer cases. They did not believe in Epsilon's explanations of treating all their partners equally.

> - This is how Epsilon operates: they first evaluate who is the most potential supplier for the particular end-customer. And with that partner they form a deeper alliance.
>
> - Epsilon insists on treating everybody equally, which is a big lie. That is a whopper. They leak information on competitor offering and hint on price level and the supplier's approach to the case. And they try with their own activities to strengthen the partner they have chosen.
>
> - If we have a strong customer relationship and Epsilon in their own calculations comes to a conclusion that Sigma is the probable supplier, then, it is possible to have a discussion on the prices… And the only influential factor is that there is a clear threat that we would choose some other supplier's equipment. If the threat is nonexistent, the price is based on the basic contract and that's it.

Some others considered it normal that Epsilon was just trying to sell as many pieces of their products as possible and chose their case partner according to that. They saw Epsilon's role as a market-maker and concluded that the most active partner would win.

> - Indeed, Epsilon is not stupid: they always form an alliance with the one that has the greatest probability to win the case.
> - Epsilon is preparing the ground at the customer… Basically, they don't choose the partner for the case but grant a reasonably neutral starting position for all, and the most active is the winner. We should understand that partnership is not something sacred: if it does not work with one partner it will do so with another one, and the early bird gets the worm.
> - They never have pledged 100 % loyalty to us, the only thing they have promised is that they will do a good basic market-making job. After that the active participants will win.

> - Epsilon plays, anyhow, in a quite straightforward manner in the sense that the pricing-game rules depend on the certification level.

3.3.6 Cooperative experiences from the field

According to a survey on the sales cooperation, in May 2004, among the account managers of Sigma and Epsilon, the experiences of collaboration seemed to depend very much on the particular individual, especially in the Epsilon organization.

> - The sales cooperation is worst [with Sigma] compared to any other partner.
> - Sigma is the partner that you can trust the least, if you don't keep a close eye on the case; they are at once offering some other supplier's products.
> - The cooperation [with Sigma] is completely on a higher class level compared to others.
> - Sigma is quite an innovative company that aims at searching and developing new kinds of services and truly serving customers. We could work better together on the field. And we could discuss more what is important to us and why we operate this way. And what is important to you and why you operate that way. We cannot change your operational model nor can you slow us down. If some partner leaves us lying in the fire, we will run and shout for another, because we are paid for creating the VoIP market here.

The Epsilon channel partner organization was slightly 'shocked' when they realized that Sigma did not consider Epsilon's products superior and special, but paralleled Epsilon to other suppliers. Nor did Sigma sales people care if the supplier was this or that.

> - I don't understand what is meant by cooperation – we only buy and resell. Some customers want Epsilon, some want something else. We sell them what they want.
> - Epsilon is just one supplier among others. They don't create added value to the customer relationship (they have a pretty good reputation, though).

3.3.7 The partnership on the market

The partners did have a respective attitude towards each other and appreciated the strengths of the partner. The competitive factors of partners were considered from different angles.

Technical cooperation

Epsilon appreciated Sigma's competency in technology, logistics, processes and support services. Both parties agreed that the technical partnership was stronger than sales and marketing cooperation.

> - When we have a project where Sigma is installing and implementing Epsilon products as part of the solution for the customer, Sigma causes us minimum amount of work. Sigma's customers are very satisfied especially compared to the average teleoperator customer satisfaction. Hardly ever are there cases where an angry customer would turn to us for help. Sigma is capable of handling the job.
> - A satisfied customer is created with a partner that has competence, knows what it is doing, understands the customer needs, implements the necessary services and makes an appropriate, right kind of service agreement.
> - Epsilon needs not to fight with technological issues with us. We also test all the equipment we take into use. It's worth noting that the trouble tickets are not coming from the field but from our service and product development. We don't let Epsilon's software or hardware bugs onto the field, but catch 90 % of them in the laboratories. We are a valuable partner because we provide quality 7/24 service and Epsilon does not need to intervene and explain our faults.

Correspondingly, Sigma saw Epsilon as a leading technology brand and having in some areas, a position where no real alternatives existed. Epsilon's products were considered reliable and the "technology seemed to function". However, the products were also criticized:

> Epsilon's equipment has features that we don't need, because they don't fit into our network environment. Epsilon markets them and customers get excited, but the features are not useable. These features are often appealing and advanced, but from our point of view they cause the products to become overprized, since we cannot use them.

Epsilon defended their product strategy by stating that due to their leadership position on the market, the company had to be also the creator of new standards, and the Epsilon specificities had numerous times in the past become the industry standards.

One of the strengths of Epsilon was also the procedure for returning faulty equipment. That was important from Sigma's point of view because it meant that investments in spare parts and their warehousing could be kept low. On the other hand, in the trade-ins Epsilon was not considered any better than other suppliers, i.e., Epsilon did not have a competitive edge on how the returns and compensations on the old equipment was organized.

From Epsilon's point of view, the life-cycle of Sigma services and products development was far too slow. Epsilon had experiences of cooperation with Sigma where the time frame from a business idea to the launch of the service had been over two years. During this time, a quicker-moving small integrator type partner could snatch the business.

> I've been in situations where sales people have come to me and said that the customers would so much like to buy this service from Sigma. But Sigma tells us that they don't have this and that component of the service ready, and they cannot sell it before that.

Once the services had gone through the development process, the particular offering covered everything. For Epsilon, it appeared that there was nothing that couldn't be provided; hence, every possible modification was considered. But the timing was wrong.

Cooperation in times of trouble – an example

The technical partnership proved its worth during suddenly-occurring problems. One example of such an incident happened in summer 2003. Due to an internal Epsilon alert on intrusion detection, Sigma's personnel were invited to participate on a conference call:

> In the middle of vacation, I got a phone call and was asked to attend a conference call. It was about an internal Epsilon alert: they had had intrusion detection. According to the US law, they would have to inform their customers about that in 48 hours. Epsilon contacted us to inform us about the matter. We should go over all the equipment and they'll send us fix-up's, which their laboratories were producing more of all the time. This was to inform us before the news went public – then it would be known all over.

The next morning, Epsilon and Sigma employees had a meeting and started to go over the matters and entrust the necessary tasks to the proper people. One of the most important issues was to make a communication plan. It was crucial that the message to Sigma customers would be consistent in different countries and in different parts of the Sigma organization at the time the news would go public.

> When the news broke out and the media started to ask questions, we had everything ready: 'Sigma has been working on the problem and has done this and this. The connections are secured and only some cross-checking remains to be done.' Most important customers had already been contacted because the maintenance had required a disruption in the service. Basically, the situation was that we had already done all the necessary actions by the time the news went public.

Sales and marketing cooperation

From the sales and marketing cooperation viewpoint, the long-term, strong customer relationships that Sigma possessed, coupled with wide geographical coverage on the market, represented business potential. Sigma had credibility and plausibility in the market. Epsilon needed such a partner to produce volume for its business. Sigma was also, as such, a huge customer for local Epsilon. In addition, Sigma's reseller business of Epsilon products was in the ascent.

Epsilon's image and reputation on the market were excellent. The parties agreed on that joining two strong brands should create a competitive advantage. Epsilon thought that the partnership was a safe, long-term investment for Sigma.

<u>The sales counterparts in partner organizations</u>

Both Epsilon and Sigma had arranged their sales according to the account management principle, i.e., each corporate customer had an assigned, responsible account manager. The setting caused some confusion because the competence profiles of the sales people were quite different within each organization, despite the same title.

Sigma account managers were experts on comprehensive customer relationship management rather than on detailed technology issues, and their main concern was to tackle customers' challenges with telecommunications solutions. Correspondingly, Epsilon's account managers were more technology orientated and keen on lobbying for new, most-recently launched and advanced Epsilon equipment.

Paradoxically, however, the contacts that the partners' account managers had were biased: Sigma account managers had a stronger foothold among information technology managers relative to business managers in customer organizations, and Epsilon account managers had relatively closer relationships with business managers than IT-managers.

There were several reasons for the paradox. First, the historical background: traditionally the telephone and data communications had been handled as separate issues in companies. Only quite recently had the information technology (IT) matters gained importance in actual business processes. In the recent past, IT-managers had had a great influence and decision-maker roles in the telecommunications area. Now, when the role of IT had changed from an operational support function to a strategic business role, the decision makers came often from the business functions. Epsilon, being a much younger firm compared to Sigma, did not have heritage burdens in contacts creation. Sigma account managers had to reach out and work hard to bond with business people making now the IT-decisions.

Secondly, Sigma was also a much larger organization locally and had a hierarchical sales organization. When meetings with customer's business management were arranged it was common that the sales directors, i.e., the account managers' superiors joined up to level with the customer representative. Sigma's company structure did not, in practice, support the account managers in creating 'higher level' relationships although they were encouraged to do so in speeches. However, there were also considerable differences among the Sigma account managers on how they succeeded in customer contacts management.

Epsilon, on the other hand, had a small local organization with less hierarchy and they did not have the same kind of account manager credibility problem stemming from the organizational structure.

The third reason for the different contacts make-up was that the Epsilon account managers had far less administrative work than Sigma account managers. Epsilon's partner business model meant that most of the Epsilon account managers did not have the obligation of making offers, contracts and orders or clearing out billing problems in their daily work. In Sigma, the administrative tasks were a time-consuming part of the account managers' work, even though they had support available. Account managers carried the responsibility and were the most important, although not necessarily the most frequent, contact point for the corporate customers.

When the sales and marketing cooperation was taken as the focus of the Sigma-Epsilon partnership, it was regarded as being self-evident that the counterparts would be the account managers of both organizations. It took almost a year for the parties to understand the above-described differences, and to gain comprehension that the counterparts for the Epsilon account managers were not the account managers but the more technology-orientated solution sales managers in Sigma organization.

Solution sales managers were the experts between the customer-orientated, business responsible account managers and the technology-design function, responsible for planning networks and logical compositions of the communication solutions. It was the solution sales managers who shared the same vocabulary and had the same kind of interest-profile with the Epsilon account managers. In sales cases, a solution sales manager was an ex-officio member of the sales team led by the Sigma account manager.

<u>Common customer approach</u>

In December 2004, Sigma and Epsilon arranged a joint workshop on sales cooperation, with the following agenda: 1) information and experience sharing for common benefit, 2) identification of a typical win-win prospect case and 3) development of a common sales process.

In the workshop, it was agreed that a coherent story to the customers about the partnership cooperation as well as about the alignment of the Epsilon products and Sigma services was important. At the same time, it was brought up that not all customers wanted to buy information technology as services, but some still wanted to manage the information technology themselves. The goal of the joint Epsilon-Sigma sales activities would be getting more business together, win-win cases. Everybody agreed also that the cases, where neither one was closing a deal, loss-loss cases, should be turned into common successes.

However, the opinions were divided on cases where either party would consider the probability of teaming up with some other partner. The different views were based on the commitment level of parties in the partnership: The opportunists thought that it was entirely acceptable for the Epsilon-Sigma partners to take the attitude of ‘behavior according to the situation’ in choosing the partner for a case in question. In contrast to this, the ‘preferred partner’ concept proponents saw that Epsilon and Sigma should always first consider the common approach and only due to customer requirements choose some other partner for a particular case.

The key for successful sales cooperation was considered to be the bonding and contacts between the partners. Both parties needed training on each other’s products and services. The area of prospecting was considered a potential form of cooperation in the middle ground of marketing and sales; for instance, making common customer plans was seen as unused potential. The workshop concluded that the most potential sales case had the following characteristics: 1) the customer already utilized Epsilon technology and wanted a total-service solution that included mobile; 2) both partners had an existing, active relationship with the customer; 3) the customer had several sites and more than 200 end-users, and, lastly, 4) the customer had a farsighted interest in how the solution would conform to future needs.

3.3.8 Partnership management

Over the years, a contact network had developed between the partnering organizations. Both of the organizations were quite complicated, but in different ways.

In the local cooperation, Sigma was a far larger, many-sided, rather complicated organization especially when compared to Epsilon. Sigma also had frequent, large organizational changes in its structure and operations. It was a big challenge for Epsilon to keep up with these shifts. Luckily, a lot of the contacts with the most important people such as the buyers, logistics personnel and designers had survived the turmoil, but Epsilon saw the re-organizations as bringing extra challenges to the business.

> As an outsider, I really wished that the organization would be let to rest at some point and not be baffled and downsized, propagated, twisted and turned to every direction, because we can see it, and the customers can see it. The organization is, every once and a while, terribly confused.

Epsilon was complicated in another way: Although the local organization was small, it was part of a global corporation that was a forerunner in applying Internet based tools and systems in its everyday business. This meant that people who were involved in the operative matters with Epsilon had to learn to use their tools and systems. Several people agreed that it took at least half a year to gain enough experience and competence to master the web-based working model well enough to feel confident and knowledgeable.

> You have to be trained, you have to know Epsilon's system and you have to have the procedure on how to go forward with any kind of initiative. Be it commercial or service initiative. That has to be well understood in your head before advancing. But if you have those procedures done well, I think Epsilon [systems] works pretty well.

One example of the kind of nerve-racking experiences with Epsilon's systemic and intertwined web programs and databases was a case where Sigma's partner manager tried to update and remove duplicates of Sigma contacts in Epsilon's contact database. The following cite is from correspondence between the partner manager and Epsilon Partner relationship help line:

> *Partner manager:* I'm in major trouble: I updated all contact information of my company. We've had a change in e-mail addresses as well as a lot of physical address changes. While doing this update, I also deleted double contact information (same individual twice). I also arranged the sites belonging to the company in a new way to match the current organization. After doing this huge (two days) work, I went to the partner view page and realized that I have lost altogether seven individual certifications. Please, help me to gain them back! What did I do wrong and how can the situation be resolved?

> *Help line:* Please let me know the ID's of the contacts that were deleted from the company. Please note that my team can merge duplicate contact records. This should be done instead of deleting them from the company. Also, make sure that the contacts have updated their company profile in the tracking system.
>
> *Partner manager:* I have made a separate excel sheet containing the information of the deleted contact ID's. The contacts are grouped into three categories: 1) the list of duplicates, 2) contacts deleted because no longer employed by Sigma and 3) contacts deleted due to change in job content. Please, merge the contact records according to the current contact ID (has the right e-mail and other information). Thank you.
>
> *Help line:* "Hello, the following contacts have been merged… I was unable to find the duplicate profile for the following… The following have been merged, but will need to re-associate with the company. Below are instructions that they can use to do that…"

Sigma also had a challenge in managing its own organization's numerous connections, activities, contacts, and the like, with Epsilon. Due to the long common history, different types of formal and informal forums and working groups had developed between the partner organizations. To cope with the situation, Sigma's partner management gradually succeeded in creating a documented framework of the many sides of the cooperation.

The partnership-cooperation framework was seen as a quite unique way of modelling the relationship. It clarified the cooperation and formed basis and continuity for the work and interactions. The framework did not only explicate the cooperation on Sigma's side, but also documented the Epsilon's way of operating with Sigma. The framework highlighted that, in fact, Epsilon had a team of people engaged in the Sigma partnership. Traditionally, Epsilon had considered partnerships as the responsibility of a single channel account manager, but now it was brought up that there were resources from management, marketing and technical functions involved in the partnership.

3.4 The market environment

3.4.1 The effects of emerging technology

The development of technology had changed the market: the main focus had actually shifted away from the technological issues. In the past, it had required special competence to get different technical elements or components to function together. The solutions sold were associated with problems on physical connectivity; the players talked, as for example, about cabling and local area networks and how to connect equipment to make the data or voice transmission possible.

The current, ongoing discussion on the contrary had started to focus on applications, the integration of voice, data, and video and so on in the same network, and ways to guarantee individual end-users just those services they required just as the need aroused. The topic of discussion was the urge to understand the customer preferences, and optimisation of costs. The physical connections were taken for granted and were no longer any issue. According to Epsilon, Sigma was still taking a too-traditional stance, especially at the voice services. Due to the legacy systems and long traditions, Sigma still viewed voice and data services separately.

> I’ve been repeating myself over and over again that it’s going to come as a shock to you, when one day a customer asks for an offer of one single network solution that is used for everything. You should be prepared…

Epsilon sympathized with Sigma by claiming to understand the difficult situation all the teleoperators had. A lot of investments had been done over the years, and the legacy technology could not just be pushed away. However, Epsilon also believed that there was only one way to the future: transition to pure IP technology - Internet Protocol based technology.

Actually, in Sigma there was a debate on how the Epsilon IP-technology-based voice solutions should be built into service concepts or products. The agreed message for the corporate customers was that “customers do not need to invest in technology, but the voice communications on the Internet Protocol technology (VoIP) are offered as a service to them and include the maintenance and development aspects, too." It was also emphasized that the solution was easy to enlarge and integrate into the customer's own applications.

The debated question was about the place of the product responsibility in the Sigma organization: Should the VoIP services be regarded as added services to a data network, or was the service just a telephone service on new technology platform? In the 'partner plan' that the Partnership relationship team had approved, the issue was seen as creating both internal and external risks:

> *Internal risk:* Sigma Voice over IP solution on Epsilon or competitive technology clearly divides the solution sales strategy into two categories, voice/data. The division may hamper sales.
> *External risk:* The Sigma market-making strategy of VoIP services (a total service solution) does not meet the customer need. The selling and marketing of the Epsilon total solution to decision makers is difficult compared to small, fast moving partial solution suppliers.

Besides the voice and data technology approaches, Sigma had to consider the role of mobile communications technology both as such or combined with other technologies, as a possible, alternative way of meeting the customer needs of networked communications.

The customers were in a difficult situation, too: All the suppliers had a little different story about the emerging technology. The story depended on the suppliers' history and the angle from which they were entering into the service business.

> We [Epsilon] meet the customers and tell them that 'no, no' the mobile phone solutions are not the only alternative: there is this dual radio equipment coming up that provides both wlan calls and mobile calls, by the way this is much more cost effective.
> This leads to Sigma rearing up: why on earth are you talking like that? This is a balance of terror situation, but at the end it is the customer who benefits from this and that's how it must be.

However, Sigma and Epsilon also approached the customers together on many levels: the technology experts could be solving design problems together with the customer; the sales people even had commonly constructed presentation and marketing materials, which they showed the customers. Even the top level executives visited and met the top management of the customer organizations together.

> This is the true partnership: we invest the time and show the customers that we are doing this together. We have agreed that on certain customers we will call on together.

3.4.2 Other partners of Sigma and Epsilon on the market

Epsilon had been very successful in its marketing and lobbying activities at the end-customer organizations, and many times the customers requested an offer that was based on Epsilon equipment.

> This is a real case: in a proposal presentation meeting one customer commented: Well, this does not differ much from the others. We clearly have one winner: Epsilon. All tenders offered Epsilon systems.

Sigma was trying to influence customers and encourage them to leave the equipment option open in their requests so that different alternatives could be negotiated.

> Epsilon's goal is to get mixed-up in the customer cases and make sure that the solution includes their equipment. And that's fine; it is good equipment – if the price would be good.
> Our goal is to sell a functioning environment to the customer. Epsilon is just one vendor for us. This is the dilemma in the relationship: we sell services, they sell features.

Many customers also had Epsilon technology competences in their own organizations: Because Epsilon cooperated with education institutes technical courses aiming at individual Epsilon basic technology certifications were offered in many curricula of vocational high schools or polytechnics.

Epsilon's other partners

Epsilon categorized its partners into three channel types 1) integrators, 2) resellers and 3) service providers. On the local market in question, Epsilon had approximately fifty registered partners with representatives from all the categories. In addition, global alliances with information-technology companies were present on the market. The global-alliance companies had locally small, separate consultancy units that also competed on the market when the customer was a globally operating corporation.

Altogether, three of the local competing partners were certified on Diamond level, three on Crystal level (including Sigma) and four on the Glass level. During the research period, two Diamond certifications, two Crystal certifications and one Glass level certification were published as news in papers and newsletters in addition to being published on the internet pages of Epsilon and the corresponding partner. The above figures did not include Sigma, which had decided to postpone the press release on certification till the Diamond level was achieved. However, when Epsilon awarded the title of 'Service provider of the year' to Sigma, this piece of news was published in relevant media. In Sigma's intranet, the partner manager commented on the significance of the recognition:

> The cooperation between Epsilon and Sigma has long traditions. Our forerunner role particularly as a service provider has now been recognized even outside the local market. Epsilon's avowal supports our efforts in becoming a service company and is an important, public recognition of a success.

Similarly, the above-mentioned news on competitors' certifications included comments from both Epsilon and the partner, but also included factual information about Epsilon's Channel Partner Program.

> - The Epsilon's Partner Program has been designed to rise to the challenges the partners face today. The goal of the program is to create sustainable business models in a high velocity environment, where the customers expect their suppliers to provide them with real value-added services and deep technical expertise.
>
> - The Partner Program combines specialization in certain technical areas, customer satisfaction goals and their measurement with the ability to offer quality support services. Epsilon offers considerable amount of information support and tools for marketing and sales.
>
> - Diamond partner status tells about successful sales of Epsilon products and high level technical customer support services. The partner has the knowledge and skills to deliver planning, design, and implementation services for large and complex network environments.

> - The certification shows our commitment on even stronger cooperation with the leading equipment suppliers on the market. We want to offer our customers safe, secure and controllable high usability data communication solutions.

Epsilon covered all types of end-customers through its channel-partnership model. The service providers were direct customers; the procurement happened without an intermediary. Through the service providers, Epsilon reached the large business customers that typically developed ICT-based business processes and solutions. The more technologically orientated customers often did business with Epsilon's integrator partners and small and medium sized (SME) enterprises correspondingly with Epsilon resellers.

The different channel types also defined the way support and maintenance functions for the products were organized. The direct partners received the support straight from the Epsilon organization. As a trend, the integrator type partners were widening their business to include maintenance and installation services. From Epsilon's point of view, the integrators were very straightforward to do business with, in addition to being much more agile compared to service providers. The resellers seemed to stick to their traditional role of selling equipment, but their customer segment was limited to small companies and entrepreneurs. However, the resellers could also be sub-categorised as being value-added resellers and distributors.

Epsilon-Sigma partnership relative to other Sigma partnerships

Sigma had, in its history, been importing telecommunications equipment (for voice solutions) to the local market and had had an exclusive agreement with its supplier in the past. Based on that history, an intimate partnership had evolved to become the strongest competition with the Epsilon-Sigma partnership. In the voice communication area, there were some other close partnerships as well. The traditional telephone technology suppliers were answering to the challenges of the IP based solutions. The roles and trust between Sigma and these suppliers had developed over the years.

In the data communications area, Epsilon had a strong footprint and competitive position in cooperating with Sigma because, in its history, a great many of Sigma's services had been built on technological innovations and Epsilon's products were firmly inside the solutions. However, Sigma was constantly aiming in its service development towards vendor independent solutions and saw Epsilon's extensive role as a business risk. Sigma's vendor management was actively seeking and contracting with other suppliers.

From vendor management standpoint, it seemed that Sigma was defining the technology needs on its own while sending out requests for quotations based on its own information. Vendor management wanted to deepen the cooperation with the suppliers to the direction of exploring advanced technologies and the technological solutions of the future to support the corporate service strategy.

On the other hand, the products and services development organization considered it very important that the features and technology needs were 'found' vendor-independently, and only later were the requirements matched with the vendor's roadmap and future plans. In other words, for Sigma product development, it was very important that a problem was first solved in principle. According to the product development people, new technologies and innovations were not developed in the large, global corporations but in small start-ups, which often ended to be bought by the big players.

3.5 Evaluation of the partnership

Epsilon had traditionally put a lot of effort in developing contacts with Sigma, but often the relations had not developed as much as had been hoped for. Gradually, some change was seen to happen, and so, during the research period the parties involved in the partnership management had learned about each other and established a network of contacts instead of a scattered group of individuals. Some people did not see any change, but wanted to develop the more formal-contacts approach. It was further noted that there were a lot of emotions involved in the partnership especially in the Sigma organization.

- Five years ago when we [Epsilon] had some kind of problem we did not have the kind of contacts or relationships that we just could have taken a phone and called someone. The possibility to react was much slower. To be able to do that requires a relationship that is existing before something happens. The problem situation is not the time to start developing contacts. They have to be prepared.

- The contact building has not progressed by leaps but has been built in a smooth manner.

- Partnership from Epsilon perspective means: Epsilon has a thousand and one (1001) different contacts inside the partner company. That's how they operate - work with everybody and anybody they get a hold on regardless of organization. My idea of partnership means that they would have a selected interface, selected number of people, contacts inside the company to work through.

- I'm one of the few people [in Sigma] that less and less have an emotional stance to Epsilon matters. I've all the time been amazed by the certain overreactions in the sales and product organization to what Epsilon does.

Although partnership management was pleased with the development of the more centralized contacts, the people putting the effort into the contact building were constantly evaluating if the time invested into the work had been worth it.

- It could be concluded that maybe certain kinds of regular meetings have established, but completely satisfied we [Sigma] cannot be. A lot of time is used for reflection, reasoning and attempts. It's questionable how much benefits have been achieved compared to ad-hoc partnering or subcontracting.

- We [Epsilon] feel that we have done a lot of work and lobbying and everything and still the results are not so good. If you are responsible, for instance, for a normal system integrator relationship, you will be able to see results in about a year. But in the case of big teleoperators you have to carry on for 2-3 years before any results can be seen."

Besides time, the relationship development demanded certain kind of stability and mutual commitment. The parties needed to be on the same wavelength – both as individuals and also on a wider level as professional groups.

- I'm not sure if cooperation with anybody can ever be perfect. The people have to be in the same positions for a longer time, not just a year or two, but longer. So that the relationships have time to emerge and it demands success – shared success.

- What comes to playing some kind of 'games' in channel account management, the trails are very bad in the long run. I could do that, make some strategic move and maybe make a lot of money, but this job is not for just one year at a time, but spanning over a much longer period.

Generally, the partnership management thought that the people involved had put their best in the operative tasks and also in development efforts. Locally, there were situations when the partners felt that they were 'on the same side' in trying to convince the global Epsilon to be more flexible and in trying to cope with the global rules.

> - I have not been able to figure out what we [Epsilon] should do differently. And I'm not sure if anybody on your side knows that either. As separate issues, I don't think we should change anything.
>
> - Epsilon is an extremely difficult partnership and will always be difficult, it will never be easy. Because the truth of the matter is: When we say Epsilon, we refer to working with the local people. But the local Epsilon is actually in partnership with the global Epsilon or Epsilon Elsewhere; this means own problems. None of their back offices handle matters locally, they are all outsourced somewhere else. Local Epsilon has little power, little say-so over what Epsilon does…One partner working with Epsilon will never influence what Epsilon does. There has to be a large number of partners that are on the same line, taking on the same direction before any kind of change will occur.

However, local Epsilon did make decisions concerning the local partners' network.

> On this market we have almost 50 partners. This means a lot of different kinds of firms that would like to represent and sell Epsilon products; and we constantly have to say 'no' to some and some we say 'yes' to. We can influence the ways we channel and concentrate different programs to the partners. And locally, we have a great influence on how the resources are allocated. For instance, we have had all the time more or less dedicated resources to Sigma. That's not a general rule. I would like to remind that the times of exclusive partnerships will never return.

The Epsilon Channel Partner Program was solely based on know-how that was available in the partner organization – not on the sales volumes. According to Epsilon, the priority was to make sure that partners were able to solve the customer problems. The purpose of the strict certification requirements was to a certain extent, understood and seen to benefit both parties, but many people felt that the process had lost its deepest meaning as a tool for securing competences and expertise and started to live 'its own life'.

> - It is very important that organizations actually working with high technology have a certain level of know-how, certain level of competence that can be guaranteed to the customers by certifications. The supplier must know that their resellers are investing in updating their knowledge

> base to a certain level of proficiency. With Epsilon, I think this goes beyond what is necessary and it is actually evolved into a process that approaches an ISO 9001 approach. It goes beyond what is necessary. Of course we [Sigma] want to make sure also inside our organization that we have right competence level and right knowledge. So, in this way, we see it is a valued thing but the cost of it… Because it's made into this extremely complicated, drawn out lengthy process there's too much cost involved. The other thing is that since it's been directed mostly from Epsilon perspective, it's extremely Epsilon-orientated and not necessarily Sigma-orientated or Sigma customer-orientated which that particular evaluation process should be.
>
> - The customers are reacting towards Crystal and Diamond status and I think we should be able to use that marketing tool as a tool for ourselves [Sigma]. It's only a tool. From a technical perspective we have far more advanced technical knowledge in house than Epsilon locally has.

There were some ideas of what could have been done better:

> - We have not utilized Epsilon's telemarketing function which calls the customers, nor do we utilize the marketing information that would be available to us… Besides we left unused, to a great extent, the opportunity that was offered to us when Epsilon granted us the 'Partner of the year' award. I don't mean that we should have had a full page advertisement on the morning newspaper, but we should have used it in certain systems.
>
> - This is still such transactions based business; we should be doing more frame agreements together. We should take a customer and tackle him together. That's the next challenge. And then we have to talk about technology, trust, sales skills, financing and many other things than just one gadget."

One of the problems the sales function always complained about, was that they couldn't make deals because no common references existed. The question was this: How to get the first customer cases that could be used as references?

Epsilon commonly utilized its world-wide references to create credibility. Another method Epsilon used was to present the solutions the company itself used: For instance, in the Spring 2005, Epsilon arranged a road-show 'Behind the scenes' that demonstrated how Epsilon developed customer services, productivity and the quality of their business solutions, innovatively using their own products and new technologies. However, Sigma's local customers wanted references from the local market, and it was commonly believed that 'once references were won; the orders would start to roll in'.

The focus of the cooperation development had been on the large corporate customers segment and on enhancing especially the sales of VoIP services. Some people brought up that maybe there was something wrong with the approach. For Sigma, in old customer relationships, the change of technology in voice solutions often meant ‘cannibalism’ (eating up old, continuing revenue) because the customers’ main interest in the new technology primarily stemmed from possible cost savings. Besides, the large business customers were often slow in making decisions. However, they were the ones always interested in scanning new alternatives.

> - I’ve expressed my opinion that the essential productive visibility of the efforts can only be created with tighter cooperation in the SME segment. The large customers might do just one bigger upgrade investment per year and it can happen that this one investment is only software or service level upgrade. In those cases, the new revenue is only perceivable for Sigma, for Epsilon it does not have any effect.
>
> - Thinking about the future [from Epsilon’s viewpoint]: I do believe in the router business – it’s running very well. Of course, we have to succeed in migrating new products in such a way that you will choose our equipment and that they are easy to work with, reliable. Our R&D must come up with (to you) applicable products fitting into your services.
>
> - We [Epsilon] should focus on both old business and VoIP, because we have to bet on the new services: the old businesses are growing only slowly, we have to seek for new opportunities all the time.

Some of the issues that hindered collaboration were very practical, for example, correspondence with partner organizations was often not taken seriously enough. Sigma was also lacking a partnership statement, which would have given the coordinators a ‘license’ to their efforts and actions.

> - If the people would behave in an ideal manner, they would check meeting times and inform others that – ‘this kind of a meeting, I cannot make it, don’t have time to participate, or there is only one thing I’m interested in: my opinion is this and this, you can discuss it there and I don’t have to attend.’ This would be a fine situation, if it did function this way – but it does not.
>
> - If somebody, representative of the partner or anybody, approaches you, you have to answer the e-mail; you just cannot push it away because you already have a partner for that case. You must be able to say that you’re in the case with partner X or some other, let’s check the situation on the next case or … You cannot run away from the situation… This happens a lot: people just hide, don’t talk about the matter and it withers. The relationship is not getting any better; you must be able to be honest.

> - I think it would be essential for the partnership to have some kind of (even general) partnership statement from Sigma: that would give us together a tool to approach the account managers: this is how we cooperate, this is the significance of it and this is why we contact you: to create a common account plan for customer XYZ, to create a plan how to win this case… and more.
>
> - We need a common definition of what a partnership is. That's the biggest tool. Everybody needs to know what the goal of the partnership is… The truth is that there is no [Sigma] upper management support.

Both partnering organizations had a longer perspective when they were evaluating the success of the partnership; the partnership was regarded as continuously evolving, never static but dynamic. It was also emphasized that the IOR was not a question of a life partnership, but of a business relationship that had to bring revenue and profitability to both parties. One of the presuppositions the parties had of each other was learning and the willingness to learn so as to develop both organizations. Even though success couldn't be seen on a daily basis, the partnership had to keep educating the organization and develop further.

> - The benefits of the partnership evolve over time. Partner relationship can be set into a formal document setting and described in general but in terms of year-to-year basis: What is beneficial to the partners will change. The partnership must be dynamic, it must have the ability to be flexible and it definitely must look at what are the needs of each of the parties. The relationship must be steered so that it is at least on a yearly basis renewed and reviewed to underline what the actual benefits for that particular period would be.
>
> - The first prerequisite for partnership to succeed is - of course - trust. Building trust is difficult between big organizations because it has to be done on so many levels.

4 THEORETICAL LENSES

This chapter describes the refinement of the theoretical lenses included in the Alternate Templates Strategy (ATS) research design. Based on the chosen theories, Theory of the Growth of the Firm, Resource Based View, Transaction Costs Economics and Stakeholder Theory, the research question batteries, comprising the sub-questions attached to each question, are constructed.

Each theoretical lens is given its own chapter, whose structure follows approximately the same pattern. First, each theory is introduced in general, and followed by descriptions of its basic concepts and underlying assumptions. Thirdly, each theory is set into the context of inter-organizational relationships through the review of previous literature. The fourth step further narrows down the scope to the field of sales and marketing, and as the fifth, final phase the research question batteries are formed.

However, since the theories are contributing to the interpretations of the case narrative from their specific viewpoints, the chapters include also one or more additional 'titles' that highlight important aspects central to this study. Examples of such perspectives are: formalization in TGF, social capital in RBV, governance structures in TCE and legitimateness in SHT.

4.1 Theory of the growth of the firm (TGF)

As already mentioned in Chapter 2.3, the theoretical lens of TGF is based on Penrose's book The Theory of the Growth of the Firm (1959), but expanded to include views presented by Nooteboom's (2006) "emerging cognitive theory of the firm". Nooteboom grounds his theory development on Penrose but goes beyond it 1) by extending learning beyond management, 2) by expanding the analysis of the combinations and development of capabilities, 3) by elaborating the discussion on the limits to size and growth of the firm, and 4) by including collaboration between organizations into the scope of Penrose's theory.

Penrose (1959) defines ‘growth’ in the context of firms as having two fundamentally different meanings. The first connotation is ‘increase in amount’, for instance in output, export or sales. The second meaning relates to the phenomenon of how children grow up in other dimensions than size, i.e., the firm becomes better, more knowledgeable, and so on, for example through gaining improvement in quality. Growth is a result of a process of development, where internal changes lead to increase in size accompanied by changes in the characteristics of the growing object; growth is not only an economic issue. Penrose’s main argument is that the size of the firm is not just an adjustment to the prevailing conditions, but that the size of a firm is a ‘by-product’ of the process of growth and that there is no optimum, or most profitable size of a firm.

Furthermore, Penrose argues that the growth of the firm is connected with the collective attempts and activities of people. She is primarily concerned with a theoretical analysis of a process that takes account of both the sequence of changes created by the firm’s own doings as well as the effect of changes that are external to the firm and lie beyond its control.

Edith Penrose’s starting point is the characteristics of a business firm and its functions. Secondly, she analyzes internal forces that create the possibilities, provide the inducements and limit the expansion of the firm. “It will then be shown that this limit is by its nature temporary, that in the very process of expansion the limit recedes, and that after the completion of an optimum plan for expansion a new ‘disequilibrium’ has been created in which a firm has new inducements to expand further even if all external conditions (including the conditions of demand and supply) have remained unchanged. (Ibid., 1959)” All the time, the emphasis is on the firm’s internal resources, especially on the creation of productive services and learning. Management aims to make the best use of the available resources and the interacting process encourages continuous growth but at the same time limits it. The environment is treated as an image of possibilities and restrictions in the managers’ mind. The theory of growth is thus, in the first phase, developed as a theory of internal growth, and Penrose is concerned with the process and the rate of the growth. “This is not to say that Penrose neglects the industry or environment by shifting the focus from the industry to the firm level. On the contrary, Penrose is well aware of the importance of the environment... The connection between industry and firm is modeled dynamic in the sense that firms cannot only change and adapt to their environment but also the environment can be altered by firm's actions" (Pitelis & Wahl, 1998). The Penrosean theory is dynamic, systemic and integrative (Pitelis & Pseiridis, 1999).

Nooteboom accepts "Penrose's view concerning the limit to the growth rate of the firm, with the difference [that he focuses] on human resources more widely... The view given in [Nooteboom's discussion paper] is similar to that of Penrose, but more specific, in that the firm, and organizations more widely, are seen as limited by the ability to coordinate *cognition* in the firm" (Nooteboom, 2006; emphasis in original). According to Nooteboom, a theory of the firm should include not only issues of competence, i.e., organization-specific resources, but also issues of governance. Mutual understanding, ability, willingness and commitment to collaborate are achieved through organizational cognitive focus, which guides the alignment of personal and organizational goals.

Organizational cognition becomes identifiable in the use and production of knowledge, and people can share views, interpretations, understandings, values and norms of behavior. "Guided and constrained by organizational focus, people in organizations may accept organizational goals, and contribute to their elaboration, maintenance, drift or shift, as an outcome of interaction between them, and between the organization and its environment". However, "one should aim for minimum alignment of cognition needed to utilize opportunities from complementary capabilities. Variety of cognition should be limited only when needed for the feasibility and efficiency of collaboration." (Ibid., 2006)

4.1.1 Basic concepts and underlying assumptions of TGF

According to Penrose (1959) the essential difference between economic activity inside the firm and economic activity on the market is that the former is carried on within an administrative organization. The larger the firm the smaller is the extent to which allocation of productive resources to different uses is directly governed by market forces and the greater is the scope for conscious planning of economic activity. A firm is an autonomous administrative planning unit, whose actions are interrelated and coordinated by policies. It is the task of central management to 1) establish or alter the administrative structure of the firm, 2) lay down general principles, and 3) make decisions on those matters where no subordinate executive has been authorized to act or where no clear-cut principles have been set out in advance. The task of management is not attempting to comprehend and run the entire organization but rather to intervene in a few crucial areas and to set the tone of the organization. Nooteboom (2006) adds that the central task of management is "guiding and coordinating cognition in the firm", because it is the cognitive focus that sets the firm "apart from the variety of views outside the firm by enabling implementations of novel views but also by limiting the innovative potential of the firm." As people with their different experiences, feelings and emotions see the world differently, i.e., a cognitive distance exists between them, cognitive focus is needed "of shared perceptions, interpretations and values, in order [for the firm] to achieve common goals" (Nooteboom, 2004a).

The purpose of the firm is to profitably supply goods or services to the market by acquiring and organizing human and other resources that are bound together in an administrative framework. It is never the resources themselves that are the inputs in the production process, but only the services that the resources can render. The services yielded by resources are a function of the way in which they are used[16] – the same resource can be used for different purposes. Moreover, "a firm in acquiring resources for particular purposes – to render particular services, also acquires a range of potential productive services, most of which will remain unused" (Penrose, 1955: 534 in Penrose P. & Pitelis, 1999). "The[se] unused services do not ordinarily exist in the visible form of idle man-hours but in the concealed form of unused abilities". Resources thus can produce a bundle of potential services and they can be defined independently of their use, while productive services always depend on the resource. The heterogeneity of the productive services gives each firm its unique characteristics.

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[16] In the context of cooperation Richardson (1999) elaborates:" Specifically, the services provided by members of a cooperating group will depend on how it is organized. The capabilities of any particular cooperating group – the scope and effectiveness of the activities it can undertake – will depend both on the skills of its members and on their inter-relationship."

Entrepreneurial services relate specifically to the introduction and acceptance of new ideas in the firm, to acquisition of new personnel, to changes in the administrative organization, to the raising of capital and especially to planning for expansion internally or by merger or acquisition (Penrose, 1959). Entrepreneurial services also relate to the need to divest, the need to maintain focus, and to alternative opportunities of growing by collaboration with other firms (Nooteboom, 2006).

Managerial services, correspondingly, relate to the execution of entrepreneurial ideas and proposals as well as to the supervision of existing operations. Because processes of operation and expansion are intimately associated with a process of increasing objective knowledge and experience, the productive opportunity of a firm will change even in the absence of any alteration in external circumstances or technology. (Penrose, 1959)

Growth is essentially based on the cumulative increase of collective knowledge; the basic assumption is that ‘history matters’ and learning is guided by path dependence. Experience is important in three ways: First, experience affects the knowledge acquired and the ability to use knowledge. Secondly, as experienced management cannot be hired on the marketplace, a firm has only a given amount of experienced managerial services available at any one time, and capacities of the existing personnel set a limit to the expansion of the firm. And thirdly, personnel become more and more familiar with their work and integrate better with their organization, and thus capacity both increases and is released in the form of less effort required. In general, excess capacity of productive services is a driver of firm growth, much in the same way as unused services of resources can be a source of product and organizational innovation, expansion and competitive advantage. (Ibid., 1959)

Productive opportunity is defined as “all the productive possibilities that the firm’s entrepreneurs see and can take advantage of”. Penrose’s theory is an examination of the changing productive opportunity of firms. The opportunity will be restricted to the extent to which a firm does not see opportunities for expansion, is unwilling to act upon them, or is unable to respond to them. The set of opportunities that people perceive in the environment is different for every firm. The environment is not an objective fact, but a subjective image and the expectations on the environment determine the firm's behavior: what the firm can and cannot do. Firms not only alter the environmental conditions necessary for the success of their access, but even more important, they know that the environment is not independent of their own activities. "The firm strategically shapes the market, rather than reacts passively to it, but within a moving, historically contingent environment" (Best & Garnsey, 1999).

The limit of the growth of the firm depends on both internal and external conditions: 1) on internal managerial and personnel ability, 2) on external product or factor markets, and 3) on uncertainty and risk which are a combination of internal attitudes and external conditions. Uncertainty refers to the confidence in estimates or expectations and can be further categorized as subjective and unavoidable uncertainty. Unavoidable uncertainty relates closely to risk that can be defined as referring to the possible outcomes of an action.

Nicolai Foss (1999) summarizes the main argument of Penrose's theory of the growth of the firm in a concise way: "Firms are collections of productive resources that are organized in an administrative framework which partly determines the amount and type of service that the resources yield. As they go along with their productive operations, firms – or more precisely, the management team – obtain increased knowledge of the services that may be obtained from the resources. The results of such learning processes are that the management's view of the firm's productive opportunity set expands and that the release of managerial excess resources can be put to other use."

In addition to the encapsulation by Foss, Kor & Mahoney (2000; 2004) separate two more issues as distinct ideas in Penrose's book, namely, 1) the importance of teamwork and organizational capital in understanding the process of activities' coordination, and, 2) the essentiality of experimentation[17] in the process of changing the firm's productive opportunity. In stressing the importance of teamwork and organizational capital,

[17] Experimentation is made possible by extensive innovations in administrative organization, i.e., experiments with different types of corporation structures are themselves an important aspect of competition (Penrose, 1959).

Penrose emphasizes the confidence in the integrity and ability of employees that is to be gained via informal organization as well as through sharing and transfer of tacit knowledge. The activities within the firm create new knowledge through specialization, division of labor, resource combination, teamwork and learning (Pitelis, 2007). Moreover, conflicts may breed diversity of opinion, which in turn may lead to creative tension and thus be a source of new information and knowledge, and productivity advantages (Pitelis, 2005).

4.1.2 TGF in the context of inter-organizational relationships

Edith Penrose's empirical work included a case study of the growth of the Hercules Powder Company (Penrose, 1960). While Edith Penrose's analysis of Hercules covered the first 43 years of the company, Neil Kay's (1999) research covers the next 43 years. During the latter period, Hercules applied also the 'collaborative activity' as a strategic move affecting its growth. This is a neglected issue in Penrose's theory, due to not being a major strategic issue in those times.

Kay had the advantage of hindsight when searching for an answer to the question: 'Why have collaborative arrangements become important?', and through the analysis of Hercules and the firms with whom it had collaborated, Kay came to a conclusion that cooperation is a consequence of the firms becoming large, diversified, loosely-related and global: the firms pool their expertise – one party providing, for instance, market-based resources and the other technological resources. The pooling of resources through collaborative arrangements help to avoid complex, unfocused entities that would raise problems of coordination and management beyond those created by the IOR arrangement. Kay (1999) concludes that collaborative arrangements are not just alternatives to mergers and acquisitions, but consequences of them.

In 1995, the third edition of 'The Theory of the Growth of the Firm' was published and Edith Penrose added a new foreword to it. Here, she comments on the development: "[there is a] clear need for new ways of thinking about the emerging nature of different type of industrial society, including the development of new forms of firm organization...” Furthermore, she refers to Richardson (1972, in Penrose 1995) on challenging the whole notion of a firm/market dichotomy, “pointing out that ... interfirm networking blurs the boundaries of firms; and that the firm in reality is not an island in a sea of market transactions, but itself part of a network consisting of rivals in direct competition, of suppliers of goods and services in special relationship as well as consumers, be they individuals, organizations, other firms or even governments...”. Edith Penrose (1995) sees business networks as possibly advancing the parties’ competitive power that might make alliances a rational response and at times “even a necessary one”. The individual companies do not lose their ‘independent’ identity, and their cooperative operations may be based more on consensus emerging from shared goals and mutual dependence than from exercising controls of the formal contracts. Penrose also observed that “the administrative boundaries of each of the linked firms may become increasingly amorphous and the effective extent to which any individual firm exercises control not at all clear” (Penrose, 1996 in Pitelis, 2000).

By consolidation of the Penrosean theory and the Richardson analysis, the firm can be described to create an ‘administrative framework’, which includes both inter-organizational linkages and internal processes for learning, for the development of capabilities, for the exploitation of productive opportunities, and for the development of consistent routines important for trustworthiness, consistent patterns of behavior, and effective forms of governance (Matheson Connell, 2003). Richardson thus extended the internal growth dynamic of the Penrosean firm to account for interfirm relations (Best & Garnsey, 1999).

Nooteboom’s (2006) concept of organizational focus can mean limitation of “[firm’s] range of activities, in terms of products, markets and technologies, of physical, cognitive or cultural assets, of individual or organizational capabilities, or a combination of all of those”. The increasing pressure to narrow the focus to ‘core capabilities’ enhances cognitive diversity between firms and the collaboration between firms becomes an attractive, possible source of innovations. Complementary cognition employed from external partners can reduce the risk of myopia created by the organizational focus (Nooteboom, 2004b), provided that the cognitive distance between the partners is sufficiently large to yield new insight and sufficiently small to ensure that it is still comprehensible (Nooteboom, 2000). Bridging cognitive distance between the partnering firms entails the ability to understand and communicate with people who think differently (Nooteboom, 2004b).

There are specific risks involved in inter-organizational relationships; Nooteboom classifies those relational risks into risks of dependence (hold-up) and risks of loss of knowledge (spillover). The hold-up risks arise, particularly, form investments that are specific to the IOR. Correspondingly, the spillover risks relate to the cognitive distance between the partners, because the mutual exchange of information, to achieve understanding and to utilize complementary cognitive competences creates a risk that sensitive knowledge might spill over to competitors. However, as Nooteboom (2003) points out, the spillover risk should not be exaggerated, for instance for the following reasons: 1) tacit knowledge does not spill easily, 2) the receiver might not be able to make sense of the information due to cognitive distance or 3) the speed of knowledge change may be so high that by the time it reaches the competitor, it is out-of-date.

Besides controlling those above mentioned risks by evasion, integration, contracting or by selecting a controlling position in a network (see Nooteboom, 2003), it is possible to "make good use of intermediaries, third parties or go-betweens (Ibid.), who may be needed also in helping partners to cross the cognitive distance, i.e., help the parties to learn from each other, and to achieve mutual understanding needed for that. For example, it might be necessary to make explicit the tacit knowledge underlying a particular practice (Nooteboom, 2000). Altogether, Nooteboom (2003, 2004b) identifies eight different, possible roles for the go-betweens, as listed below:

> 1. The go-between helps parties to learn from each other, and to achieve mutual understanding needed for that, i.e., the go-between helps partners to cross cognitive distance.
> 2. The go-between solves the 'revelation problem', by assessing the value of information before it is traded.
> 3. The go-between controls spill over, seeing to it that knowledge does not flow beyond where it is intended.

4. The go-between controls the transaction costs when the transactions are too small or infrequent to justify the often considerable costs of a 'bilateral' governance scheme.
5. The go-between acts as a guardian of hostages, by maintaining symmetric trust and acceptance by both partners.
6. The go-between acts as an intermediary in the building of trust. The intermediary can also perform valuable services in protecting trust when it is still fragile, to eliminate misunderstanding and allay suspicions when errors or mishaps are mistaken for signals of opportunism.
7. The go-between can help in the timely and least destructive disentanglement of relations.
8. The go-between can act as a lookout, a sieve, a channel and an amplifier in reputation mechanisms.

According to Nooteboom, the various roles need not necessarily be played by a single go-between, and intermediaries can specialize in different roles. As go-between candidates, Nooteboom lists banks, accountant firms, industry associations and consultants. "It is crucial that the go-between command trust in both his competence and his intentions. He should be competent concerning the technologies involved, and concerning the relational skills required. (Ibid., 2003)

4.1.3 Formalization in coordinating cognition

In line with Nooteboom's (2006) views, on guiding and coordinating cognition in an inter-firm relationship and between the partners, Vlaar et al. (2006) present a mechanism, called formalization, as a way to deal with problems of understanding. "Such problems arise from differences between partners in terms of culture, experience, structure, and industry, and from the uncertainty and ambiguity that participants in inter-organizational relationships experience [especially] in the early stages of collaboration". Formalization refers both to the process of codifying and enforcing inputs, outputs and behaviors (Ouchi, 1979), and to the outcomes of this process in the form of contracts, rules and procedures (Hage & Aiken, 1966).

Vlaar et al. (2006) establish a framework of how formalization affects mechanisms that enable sensemaking that correspondingly diminishes problems of understanding in the IOR. Due to the probability of new problems of understanding to emerge, the model is completed into a cycle, as presented in the figure below. Through the formalization mechanisms the participants can "make sense of their partners, the relationships in which they are engaged and the collaborative contexts in which these are embedded". Through the formalization mechanisms the participants can "make sense of their partners, the relationships in which they are engaged and the collaborative contexts in which these are embedded".

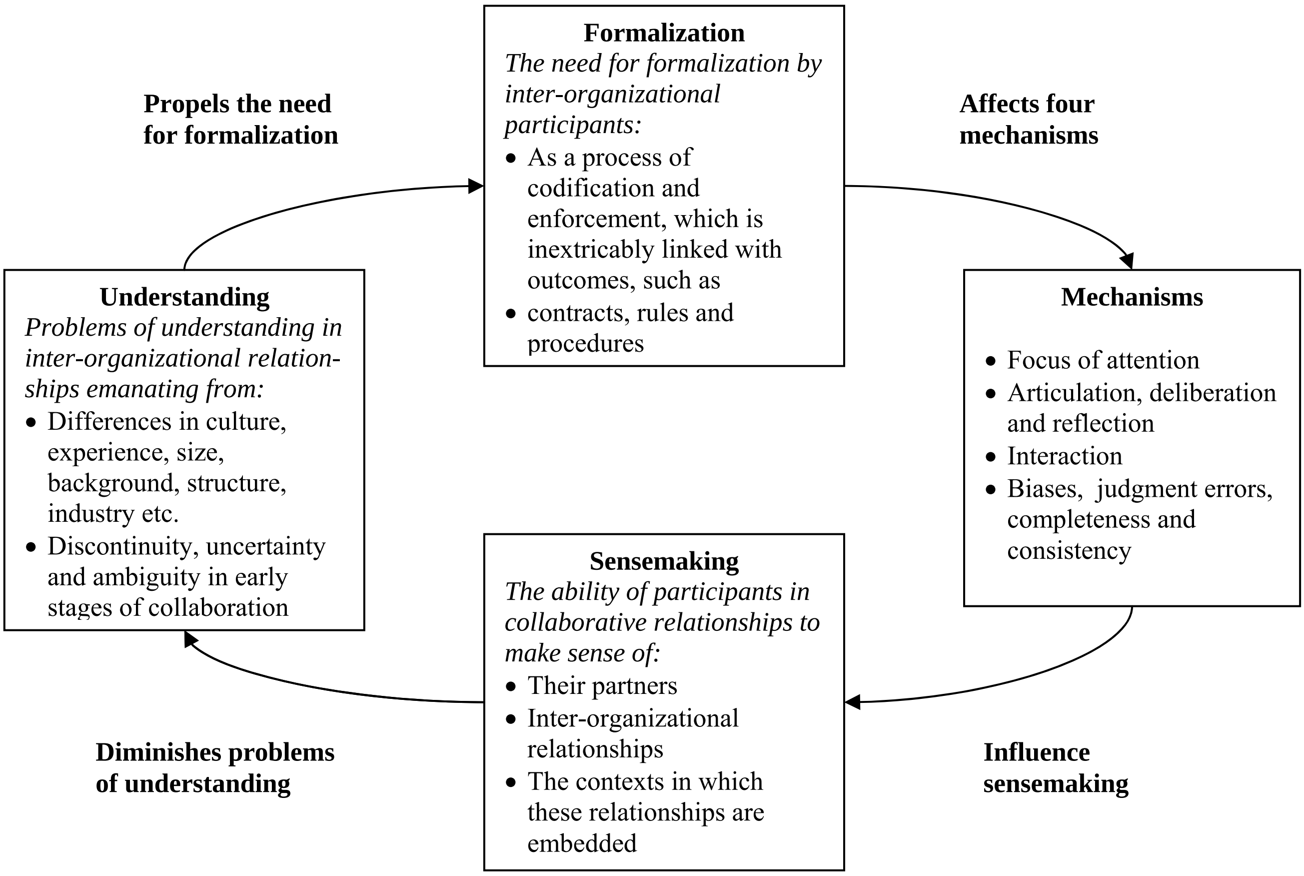

Figure 4.1 Formalization, mechanisms, sensemaking and understanding in IORs

The first mechanism, called focus of attention, means that participants in the inter-organizational relationship display a joint focus or co-orientation on formal documents and processes. For example, agendas of meetings enable the parties to concentrate on specific issues and prevent distraction to less important subjects. The second mechanism of articulation, deliberation and reflection is most commonly used in the contracting process, which can be "used purposefully to increase mutual understanding" (Blomqvist et al., 2005) to ease the collaboration development and processes later. This mechanism helps participants to lift equivocal knowledge out of the tacit, private, complex, random and past, to make it explicit, simpler, ordered and relevant to the situation at hand. (Vlaar et al., 2006)

Next mechanism, through which formalization facilitates sensemaking, is instigating and maintaining interaction. “Series of formal processes” and their outcomes serve as frameworks, mediums, or triggers for interaction. Formalization processes of arguing, listening and working to reconcile differences are used to spin up new stories, set actions in motion, announce beginnings, milestones and ends, and pose changes of course. (Ibid., 2006)

The fourth formalization mechanism reduces the impact of individual biases and judgment errors, and augments the completeness and consistency the partners have on each other, on their relationship and on the context or environment of the IOR. As formalization is sensitive to the ideas and interests of groups of people, it compensates for deficiencies in individual thought processes and pictures a more consistent reality.

As a consequence of the mechanisms, formalization assists the parties in testing and establishing expectations as to how the roles and responsibilities are divided, how partners are doing, and how they will react to what one says and does. (Ibid., 2006) Moreover, formalization may reveal productive opportunities of the partnership.

4.1.4 Learning in inter-organizational relationships

One of the explanations for the formation and existence of alliances is learning. The goal of alliances is seen as to facilitate the exploration and/or exploitation of knowledge[18] outside the firm. As specific excess knowledge capacity leads to the search of expansion opportunities, Grant & Baden-Fuller (2004) propose that the process of

[18] Exploration of new possibilities is captured by terms such as search, variation, risk taking, experimentation, play, flexibility and discovery. Exploitation, correspondingly, includes such things as refinement, choice, production, efficiency, selection, implementation and execution. (March, 1991)

exploiting knowledge is the primary advantage of an alliance. Because knowledge is subject to economies of scale it is cheaper to replicate knowledge than create it and IORs can improve the efficiency of knowledge integration into the production of complex services. Moreover, knowledge can be highly specific and thus subject also to economies of scope.

The extent to which learning through exploitation or exploration is utilized in the inter-organizational relationship has an impact on the characteristics of the alliance. According to Grant & Baden-Fuller (2004) these consequences can be predicted as presented in the following table. For instance, exploration of knowledge in the IOR leads to less stabile relationships because the parties loose interest in the collaboration once they have learned ‘everything they wanted to’. However, as Loasby (1999) points out “Penrose reminds us that learning is not simply ... the acquisition of information, but a process of interpretation…A theory of economic development that respects both human abilities and the historical record must rest on conjecture and exposure to refutation rather than rational expectations.”

Table 4.1 Predictions on the impact of exploitation and exploration on IORs

Consequences to or characteristics of inter-organizational relationship	**Knowledge exploitation approach**	**Knowledge exploration approach**
Development of the alliance partners’ knowledge bases	Alliances increase knowledge specialization Partners’ knowledge bases remain differentiated	Alliances cause broadening of each firms’ knowledge base Partners’ knowledge bases converge over time
Stability of alliances	If successful, alliances become increasingly stable over time	As each partner absorbs knowledge from the other, alliance become less stable
Longevity of alliances	Can be long term	Life span limited to the time it takes to acquire partner’s knowledge
Number of alliances	A firm can engage in multiple alliances simultaneously without sharply declining marginal benefit	Limited absorptive capacity implies a limit to the number of alliances a firm can pursue simultaneously
Impact of uncertainty over future links between knowledge inputs and product outputs	Increases the value of alliances substantially	No substantial increase in the value of alliances

4.1.5 Sales & marketing perspective and TGF

Penrose refers very little to the function of sales or marketing in TGF, or, stated differently: "Her book was lacking a theory of market demand…" Marris (1999). However, there is some evidence that Penrose's thinking covered the market perspective as well – from the process viewpoint: One of the consequences of the existence of unused, potential productive services is 'the entrepreneurial desire' to find use for the productive resources behind them. The Hercules-case analysis (Penrose, 1960) provides examples of how creation of consumer demand came about through new product development, and Penrose describes the role of salesmen: "[The salesmen] are expected to take an active interest in the production and market problems of their customers. This permits them to acquire an intimate knowledge of the customers' businesses and not only to demonstrate the uses of their own products and to suggest new ways of doing things, but also to adapt their products to customers' requirements and learn what kinds of new products can be used."

The other side of the coin is that movement into new areas stipulates building up experienced managerial and technical expertise in the new fields of activity. Internal coordination requirements slow down the rate at which market opportunities can be pursued: "the firm has to establish (one or more) wide and relatively impregnable 'bases' from which it can adapt and extend its operations in an uncertain, changing and competitive world" (Penrose, 1959). Because firms are not able to utilize all the created, new business opportunities, so called 'interstices' (niches) are also born on the market for other firms to exploit.

4.1.6 Research questions battery based on TGF

The TGF approach stresses the importance of management as the 'motor' for the growth both in the sense of size and development. Besides administrative services, the management can yield productive services, which for the most part should, however, be created by the collaborating partner organizations. Through the increasing knowledge of productive services from the field, the partnership management learns about the productive opportunities of the partnership. The management also gains experience in leading the partnership and become more effective: more capacity is attained to the development of the partnership. However, according to TGF, management also sets the limits to the growth. Following the Penrosean logic on the dependence of those limits on both internal and external conditions, the research questions are aligned into three groups: 1) issues on partnership administration, 2) the partner organizations' cognitions of the partnership and perceptions of competition on the market, and 3) issues relating to the utilization of the possibilities of the partnership. TGF is used to examine the productive opportunities of the partnership.

Q1(TGF): How did the administrative services of the partnership management develop during the research period?

Q1.1(TGF): What was the administrative structure of the partnership in the beginning of each partnership phase?

Q1.2(TGF): What formalization processes and outcomes can be recognized during the partnership phases?

Q2(TGF): How did the partner organizations perceive the partnership?

Q2.1(TGF): What were the goals of the partnership?

Q2.2(TGF): What were the partner organizations' sentiments on the partnership?

Q3(TGF): How did the partnership management utilize possibilities to create productive opportunities for the partnership?

Q3.1(TGF): What was the process of forming a common business plan for the partnership?

Q3.2(TGF): What productive opportunities and restrictions to exploitation of partnership possibilities were perceived by the partnership management?

Q3.3(TGF): What indications of unseen partnership possibilities can be identified?

4.2 Resource Based View (RBV)

The Resource Based View (RBV) is widely used in the strategic process work of firms. The basic concepts are easy to understand and directly linked to the everyday work of managers (Foss, 1997). Managers commonly understand RBV from the SWOT-analysis perspective and regard resources as the strengths and weaknesses that the firm possesses in its competitive environment. Most managers also are familiar with Porter's concept of competitive advantage as well as value chain and competitive forces frameworks (Porter, 1980; 1985).

What the managers usually don't know is that Porter's frameworks assume that within an industry or strategic group 1) the firms are identical in terms of the strategically relevant resources (Porter, 1981; Rumelt, 1984; Scherer, 1980 in Barney 1991), and 2) if resource heterogeneity would develop that would be short lived, because resources are highly mobile (Barney, 1986). Practicing managers intuitively know that firms differ in terms of their resources, which might depend, for example, on the history of the firm; practitioners would not make such assumptions. This misunderstanding or imperfect knowledge of the Porter's assumptions may lead to wrong decisions, for instance, in cases where benchmarking results are implemented as such without paying enough attention to the differences of the firms.

The core of the RBV thinking is that in addition to having different kinds of resources, there are systematic differences across organizations in the control and use of them. Both streams of differences cause performance discrepancies between the firms. Another assumption is that firms seek to increase their economic performance.

The application of RBV is not limited to the strategic processes on the firm-level, but RBV is applied on industries (Mehra, 1996) or specific functions (Fahy & Smithee, 1999 in marketing) and levels of hierarchies (Peteraf, 1993) as well. RBV is also taken as a perspective in examining for instance alliances, joint ventures and partnerships, i.e., inter-organizational relationships, where the central idea is that through collaboration the parties get access to some resources that they themselves lack.

The emergence of new industries is often based on core-competence thinking: the outsourcing decisions (Cooper & Gardner, 1993 on logistics management; Gottschalk & Solli-Sæther, 2005; Baden-Fuller et al., 2000; Chase, 1998; Wilcox et al., 1995) are considered in addition to other reasons (e.g., economies of scale) to include the notion that organizations whose core business those functions are, have better competence and more fit resources for those specific activities.

4.2.1 Basic concepts and underlying assumptions of RBV

Although the basic propositions of RBV have become increasingly well-delineated, there are small disagreements over minor points (Peteraf, 1993), and a lot of inconsistent and, at times, conflicting uses of terminology in the literature (Rugman & Verbeke, 2002; Fahy & Smithee, 1999). Over time, the subtle, overlapping variations in terminology have made the integration of different authors' ideas difficult (Peteraf, 1993).

Firm's resources can be regarded to include all assets, capabilities, organizational processes, firm attributes, information, knowledge, and so forth, controlled by the firm. Resources enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Daft, 1983 in Barney, 1991). Wernerfelt (1984) lists as examples of resources the following: brand names, in-house knowledge of technology, skilled personnel, trade contracts, machinery, efficient procedures, capital, and the like. Commonly, resources are categorized into physical, human and organizational capital resources (Barney, 1991). Grant (1991) adds three more classes of resources to the list: financial resources, technological resources and reputation.

Such a broad way of defining resources has its pros and cons: The approach does not provide practitioners guidelines in utilizing RBV. "Overly inclusive definition of resources makes it more difficult to establish contextual and prescriptive boundaries" (Priem & Butler, 2001). On the other hand, the broad view can be seen to enhance the possibilities for RBV usage in various circumstances: "Managers can apply resource-based logic to any resource, whose value can be determined from the market context"

(Barney, 2001). It is the characteristics of the resources, not the categories of resources that are important.

A firm's resources are potential sources of competitive advantage only if they are valuable in the creation of services or products which meet the needs of customers (Barney, 1991). Thus, competitive advantage depends in addition to the internal factors also on the environmental situation, i.e., on exogenous elements. Value is a fundamental concept in RBV, and yet it remains 'outside': this restricts the potential usefulness of RBV, e.g. in strategy research (Priem & Butler, 2001). On the other hand, there are streams of RBV that present the competitive advantage as a function of rents (Peteraf, 1993) and make it easier to operationalize it. This does not, however, change the fact that the value of the resources is at the end out of the boundaries of RBV. In this study, the resources are considered valuable if the partners regard them to be potential sources of value creation to the customers, i.e., the partners assume those resources are valuable. The assumptions can be based for instance on previous experience, market research or customer surveys.

Another issue which the RBV approach has been criticized for in theoretical discourse connected with the concept of value is that RBV is making an implicit assumption that the customer preferences in terms of the firm's outcome, services or products, remain constant: "RBV simplifies strategic analysis with an implicit assumption of homogeneous and immobile product markets i.e. unchanging demand (Priem & Butler, 2001)". Dynamic capabilities can be seen as an enhancement to RBV in answering to this critique: Dynamic capabilities are processes that manipulate bundles of resources to create competitive advantage in dynamic markets (Eisenhardt & Martin, 2000). Dynamic capabilities are the drivers behind the creation, evolution and recombination of other resources (Henderson & Cockburn, 1994; Teece et al., 1997).

RBV has been accused of having a static nature also in other aspects: Resources are qualified as useful without careful attention to when, where and how they may be useful (Miller & Shamsie, 1996). One way to enhance dynamics is to adopt either an equilibrium or evolutionary approach to the analysis (Barney, 2001). The first approach would mean describing an economic system's equilibrium, comparing that to a system's actual state and then predicting how the system will change over time. The evolutionary approach, correspondingly, compares the state of a system at one time with the state at a later time. However, the condition that RBV does not define competitive advantage in relation to the firm's industry enhances its dynamic nature because determining the boundaries of a particular industry would mean assuming stability in technology and competition.

The competitive advantage of a firm is perceivable to the customers on the market as lower prices when the firm possesses a cost leadership strategy or greater benefits according to differentiation strategy or both (Porter, 1985). It appears that firms operating under a RBV perspective would tend to see themselves as market differentiators (Cousins, 2005).

The basic assumption of RBV is that the resource bundles and capabilities underlying the production or service creation processes are heterogeneous across firms. "Heterogeneity implies that firms with varying capabilities are able to compete in the marketplace. Firms with marginal resources can only expect to breakeven. Firms with superior resources earn rents[19]" (Peteraf, 1993). The heterogeneity must be relatively durable to add value; this is only possible if there are ex-post limits to competition due to imperfect imitability and imperfect substitutability of resources. Besides obtaining the rents through competitive advantage, the rents must be sustained within the firm: The resources must be imperfectly mobile. Furthermore, the rents must not be offset by the costs of achieving the superior set of resources (ex-ante limits to competition). Peteraf (1993) models RBV as cornerstones of competitive advantage as presented in figure 4.2.

The value-adding resources are not readily available on the markets outside the firm. In addition to being rare or scarce, they are imperfectly mobile, for instance due to switching costs (Wernerfelt & Montgomery, 1988) or high transaction costs associated

[19] Earnings in excess of breakeven are called rents (instead of profits), if their existence doesn't induce new competition (Peteraf, 1993).

with their transfer (Williamson, 1975). Or, in the alternative, the resources may be controlled over complementary and co-specialized assets (Teece, 1986; Helfat, 1994). The resources may also be non-tradable because their property rights are not well defined (Dierickx & Cool, 1989; Meade, 1952 and Bator, 1958 in Peteraf, 1993) or perhaps the resources are idiosyncratic to the extent that they have no use outside the firm (Williamson, 1979).

The ex-post limits to competition may be dependent on some unique historical conditions and/or the links between resources are causally ambiguous (Rumelt, 1984; Reed & DeFilippi, 1990) and socially complex (Dierickx & Cool, 1989; Barney, 1991). Causal ambiguity is also created because the managers of the firms are assumed to be boundedly rational (Leiblein, 2003; Conner, 1991; Rumelt, 1984). As a result, managers lack the knowledge, foresight and skill to accurately predict and plan for all the various contingencies that may arise.

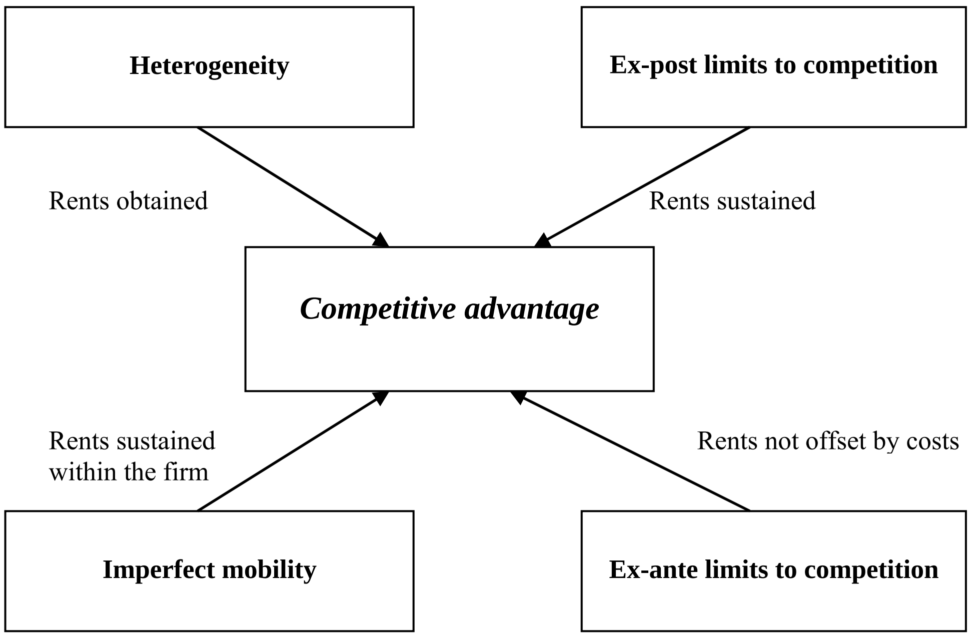

Figure 4.2 The cornerstones of competitive advantage

The phenomena that protect firms from imitation are also called isolating mechanisms (Rumelt, 1984), capability gaps (Coyne, 1986), uncertain imitability (Lippman & Rumelt, 1982) or barriers to duplication (Fahy & Smithee, 1999).

4.2.2 Social capital as a resource

One of the reasons why firm resources can be inimitable is social complexity, as mentioned earlier. Social complexity stems from both the internal social networks and from the external ones. Blyler & Coff (2003) study the role of social capital in the context of rent appropriation, which is one of the issues that Barney (2001) regards under-researched in the context of RBV. In the RBV cornerstone model, the term 'rents sustained' corresponds to 'rent appropriation'.

Portes (1998) defines social capital as "the ability of actors to secure benefits by virtue of membership in social networks". Social capital facilitates information flows from and inside networks as well as integrates and recombines resources into bundles, possibly at the same time releasing other resources (Blyler & Coff, 2003 according to the definition of dynamic capabilities by Eisenhardt & Martin, 2000). Thus, social capital might be the source for causal ambiguity and ascertain imperfect imitability.

In their research, Tsai & Ghoshal (1998) examined in internal-network context the way in which social capital affects the value creation and innovations. They used the three dimensions – structural, relational and cognitive – of social capital by Nahapiet & Ghoshal (1998), and, based on their empirical data, developed a model, where social interaction and trust have a significant impact on resource exchange which in turn has a significant effect on the results.

Tsai & Ghoshal (1998) suggest in their discussion that their model could be extended to research in inter-organizational setting. This has been actually done by Sarkar et al. (2001), even though they have conducted their research without referring to Tsai & Ghoshal, but have started from their own viewpoint. The two studies clearly support each other, taken into account the following adjustments in terminology:

- the structural dimension of social capital consists of the complementary resources and operational compatibility of the parties;
- the cognitive dimension of social capital is called cultural compatibility in Sarkar et al.;
- the relational dimension of social capital corresponds to relationship capital.

There are three basic differences in the models. First, Tsai & Ghoshal separate 'resource exchange and combination' from social capital and regard "social ties as channels for information and resource flows. Through social interactions an actor may gain access to other actors' resources." Thus 'resource exchange and combination' is a consequence of relational capital rather than a part of it. Secondly, Sarkar et al. divide performance into short-term, project and long-term strategic performances while Tsai & Ghoshal use only the term 'value creation' as indication of performance[20]. The third difference is in the impact of the cultural, cognitive dimension: Tsai & Ghoshal found no direct influence of the dimension on the 'resource exchange and combination' as compared to Sarkar et al. study, where such a correlation was found.

Sarkar et al. include 'bilateral information exchange' into relationship capital. During the testing phase, the researchers had several hypotheses that were not supported by the data. It could be that the interpretation of 'bilateral information exchange' as part of the relationship capital could be the cause for their expectations not to be met.

The division of performance into short-term and long-term can be regarded as a value-added to the Tsai & Ghoshal model. It makes sense that the complementary resources of the parties would have an impact on performance already on short term while strategic performance would be impacted only, if the cognitive and cultural compatibilities would enhance it.

For the purposes of this dissertation, more specifically to aid the formation of the research questions and sub-questions, i.e., the refinement of the theoretical lens, the following integrated model of the two above studies is constructed (figure 4.3).

[20]This difference is probably due to the different contexts where the studies were conducted. Sarkar et al.(2001) research context was construction contracting industry where projects are a prevailing business model.

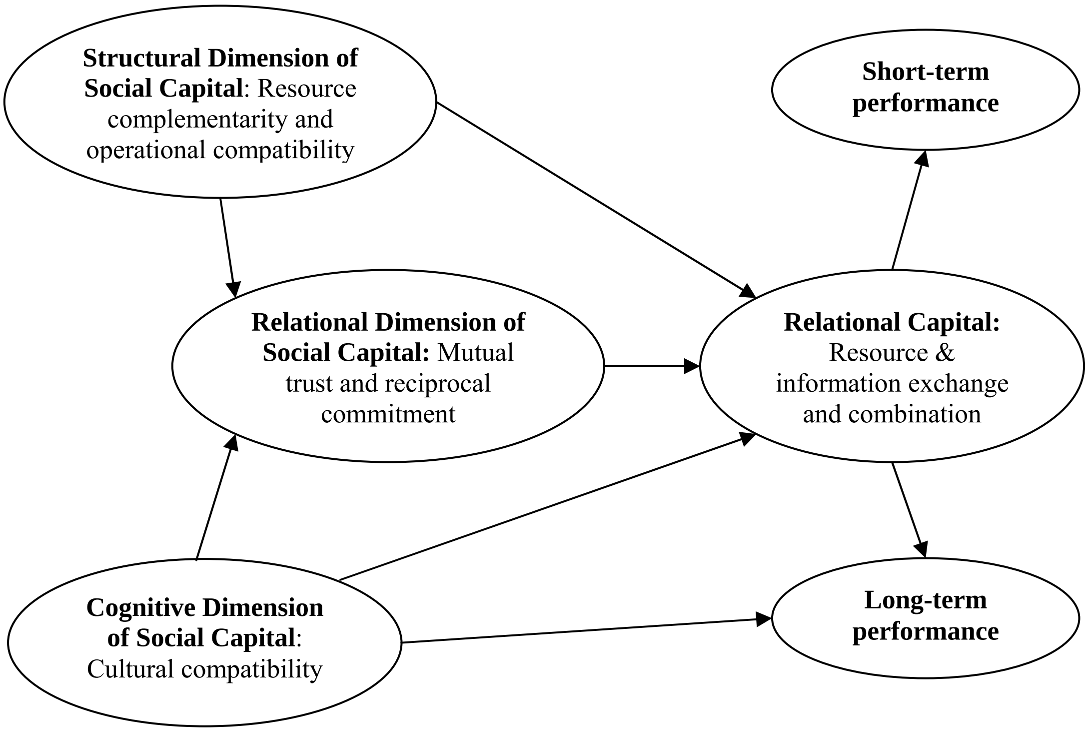

Figure 4.3 A model of social capital, relational capital and performance

4.2.3 Previous research utilizing RBV in the context of IORs

The importance of RBV in the field of inter-organizational relationships is reflected in the vast amount of research on the topic, which has been approached from different aspects. Questions like "Why firms enter into alliances? (Beverland & Bretherton, 2001; Eisenhardt & Schoonhoven, 1996; Cooper & Gardner, 1993) How are the partners selected? (Porter & Baker, 2005) or How the IOR structure and/or models of cooperation affect the performance? (Todeva & Knoke, 2005) have been frequently addressed.

Some research focuses on how partners learn in and from the IORs (Simonin, 1999, Hamel, 1991; Jones et al., 2003; Powell et al., 1996) or on innovation and product development (Marshall, 2004) and on alliance constellations (Gomes-Cassares, 2003) as well as on alliances where the parties both cooperate and compete (Clarke-Hill et al., 2003; Hamel et al., 1989).

Selnes & Sallis (2003) have conducted an empirical study on relationship learning from the interactive perspective using the IOR as the unit of analysis. The relationship learning is defined as "an ongoing joint activity between the partners directed at sharing information, making sense of information, and integrating acquired information into a shared relationship-domain-specific memory to improve the range or likelihood of potential relationship-specific behavior."

In the above mentioned study, it was found that the extent to which the partners consider their relationship worthwhile, equitable, productive and satisfying is improved through relationship learning, which can be promoted and is accelerated through collaborative commitment. A manifestation of collaborative commitment is that the parties tend to develop common goals and implement joint measures, which thus initiate activities that benefit both parties and subsequently enhance the value of the relationship. However, high levels of trust reduce the positive effect of relationship learning (Ibid., 2003).

Another stream of IOR research has focused on the interactions between the parties and on the factors, which create relationship capital or relational rents for the IOR (Dyer & Singh, 1998; Cullen et al., 2000; Pansiri, 2005) or lead to the conclusion that the IOR as such is a resource (Madhok & Tallman, 1998). According to Cullen et al. (2000), the relationship capital is created in the dynamics of mutual adjustments of the partners and consists of reciprocal trust and commitment. The relationship capital in turn is a critical resource in transforming the potential value of the IOR into collaborative economic rents, which Dyer & Singh (1998) call 'relational rents'. Lambe et al. (2002) conceptualize 'alliance competence' as an antecedent to alliance success and to the creation of joint resources that are necessary for the alliance to succeed.

In partnerships, the question of benefits appropriability is not self-evident: suppose, for instance, that new resources are created in the cooperative actions. How can it be shown that the new resources are beneficial to the separate parties? Or what about a situation that one party gains more than the other from the new resources? The partnership might be considered successful, but does the success filter through the firm boundaries for the firms' benefit?

Hamel (1991) has suggested that learning can be one of the ways a party can appropriate value from the partnership. He proposes an alternative point of view to the traditional perspective of joint outcomes: individual outcomes should be considered and the success of the partnership should be determined also on the collaborative exchange dimension. Taking this view would mean that instead of just measuring the satisfaction and continuity of the IOR also the bargaining power and competitiveness of the parties should be included as success metrics.

Learning has also been suggested to have a role of catalyst through which strategic alliances produce synergy and succeed (Jones et al, 2003). Moreover, Ireland et al. (2002) conclude that "alliance management is a potential source of competitive advantage" and "firms can create value by learning how to successfully manage strategic alliances".

According to Eisenhardt & Schoonhoven (1996), two underlying theoretical logics explain the reasons for alliances: 1) the logic of need and 2) the logic of opportunity. Firms are more likely to form alliances when they are in difficult market situations and/or undertaking expensive or risky strategies. The alliance is seen as a provider of critical resources, such as specific skills and financial resources (Hamel et al. 1989; Pisano & Teece, 1989) or legitimateness and market power (Hagedoorn, 1993; Baum & Oliver, 1991). The opportunity view is associated with social aspects of cooperation: interpersonal contacts, status and reputation (Podolny, 1994) are likely to enhance awareness of opportunities, mutual knowledge creation and trust in the cooperation. Eisenhardt & Schoonhoven (1996) also conclude that "the fundamental irony on alliancing is that firms must have resources to get resources".

An alliance is an alternative to a single firm to govern a bundle of resources (Powell, 1990) and can be regarded as a particular kind of organization, whose traditional model need to be amended and expanded (Gomes-Cassares, 2003). The partnership assembles the resources of its members and governs the resources by the way it is structured and managed. Often, it is concluded that the partnership resources are the sum of the parties' resources. On the other hand, it is often presumed that the resource combination creates synergy, which is mathematically presented in the form $2+2 > 4$. It is arguable, however, that the resources put together create more of the same kind of resources. Shouldn't the metaphor for the synergetic effect be better presented in the form of a chemical equation rather than a mathematical one, e.g. $H_2 + ½\ O_2 \rightarrow H_2O$?

4.2.4 Sales & marketing perspective and RBV

Marketing scholars have devoted relatively little attention to applying the frame of RBV in advancing marketing theory or in analyzing the challenges in marketing (Srivastava et al., 2001). Also, the RBV proponents have limited their focus to the level of recognition of the marketing specific resources such as brands or customer and distribution relationships in gaining and sustaining competitive advantage. The processes that transform resources into something that is valuable to customers have been generally neglected. The tenets, premises and assertions of RBV have largely avoided direct contact with the concept, intent and prerequisites of marketing.

Both RBV and discipline of marketing explicitly recognize that customer value originates and exists in the external marketplace. The intent and role of marketing centers on seeing the current, emerging and potential world in such a way that customers' needs can be identified, elaborated and translated into products and services, often before the customers themselves are conscious of those needs. (Ibid., 2001)

Srivastava et al. (2001) categorize marketing specific resources first into assets, processes and capabilities and secondly to subclasses of relational and intellectual market-based assets, market-based processes and market-based capabilities. These resources are "transformed into an offering that customers can view, experience and determine whether or not they wish to purchase it", i.e., the resources create customer value and competitive advantage. The framework for analysis of market-based resources is presented as figure 4.4.

The 'relational' market-based assets are associated with external organizations and include the relationships with and perceptions held by external stakeholders such as customers, channels, partners, providers and suppliers, and networks and eco-system relationships. 'Intellectual' market-based assets refer to assets such as knowledge about the external and internal environment, know-how embedded in the organization, know-how to leverage internal relationships and process-based capabilities.

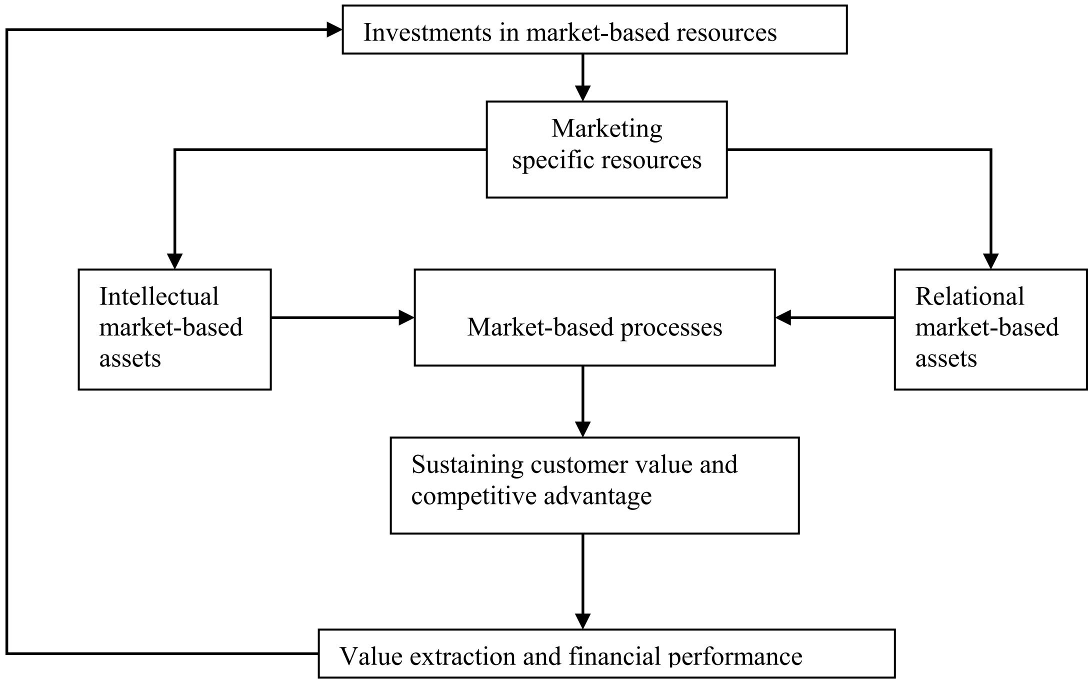

Figure 4.4 Framework for analysis of market-based resources

Market-based processes focus upon the development and delivery of services and solutions, such as offering development, supply chain management and customer relationship management.

In the context of sales and marketing, RBV is often used together with other theories in IOR research to provide an unbiased basis from which to view the characteristics of the parties. Examples of such research are studies of multiple party alliances, where the parties hold both the cooperating and competing roles at the same time (Clarke-Hill et al., 2003) or studies on forming or establishing alliances (Jones et al, 2003). An extreme example of the interdisciplinary characteristics of marketing theories is the 'General Theory of Competition' that pulls together "numerous theories and research traditions, including evolutionary economics, 'Austrian' economics, heterogeneous demand theory, differential advantage theory, the historical tradition, industrial-organization economics, the resource-based tradition, the competence-based tradition, institutional economics, transaction cost economics, and economic sociology" (Hunt, 2001).

Another stream of marketing studies in the IOR context utilizing RBV is research on information technology-based marketing using terms like e-commerce, B2B exchanges and electronic channels (Park et al. 2004; Ordanini, 2005; Christiaanse & Venkatraman, 2002). These viewpoints are not within the scope of this study.

Research questions battery based on RBV

Social capital as a resource for the case partnership is taken as the starting point for the creation of the research questions battery for the RBV theoretical lens. The research questions are grouped according to the model developed in Chapter 4.2.2. In forming the sub-questions the following viewpoints are taken into account:

- In their research on the impact of partner characteristics on the IOR performance, Sarkar et al. (2001) conclude that the parties "need to have different resource and capability profiles yet share similarities in their social institutions" to be able to create value. The partner characteristics have both direct impacts on IOR performance and indirect effects through the relationship capital. Harrison et al. (2001) augment on the issue: "Complementary resources is a necessary but insufficient condition for value creation, the resources must be effectively integrated and managed to realize the synergy".
- In the inter-organizational context, relationship capital is formed between the parties as a result of social interactions and information exchange between the partners (Dyer & Singh, 1998). Moreover, similarly with the prerequisites of other resources combinations, it is necessary that the partners' social environment must have common elements for the relationship capital to emerge (Sarkar, et al., 2001).

Based on the above, the first research question helps to identify – from the case narrative – issues related to the structural dimension of social capital in the partnership. The second and third research questions, correspondingly, relate to the cognitive and relational dimensions of social capital. Finally, the fourth research question focuses on finding how relational capital, new combinations of resources and new knowledge were created in the partnership. The battery of research questions is presented as follows.

Q1(RBV): How did the partnership resources and operational processes develop during the research period?

Q1.1(RBV): What complementarity in resources and market-based assets were identified between the partners on individual, group or organizational levels?

Q1.2(RBV): What differences and similarities existed in the sales and marketing processes of the partners?

Q2(RBV): How did partners' group or organization culture affect the partnership?

Q2.1(RBV):What was characteristic of the partners' group and organization culture?

Q2.2(RBV): Did the organizational cultures have an effect on the cooperation?

Q3(RBV): How were trust and commitment or the lack thereof present in the sales and marketing cooperation?

Q3.1(RBV): What attitudes can be identified in the partnership cooperation on individual, group and organizational levels?

Q3.2(RBV): Did the attitudes differ in terms of trust and commitment?

Q4(RBV): How were resources and information, as a consequence of relational capital formation, exchanged and combined in the partnership?

Q4.1(RBV): What partners' resources were shared, nurtured or maintained in the partnership?

Q4.2(RBV): What partners' resources were combined, integrated or modified to partnership resources?

Q4.3(RBV): What kind of relational capital (if any) was formed in the partnership?

Q4.4(RBV): Can relationship learning be identified in the partnership?

4.3 Transaction Costs Economics (TCE)

Transactions costs economics theory (TCE) provides a general explanation for the origins of organizations as mechanisms for supporting decisions under conditions of uncertainty. Central to the theory is the assumption of human nature: TCE supposes that people sometimes behave opportunistically. TCE is used to explain how specific organizations determine their boundaries and design their governance systems. The most commonly used version of TCE among scholars outside of the mainstream field of economics, i.e., the version that also dominates the application of TCE to management in practice, is developed by Oliver Williamson (Ghoshal & Moran, 1996). The approach Williamson uses is "a comparative institutional point of view", where the organization forms are always examined in relation to alternatives (Williamson, 1991).

TCE has a relatively broad scope and application: it is interdisciplinary, involving aspects of economics, law and organization theory and "virtually any relation that takes the form of or can be described as a contracting problem can be evaluated to advantage in transaction cost economics terms" (Williamson, 1985). TCE adopts a microanalytic stance towards the economic organization.

TCE focuses primarily on efficiency[21] and regards transactions as the fundamental unit of analysis: Instead of paying the attention to technology and production costs, TCE assumes that the costs related to cooperative activities between the transaction parties, such as gathering and obtaining information, negotiating agreements and settling disputes, are of major importance in the economic results the organization attains. Transaction costs are defined broadly (Williamson, 1991) as "costs of running the economic system" in line with Arrow (1969, in Williamson 1991). TCE emphasizes the importance of the structures that govern the transactions.

4.3.1 Basic concepts and underlying assumptions of TCE

The basic foundations of Transaction Costs Economics are 1) assumptions that human beings are boundedly rational and sometimes display opportunistic behavior, and 2) the dependability of transaction costs on the critical dimensions of the transaction. Later on (Williamson, 1999), TCE has ascribed to assuming human actors to have foresight rather than myopia.

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[21] Efficiency is defined as the ratio of the output (e.g. economic value) to the input (e.g. time and effort) of a system. (http://wordnet.princeton.edu)

Due to bounded rationality and limitations in knowledge, skills and time, people's decisions, behavior or acts cannot be fully predicted. Opportunism ("the seeking of self-interest with guile": Williamson, 1975) is both an attitude and a behavior (Ghoshal & Moran, 1996). Opportunistic behavior involves making false or empty, self-disbelieved threats and promises in the expectation that individual advantage will thereby be realized.

"Williamson does not assume that everybody behaves opportunistically. He assumes only that some people might display opportunistic behavior *and* that it is difficult or impossible to distinguish *ex ante* honest people from dishonest ones. Even those who behave opportunistically need not do so all the time" (Douma & Schreuder, 2002). Examples of opportunistic behavior may include the following: private use of confidential information, reduced efforts in joint tasks (free riding) and opportunistic exit from a relationship (Blumberg, 2001).

Bounds of rationality are only interesting under conditions of uncertainty and/or complexity; that's when the limits of rationality are reached. Opportunistic inclinations are ineffectual in situations of multiple choices: the rivalry among large numbers of bidders will ensure competition. In the small-numbers condition, for instance when only few competitors exist, however, "it is in the interest of each party to seek terms most favorable to him, which encourages opportunistic representations and haggling. The interests of the *system*, by contrast, are promoted if the parties can be joined in such a way as to avoid both the bargaining costs and the indirect costs which are generated in the process." (Williamson, 1975, emphasis in original)

The transactions differ from each other with respect to critical dimensions that include the frequency with which transactions recur, the uncertainty to which transactions are subject, and the type and degree of asset specificity involved in supplying the good or service (Williamson, 1979). In TCE, particular meaning is attached to asset specificity, which refers to the degree to which an asset can be redeployed to alternative uses without a significant reduction in the value of the asset.

Transactions take place in an atmosphere which is, in addition to the human and environmental factors, affected by information impactedness (see figure 4.5). Besides information asymmetry, information impactedness includes also information problems that can develop even when parties have identical, but maybe incomplete, information. Additionally, ex-ante and ex-post (developing, for example, during the contract period – not during the negotiations) information impactedness should be distinguished (Williamson, 1975). Information impactedness is a derived condition, mainly due to uncertainty and opportunism, which in turn can give rise to the situation of restricted competition: for instance, only a few alternative exchange partners exist.

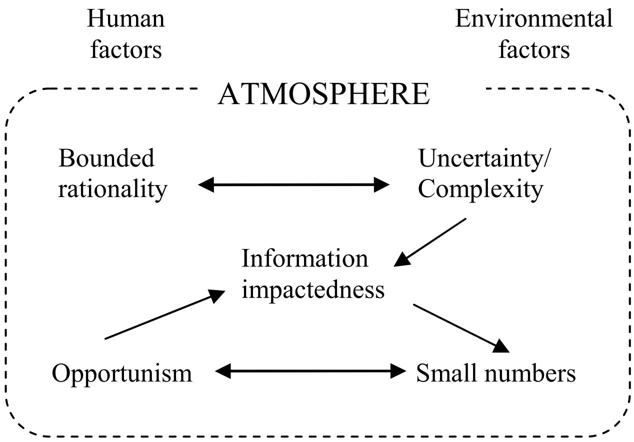

Figure 4.5 Transaction Costs Economics – framework

4.3.2 Transactional governance structures, explained by TCE theory

Rather than describing the firm as a production function, TCE describes hierarchy and market as alternative modes of governance, the choice between which is principally decided by transaction cost differences (Williamson, 1999). It is assumed that the organizational forms are always in competition and in the long run only the most efficient organizational form will survive in the prevailing circumstances (Douma & Schreuder, 2002). Standard transaction costs analysis is essentially a single-party analysis of cost minimization and neglects the interdependence between exchange partners (Zajac & Olsen, 1993).

TCE views governance in terms of designing particular mechanisms for supporting economic transactions (Heide, 1994). Market governance is the main structure for governing non-specific transactions. Compared to transactions on the markets, organizations provide more support to the subdivision of problems. Organizations simplify choices, channel information and restrict alternatives (Scott, 1998); moreover, organizations attenuate opportunism, reduce uncertainty and might create a more satisfying trading atmosphere (Williamson, 1975). Governance is a means to infuse order in a relation, where potential conflict threatens to undo or upset opportunities to realize mutual gains (Williamson, 1999).

The hybrid or intermediate organizational forms, such as long-term relations between buyers and suppliers, business groups, informal networks, franchising, alliances and partnerships, are logically between the poles of markets and hierarchies (Williamson, 1991). Claiming as a starting point that “adaptability is the central problem of economic organization”, Williamson shows that transactions in the three generic organizational forms – market, hybrid and hierarchy – are distinguished by different coordinating and control mechanisms. The organizational forms also differ according to their abilities to adapt to disturbances, understood as unanticipated changes. The cost-effective choice of organizational form varies systematically with the attributes of transactions. The organizational forms are different in the respect of: 1) contract law, 2) performance aspects according to autonomous or cooperative adaptation, and 3) the means, ‘instruments’, the organization can use to orchestrate the adaptation to disturbances by administrative controls and incentives.

Autonomous adaptation refers to changes, as for instance, in demand or supply, whereto parties on the market can separately react. Cooperative adaptation correspondingly refers to situations where the reactions need to be coordinated to avoid sub-optimization or cross-purpose operations. An example of the latter would be interpretations of market signals.

Incentive intensity and administrative controls are linked through the possible strategic redistributions in the accounting system of a hierarchy. For example the transfer prices between divisions can be changed or overheads can be assigned differently. However, changes in the incentive system in turn increase the administrative costs. In general, internal incentives in hierarchies are flat or low-powered, i.e., changes in effort have little or no immediate effect on compensation because the high-powered incentives of markets are unavoidably compromised by internal organization. Firms also use flat incentives to elicit internal cooperation (Williamson, 1985).

Williamson (1991) summarizes the differences of organizational forms (ways to organize transactions) in a tabular form:

Table 4.2 Attributes of market, hybrid and hierarchy governance structures

ATTRIBUTE	**MARKET governance structure**	**HYBRID governance structure**	**HIERARCHY governance structure**
Instruments			
Incentive intensity	Strong ++	Semi-strong +	Weak 0
Administrative controls	Weak 0	Semi-strong +	Strong ++
Performance aspects			
Autonomous adaptation	Strong ++	Semi-strong +	Weak 0
Cooperative adaptation	Weak 0	Semi-strong +	Strong ++
Contract law	Strong ++	Semi-strong +	Weak 0

Through the method of comparative statistical analysis, it has been shown (Riordan and Williamson, 1985; Williamson, 1991) that presenting governance costs as a function of asset specificity leads to a systematic representation of the relation: The lower the asset specificity, the more economically rational it is to utilize the market as the governance structure. Correspondingly, the higher the asset specificity, the more attractive is the hierarchical arrangement. The hybrid form applies in the intermediate range of asset specificity, and transaction-cost minimization is a function of both the critical dimensions of the transactions and the attributes of the governance structure.

Transaction costs of ex-ante and ex-post types are usually distinguished. Examples of ex-ante transaction costs are drafting, negotiating and safeguarding an agreement. The contract can be made with a great deal of care: a complex document is drafted in which numerous contingencies are recognized and appropriate adaptations by the parties are stipulated and agreed to in advance (Williamson, 1985). Or the agreement can be made incomplete, the gaps to be filled in by the parties as the contingencies evolve. Correspondingly, governance, haggling and bonding costs are ex-post transaction costs.

Because of opportunism the transaction parties may try to safeguard their investments to make opportunism irrational. For instance, credible commitments in contracts guarantee that the promisee is reliably compensated should the promisor prematurely terminate or otherwise alter the agreement (Williamson, 1996). Dyer & Singh (1998) call this form of governance ‘third-party enforcement’, because possible dispute resolution is conducted by a third party. Other formal safeguards are financial and investment hostages (Williamson, 1983).

The informal safeguards, such as goodwill trust or embeddedness (Zaheer et al., 1998; Uzzi, 1996; Gulati, 1995; Ring & Van de Ven, 1992; Powell, 1990) and reputation (Larson, 1992) rely on ‘self-enforcing agreements’, in whose possible resolutions no third party is involved, but the parties themselves determine whether violation has taken place (Dyer & Singh, 1998). While Williamson (1994) sees the significance of reputation as a hindrance to opportunistic behavior, Gulati (1998) elaborates further that due to the partners’ awareness of possible losses or sanctions of opportunism, trust or confidence in the other party is actually enhanced. Potential sanctions include – besides loss of reputation – the additional loss of repeat business with the same partner and loss of other points of interaction. This view was supported by the empirical study about information networks as a safeguard by Gierl & Bambauer (2002).

Self-enforcing agreements lower the transaction costs because 1) contracting costs are avoided, 2) monitoring and control costs are lower, 3) adaptation to changes is quicker and more flexible and thus cheaper, and 4) self-enforcing agreements are not subject to time limitations of contracts and no re-contracting is needed. However, the self-enforcing agreements need time to develop, because they require a history of interactions and personal ties. Another liability is the ‘paradox of trust’, meaning that lowering the perception of risk leads to abuse through opportunism. (Dyer & Singh, 1998)

4.3.3 Previous research utilizing TCE in the context of IORs

In 1997, Osborn & Hagedoorn commented in a special issue of Academy of Management Journal on alliances and networks that "[TCE] is becoming more of a guiding metaphor for the research of inter-organizational relationships than a tested set of propositions". This is evident in the alliance literature: a lot of the research on IORs uses TCE concepts in conjunction with other theoretical perspectives, such as RBV (Nooteboom, 2004a; Dyer & Singh, 1998; Cousins, 2005; Madhok & Tallman, 1998), game theory (Parkhe, 1993), network approach to alliances (Gulati, 1998; Jones et al., 1997) or social exchange theory (Blumberg, 2001, Young-Ybarra & Wieserma, 1999; Zaheer & Venkatraman, 1995; Nooteboom, 1996). In the field of process research, Ness & Haugland (2005) developed a framework for describing and analyzing inter-organizational processes based on contract theory (TCE) and negotiation theory.

Besides the formation and choice of governance structure of an alliance (Kale et al., 2000; Oxley & Sampson, 2004) and the entry or diversification to new markets (Li, 1995; Pennings et. al, 1994), TCE influenced research has focused on the termination of IORs (Park & Russo, 1996; Gassenheimer et al., 1998) as well as on the adjustments of governance during the course of the relationship (Reuer et al., 2002; Reuer & Ariño, 2002). Doz & Hamel (1998: xv) emphasize the importance of the adjustments: "Managing the alliance relationship over time is usually more important than crafting initial formal design, which has less to do with success than does adaptability to change."

To further analyze the hybrid IOR forms, Ring & Van de Ven (1992) introduce two types of governance structures that are frequently used by firms, namely recurrent and relational contracting. Recurrent contracts cover repeated exchanges of assets that have moderate degrees of transaction specificity. Correspondingly, relational contracts involve typically long-term investments, i.e., transactions that deal with property, products or services that are jointly developed and exchanged.

The two hybrid governance forms differ according to the level of risk in the deal. Because of repetition, it makes sense in recurrent contracting to ‘standardize’ the processes by bringing elements of hierarchy into the governance: examples are command structures and authority systems, incentive systems, administered pricing systems and a structure for resolution of conflict (Stinchcombe, 1990 in Ring and Van de Ven 1992). The relational contract is suitable to transactions that involve high risk: the structure provides for loosely specified authority, control systems that are related to performance outcomes and adaptable incentive and pricing systems not dependent of other systems between the parties. Also, the production-related matters are flexible and can be left quite open-ended. Safeguarding should elaborate the rights and duties of the parties relative to the transaction and the parties may agree on claim handling, decision processes, review provisions, information or knowledge sharing, use of hostages or collateral and so on. (Ring & Van de Ven, 1992)

Governance costs are central to the TCE perspective, and administrative efficiency is critical to performance (Pearce, 1997); cooperation is advisable only if it minimizes the cost of governing, monitoring and control of, organizational activities (Hesterly et al., 1990).

In the context of inter-organizational relationships, TCE provides a lens on how to organize the control of potential opportunistic behavior of the partner and moreover, how to limit vulnerability, for example, through safeguards, along with ways to structure the IOR so as to minimize those control costs. However, working with the partner requires time and effort and thus creates cooperation costs, which should be taken into account when studying IORs (White & Lui, 2005; Pearce, 1997). Similarly, Sobrero & Schrader (1998) identified in their meta-analysis of empirical inter-firm relationship studies two fundamental dimensions that characterize the structuring of the IOR, namely contractual coordination and procedural coordination to govern the combination of functions towards production of results. Contractual coordination refers to mutual exchange of rights among the parties. Correspondingly, procedural coordination means mutual exchange of information among the parties.

Das & Teng (2000) argue that in all IORs there are three kinds of tensions due to simultaneously existing contradictory forces: 1) cooperation vs. competition, 2) rigidity vs. flexibility and 3) short-term vs. long-term orientation. The authors have developed a framework that relates the identified tensions and their interrelationships to instabilities of alliances. It is claimed that the contradictory forces have to be in balance for the alliance to survive.

Cooperation is the pursuit of mutual interests and common benefits, whereas competition can be defined as asserting one's own interests at the expense of others. Rigidity refers to alignment of partners' interests, mechanisms of benefit distribution and discouraging of opportunism; flexibility correspondingly refers to controlling risks, commitment level, adaptation to changes and ease of exit. The temporal orientation affects the IOR through the 'shadow of the future' (Heide & Miner, 1992) as well as has influence on the process of learning in the relationship. The tensions are also reflected in the alliance structure and affect the control and cooperative costs of the IOR (White, 2005).

Transaction Costs Economics does not appreciate the fact that IORs are formed more because of anticipated value gain than because of anticipated losses due to the cost constraining opportunism (Zajac & Olsen, 1993). The value perspective in analyzing alliances is largely lacking in empirical research on IORs (Madhok & Tallman, 1998; White, 2005). Because TCE's primary concern is with the costs of control, the theory "cannot adequately address another set of costs that are particularly relevant to most alliances; namely, the costs of cooperation" (White, 2005). No unifying framework exists for the cooperative costs on the contrary to control costs, which can be analyzed in rigorous way according to TCE. White (2005) presents the following model which relates the cooperation costs to the value that the alliance creates.

According to White's model, the fundamental sources of cooperation costs are interpartner diversity and joint task complexity. The comparison of costs against the gained benefits is the alliance value. However, the perceived value is affected by how the input relative to the output is interpreted in relation to the other party (Adams, 1963, in White, 2005) as well as relative to the strategic gains and losses. Continuing evaluation of the alliance reflects on the governance of the alliance and decisions continuity of the partnership and makes the model dynamic.

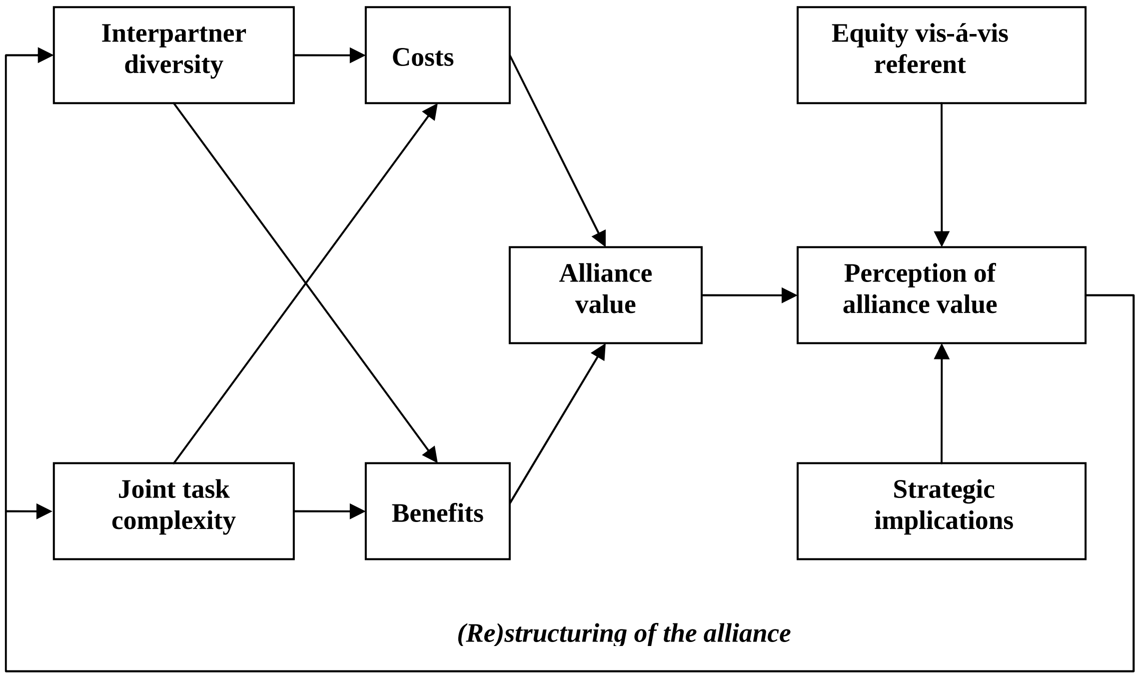

Figure 4.6 Model of alliance structuring, cooperation costs and value perception

4.3.4 Sales & marketing perspective and TCE

In line with the observation of TCE becoming a metaphor (Osborn & Hagedoorn, 1997), the marketing literature has brought into play a different term when Transaction Costs Economics theory is used as a perspective in the marketing research. The marketing discipline commonly uses the term Transaction Cost Analysis (TCA). For instance, Rindfleisch & Heide (1997) utilize TCA in their literature review, where the authors present how "marketing scholars have made important contributions in extending and refining TCA's original conceptual framework". The most important reasons for those contributions are that TCA is "relevant to a wide range of marketing phenomena" including vertical integration decisions, foreign market entry strategy, sales force control and compensation. The authors focus especially on what methods have been used in empirical research and how valid TCA is as a conceptual framework.

Rindfleisch & Heide (1997) distinguish between hierarchical (unilateral) and bilateral safeguarding: unilateral safeguarding refers to ex-ante agreements of exit barriers, exclusive dealing and financial incentives. Through bilateral governance mechanism a firm builds closer ties to the partner by means of joint action, expectation of continuity and relational norms.

In his earlier work, Heide (1994) built a typology of three different forms of interfirm governance – market, hierarchy and bilateral, and divided the dimensions of the governance into phases of initiation, maintenance and termination. He proposed that in the bilateral governance structure the parties 1) have overlapping roles, which are intertwined 2) conduct proactive planning, 3) negotiate on changes when the needs for adjustment arise, 4) implement self-control performance monitoring, and 5) develop long-term orientated incentives that are 6) internally enforced.

TCA focus on vertical integration can be divided into backward integration of materials or components supply and forward integration of distribution and sales (Rindfleisch & Heide, 1997). In the context of IORs the types of integration can be further categorized into vertical and horizontal inter-organizational relationships. 'Vertical' and 'horizontal' refer to positions that the parties take in the value chain: either sequentially or at the same level. Streams of the research include governance structures (Heide & John, 1990; Osborn & Baughn, 1990; Parkhe, 1993), commitment of the parties (Anderson & Weitz, 1992), co-marketing alliances (Varadarajan & Rajaratnam, 1986; Bucklin & Sengupta, 1993) and opportunism (Brown et al., 2000; John, 1984; Anderson, 1988).

Rindfleisch (2000) found that the relative importance of organizational trust in vertical and horizontal alliances differs 'dramatically': firms participating in horizontal alliances appear to be less trusting of their partners compared to firms in vertical alliances. Horizontal relations emphasize the dialogue, while vertical relations emphasize loyalty (Achrol, 1997) among parties. In place of organizational trust, collaborators in horizontal relationships rely on institutional and interpersonal supports to engender cooperation with partners (Rindfleisch, 2000). In Williamson's (1993) terminology the horizontally related firms are more likely to display ‘calculativeness’ rather than ‘real trust’.

On the other hand, in their study of the effectiveness of horizontal strategic alliances Perry et al. (2004) conclude that trust has a direct and positive effect on commitment, which in turn impacts positively on the degree to which the alliance attains predetermined goals and objectives. New information was also found about the role of safeguarding. “It seems wise to include contractual safeguards, like termination penalties [into the alliance agreement], even when trust is present”. Generally, “horizontal selling partner relationships tend to be more fragile, interpersonal, and varied than is the case with vertical relationships and not as well defined in terms of roles, tasks, or processes that also may affect effectiveness” (Smith & Barclay, 1997).

The marketing literature on organizing sales through direct sales force or manufacturer’s representatives is sparse, conflicting and largely nonempirical (Anderson, 1985)[22]. Anderson developed a TCA based model of vertical integration, where she ‘translated’ the TCE language to fit marketing language: she made the question of ‘make or buy?’ in the form ‘conduct sales by own, direct sales force or by reps, independent sales agents’.

The research (Anderson & Schmittlein, 1984; Anderson, 1985) tested the effect of, for example, the following attributes on the selection of the sales channel: 1) transaction specificity assets (i.e., specialized knowledge and working relationships that were either company-based or customer-based); 2) the difficulty of evaluating the sales person’s performance; 3) environmental uncertainty; 4) attractiveness of the products; 5) non-selling activities; and 6) length of selling cycle. According to the study, outside sales agents are chosen for products that are hard to sell and especially if the sales agent has loyal customers. Environment’s unpredictability may lead to the hybrid sales model, where both own sales force and outside agents are used.

[22] The situation has not considerably changed since 1985.

4.3.5 Research questions battery based on TCE

The refinement of the TCE theoretical lens starts with the identification of the transactions between the parties and the matters affecting them. Secondly, the partnership attributes of hybrid governance structure (Table 4.2) are considered in the context of the case narrative. Then, the general TCE framework (Figure 4.5) is used as the basis for forming the third, fourth and fifth research questions and their sub-questions. While research question number three addresses the environmental factors affecting the partnership, the fourth question takes into account the human factors. Finally, the fifth research question deals with the information impactedness issues identifiable in the case.

In addition to environmental factors totally external to the partnering firms, the multifaceted relationships between the partners that had their roots in times before the research period, as well as the buyer-seller and customer-supplier relationships based on contracts are regarded external to the sales and marketing partnership.

The research questions battery is presented below:

> ***Q1(TCE): How did the critical dimensions of transactions between the parties change during the research period?***
>
> *Q1.1(TCE): What categories of transactions, that differed in terms of their frequency, can be identified in the partnership?*
>
> *Q1.2(TCE): What matters caused uncertainty for the partnership transactions?*
>
> *Q1.3(TCE): What asset specificities did the parties gain or develop during the research period?*
>
> ***Q2(TCE): How did the nature of the partnership (e.g. voluntariness, non-exclusivity and channel partner certification) affect the partnership governance?***
>
> *Q2.1(TCE): What administrative and incentive factors of the partners promoted the partnership?*
>
> *Q2.2(TCE): In what kind of situations did the parties adapt autonomously to external circumstances and when did they cooperate in adaptation?*

Q2.3(TCE): What existing company or corporation level agreements contributed to the partnership?

Q3(TCE): How did environmental factors affect the atmosphere of the sales and marketing partnership and vice versa?

Q3.1(TCE): In what respects were the competing partnerships different or similar compared with the focal sales and marketing IOR?

Q3.2(TCE): What relationships between Sigma and Epsilon (in addition to the sales and marketing cooperation) impacted the partnership atmosphere that existed between the partners?

Q3.3(TCE): What was the role of partners' direct sales and marketing activities in the partnership?

Q3.4(TCE): What effects on the atmosphere did the channel partner certification process have?

Q4(TCE): How did human factors affect the atmosphere of the sales and marketing partnership?

Q4.1(TCE): Can influence of opportunistic attitudes or behavior be detected in the partnership?

Q4.2(TCE): What indications of bounded rationality can be found in the sales and marketing partnership?

Q5(TCE): How did information asymmetry or other information related problems impact the partnership?

Q5.1(TCE): What indications of lack of information can be traced in the case?

Q5.2(TCE): What information the parties were not sharing with each other because of competition or other reasons?

4.4 Stakeholder Theory (SHT)

Stakeholder Theory can be approached from descriptive/empirical, instrumental and normative viewpoints. The descriptive view presents the organization as a constellation of cooperative and competitive interests. The instrumental view correspondingly establishes a framework for examining the connections between the practice of stakeholder management and the achievements of the organization's performance goals, e.g., profitability or growth. The normative aspect holds that stakeholders are legitimate and valued quarters of the organization, and entitled to expect the organization to take their interests into account. Stakeholders are accorded attention primarily through the attitudes, structures and practices of the organization's management. (Donaldson & Preston, 1995)

Treviño & Weaver (1999) suggest that SHT should be seen as an umbrella concept 'stakeholder research tradition', and as an application of organizational theories which stakeholder researchers rely on to defend and explicate their propositions. Examples of such theories are resource dependence, power, conflict, and negotiation and legitimateness theories. Stakeholder involvement and management has gained importance because organizations operate increasingly in a decentralized, cooperative, and process-oriented manner. Stakeholder management can be seen as a link between internal and external stakeholders. Stakeholder management's task is to balance the interests of the influencers and beneficiaries of the organization's performance (Goodijk, 2003). Furthermore, "there is a widely held conviction that firms that look after the interest of key stakeholders, and behave in a morally defensible fashion will, all else being equal, achieve greater success in the marketplace than those who do not" (Jones & Wicks, 1999).

Stakeholder Theory is often connected to the ethics of business, and organizations are seen to be bound through different obligations and responsibilities to their stakeholders. The development of Stakeholder Theory can be seen as a way to define the organization within the economy and society. The concepts of Corporate Social Responsibility (CSR) or Corporate Social Performance (CSP) have been adopted in discussions of the organization's social and political context (Post et al., 2002; Jawahar & McLaughlin, 2001; Clarkson, 1995). External reporting procedures concerning environmental and social impacts have been established in addition to financial reporting. It is considered important that companies also show that they are behaving responsibly and take on their duties "to constituent groups in society other than stockholders and beyond that prescribed by law or union contract (Jones, 1990)".

SHT has been used to describe the nature of the firm, and how companies are actually managed (Post et al., 2002). Empirical studies have sought to find the relationship between corporate social responsibility and the performance of the firm (e.g. Agle et al. 1999; Berman et al. 1999). Stakeholder management is fundamentally a pragmatic concept; the effective firm will manage the relationships that are important (Freeman, 1999) and aligned to their relative importance. ”Everyone with any decision experience in a business organization knows that the constellation of legitimate stakeholder interests cannot be weighted equally” Gioia (1999). The glue that binds together the normative and instrumental viewpoints of Stakeholder Theory is the mind of the manager (Donaldson, 1999).

Because SHT is a theory of relationships that change over time both as such and relative to other connections (Jawahar & McLaughlin, 2001), the Stakeholder Theory has to move also beyond studying dyadic relationships by taking a network approach and exploring the simultaneous and concurrent influence and management of multiple stakeholders (Rowley, 1997). Organizations may also have several roles, and even competitive firms with common concerns may be recognized stakeholders in the pursuit of those interests. Competence in stakeholder relations is a source of competitive advantage and a guarantor of the organization’s license to operate in its environment.

4.4.1 Basic concepts and underlying assumptions of SHT

The often cited definition of stakeholders was presented by Freeman (1984): “A stakeholder is any group or individual who can affect or is affected by the achievement of the organization’s objectives.” Thus, the Stakeholder Theory can be seen to have developed as an enlargement of the input-output model of the firm: besides the input providers, such as suppliers, employees and investors, and the customers, other contributors or beneficiaries, like communities, political groups, governments and trade associations, of the focal organization are regarded as important players of the ensemble (Donaldson & Preston, 1995). Post et al. (2002) describe stakeholders as actors from the settings of resource base, industry structure, and social-political arena.

SHT is concerned with the nature of the relationships between stakeholders and the focal organization, both in terms of processes and outcomes (Jones & Wicks, 1999). The organization is seen as a part of an open system with multiple and interdependent relationships. Stakeholders create various kinds of demands and pressures to the focal organization. Depending on the attributes of the stakeholders, the organization applies different ways of handling with them. Stakeholder management is a central issue in SHT, and a lot of the research focuses on classifying and categorizing stakeholders to aid the managerial decision making, establishment of the governance structure and general policies. (Donaldson & Preston, 1995)

Stakeholder Theory does not imply that all stakeholders should be equally involved in all processes and decisions, but a central premise of SHT is that the interests of all legitimate stakeholders have intrinsic value, and no set of interests is assumed to dominate the others (Ibid., 1995; Clarkson, 1995; Jones & Wicks, 1999). Stakeholder legitimateness can stem 1) from the organization's moral or 'fair-play' obligations towards the stakeholder or 2) from the stakeholder's ability to affect the organization and its normative stakeholders either beneficially or harmfully. The first type of stakeholders, such as employees, customers or communities, is called 'normative stakeholders'. Correspondingly, regulators, competitors and activist groups are examples of the latter type, called 'derivative stakeholders'. (Phillips, 2003). A more general definition of legitimateness has been presented by Suchman (1995, in Mitchell et al., 1997) in the following way: "Legitimateness is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."

It is the responsibility of the organization's management to select activities and direct resources to properly take cognizance of stakeholders. The type of stakeholder does not dictate the level of managerial attention. Although the organization is managed for the benefit of the normatively legitimate stakeholders and their concerns are primary, the demands of derivative stakeholders may still occupy more managerial attention at a given time. It is also possible that the stakeholder status changes across time and issue (Phillips, 2003).

Stakeholders have been defined also more narrowly: Stanford Research Institute has proposed that "Stakeholders are groups without whose support the organization would cease to exist (1963)." or "Stakeholders are groups on which the organization is dependent for its continued survival (1983)". Still other definitions include also classifications of stakeholders in their concept: “The stakeholders in a firm are individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers” (Post et al., 2002).

Besides their degree of ‘free will’ (voluntary/ involuntary) the stakeholders have been categorized into numerous other dichotomies: primary/ secondary stakeholders, owners/ non-owners, actors/ those acted on, risk-takers/ influencers, actual/ potential, resource providers/ dependents of the firm (Savage et al. 1991; Clarkson, 1995; Post et al., 2002).

SHT assumes that human behavior is very complex, causing people not to act in a consistent manner. Moreover, stakeholder researchers share the assumption that human behavior can be altered.

4.4.2 Identification of stakeholders and stakeholder strategies

By definition, stakeholders have a significant effect on the organization’s success: normative stakeholders are owed an obligation by the organization and its leaders, and derivative stakeholders hold power over the organization and may exert either a beneficial or harmful influence on it. In addition, stakeholders may care deeply for instance about the nature, and it is wise to pay attention to the organization’s environmental image. The organization has to analyze and identify different stakeholders to be able to effectively manage the relationships.

The identification method should be 1) systematic: in order to reliably separate stakeholders from non-stakeholders, and classify stakeholders into groups that help managers to prioritize their actions and attention, 2) dynamic: allow for and explain changes in stakeholders’ situational position and relative importance at different times, and 3) comprehensible: besides being easy to apply, the method should yield a classification that is prescriptive and makes sense from the managers’ perspective.

Stakeholders differ among themselves with respect to 1) the importance of their stake in the firm to them, and 2) their power vis-á-vis the managers (Hill & Jones, 1992). Savage et al. (1991) assess stakeholders in terms of their potential to threaten the organization and according to their potential to cooperate. For example, a stakeholder has potential to threaten if it controls key resources needed by the organization. Correspondingly, a long-term collaborative relationship between the parties provides a good potential for the cooperation to continue.

Mitchell et al. (1997) propose a way to identify stakeholders through three relationship attributes: 1) power to influence the firm, 2) legitimacy of the stakeholder's relationship with the firm, and 3) the urgency, i.e., the degree to call for immediate attention of the stakeholder's claim on the firm. The main proposition is that the more attributes the stakeholder possesses, the more important the stakeholder is to the organization and to its management. The stakeholders with just one attribute are called latent; those with two attributes, correspondingly, are expectant stakeholders and the stakeholders having all three attributes are definitive. id est., highly salient stakeholders. Individuals or entities possessing none of the attributes are non-stakeholders or potential stakeholders.

A party in a relationship has power, to the extent it has or can gain access to coercive, utilitarian or normative means, to impose its will in the relationship (Etzioni, 1964 in Mitchell et al., 1997). Power has been categorized in SHT context also according to network structure and position (Rowley, 1997), in terms of the size of budget and staff (Carroll, 1989), as formal, economic or political (Freeman & Reed, 1983) or as structural component of resource dependence (Frooman, 1999).

Urgency is based on the time sensitivity and the importance of the claim or the relationship to the stakeholder. Power, legitimacy and urgency are variables, not steady states, and can change for any particular entity or stakeholder-manager relationship; they are transitory, can be acquired or lost. Furthermore, the attributes are socially constructed, not objective; thus, reality and consciousness and wilful exercise may or may not be present. (Mitchell et al., 1997).

Power gains authority through legitimacy and it gains exercise through urgency. Legitimacy gains rights through power and voice through urgency. Urgency combined with legitimacy promotes access to decision-making channels, urgency combined with power encourages one-sided stakeholder action, and urgency combined with both legitimacy and power triggers reciprocal acknowledgement and action between stakeholders and managers. Combining the attributes leads to seven different types of stakeholders:

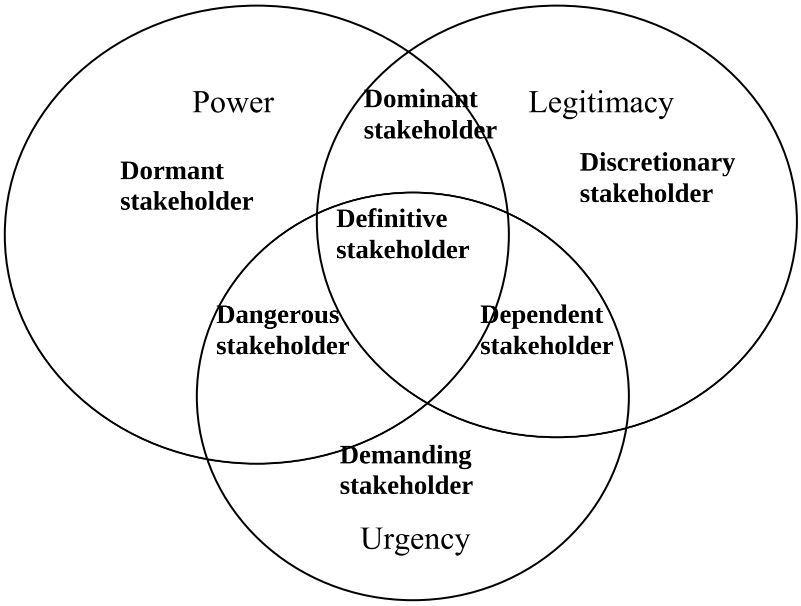

Figure 4.7 Stakeholder types according to combinations of attributes

Managers should pay attention to the different stakeholder types in different ways, for example because of the following reasons: First, the dormant, discretionary and demanding stakeholders have a potential to acquire a second attribute and management should remain cognizant of such stakeholders. Secondly, each expectant stakeholder – dominant, dependent and dangerous stakeholders – may combine efforts with other stakeholders and that's why they are often regarded as the primary concern of stakeholder management. By sufficiently meeting the expectations, the management may be able to attain and sustain optimal arrangements in the constantly changing circumstances. From the organization's viewpoint the identification of the expectant stakeholders and analysis of their interests is critical. Thirdly, by explication, the definite stakeholders are the most salient type of stakeholders, and managers have a clear and immediate mandate to attend to and give priority to their claims.

Jawahar & McLaughlin (2001) criticize the literature on organizations in general and on stakeholder research particularly as focusing exclusively on mature organizations. The authors propose that different strategies are needed at the different organizational life-cycle stages: formation, growth, maturity and decline or revival. The relative importance of stakeholders will vary, and at each stage, the specific, more important stakeholders can be identified.

Organizations do not simply respond to each stakeholder individually; they respond, rather, to the interaction of multiple influences from the entire stakeholder set (Rowley, 1997). The essence of any viable descriptive stakeholder theory should be the identification of stakeholders relative to their importance, and the description of strategies an organization might use to deal with them. Relying on several scholars (e.g. Carroll, 1979; Clarkson, 1995; Gatewood & Carroll, 1981; Wartick & Cochran, 1985) Jawahar & McLaughlin (2001) categorize the different stakeholder strategies as proaction, accommodation, defense and reaction, and propose that organizations are likely not only to use different strategies at a given time with different stakeholders, but also to use different strategies to deal with the same stakeholder over time.

Proaction involves doing a great deal to address a stakeholder's issues, including anticipating and actively addressing specific concerns or leading an industry effort to do so. The strategy of accommodation is a less active approach, the defense strategy involves doing only the minimum legally required, and the strategy of reaction involves either fighting against addressing a stakeholder's issues or completely withdrawing and ignoring the stakeholder. (Ibid., 2001) Clarkson (1995) adds a posture of responsibility to this framework: Proactive strategy in terms of responsibility means anticipation, in accommodation strategy acceptance of responsibility, in defense strategy to admit responsibility but fight it, and in reactive strategy the responsibility is denied.

4.4.3 Stakeholder's influence strategies

Frooman (1999) extends the stakeholder theory to address the issue of stakeholders that try to manage the organization by influencing its decision making and behavior. He argues that it is not enough just to identify the different kinds of stakeholders, but the nature and structure of the relationship between the stakeholder and the organization has to be taken into account. Frooman rationalizes that the stakeholder salience attributes presented by Mitchell et al., are not of equal importance: “The appropriateness of a stakeholder’s claim may not matter nearly as much as the ability of the stakeholder to affect the direction of the firm.” (Frooman, 1999)

Stakeholders can exert control over a firm through resource control in determining whether the firm gets resources and can use the resources in the way it wants. These strategies are called correspondingly a withholding strategy, executed e.g. through strike or boycotts, and a usage strategy. In addition, stakeholders can influence the firm indirectly, as for example, by using communications as a means to inform about the firm’s behavior and why it is undesirable.

Table 4.3 Typology of stakeholder’s influence strategies

		Is the stakeholder dependent on the firm?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	LOW INTERDEPENDENCE → Indirect withholding strategy	FIRM POWER → Indirect usage strategy
	YES	STAKEHOLDER POWER → Direct withholding strategy	HIGH INTERDEPENDENCE → Direct usage strategy

According to Frooman (1999) it is most important to recognize that stakeholder and firm interests diverge. In fact, if the firm and all its stakeholders were largely in agreement, managers would have no need to concern themselves with stakeholders or stakeholder theory. Conflict, resulting from the opposition of firm and stakeholders interests, is a premise of the theory. Organizations face a variety of external pressures and these demands must be managed for the organization to survive (Scott, 1998). Stakeholders can also be groups that protect their interests or express their identity. Because individuals have multiple interests and identities, they can be affiliated with multiple stakeholder groups (Rowley & Moldoveanu, 2003).

4.4.4 Stakeholder management

Besides identifying stakeholders and their specific nature, and analyzing strategic alternatives in emerging situations, it is the task of stakeholder management to effectively implement those strategies (Savage et al., 1991). Stakeholder management involves more than case-by-case attention to the dyadic ties between the organization and individual stakeholders, and more than ad hoc response to specific and unrelated situations and crises. The attitudes on stakeholder relations pervade the firm as an integral part of the corporate culture, and are manifested in common and consistent policies and practices. Stakeholders have both mutual and overlapping interests, concerns, and priorities, stakeholders can be external or internal, and hold different opportunities for creating mutual benefit in the stakeholder relationship. (Post et al., 2002) Stakeholder managers themselves are stakeholders in the organization, and a very special group because it is they who determine which stakeholders are salient and therefore will receive management attention (Mitchell et al., 1997).

The key to effective implementation of stakeholder strategies is the recognition of stakeholder management as a core competence that demands capabilities ranging from routine aspects of each stakeholder relationship to over-arching commitment to establish and maintain favorable conditions with a portfolio of stakeholders. Moreover, stakeholder relationships are expected to be managed within an atmosphere of openness and transparency. Successful stakeholder management also involves learning, because stakeholder characteristics and interests change over time. Stable and supportive stakeholder relationships are built over time on the basis of experience. (Post et al., 2002)

Empirical research on stakeholder management is scarce: one exception is a study conducted by Berman et al. (1999) about the effect of stakeholder management on corporate performance. The scholars formulated two distinct stakeholder management models: The instrumental model presuming that “the nature and extent of managerial concern for a stakeholder group is viewed as determined solely by the perceived ability of such concern to improve firm financial performance”. This model had two variations:

the direct effects model[23] and the moderation model[24]. According to the other, normative model, called 'intrinsic stakeholder commitment model', managerial relationships with stakeholders are based on moral commitments and principles, and the firm's strategy is affected by the stakeholder orientation.

The findings of the study suggested 1) that stakeholder management of the employees, and customers in the product safety context, affected directly the firm's financial performance, 2) that stakeholder relationships, strategy and performance are associated together in a complex way, and 3) that the stakeholder relationships should not be ignored in the firm strategy. However, the study results 4) did not support the normative model: the proposal that stakeholder relationships would affect the firm strategy because of moral commitments was not supported.

By definition, the stakeholders have input their stake, for example resources and capabilities, into the relationship, and they demand something in return. Coff (1999) argues that stakeholder bargaining power determines the appropriation of rent. Bargaining power is highest when stakeholders 1) are capable of acting in a unified manner, 2) have access to key information 3) have a very high replacement cost to the firm, and 4) face low switching costs if they moved to another firm. Stakeholders who control information can affect the amount of information released and thus make the outcome they desire the obvious choice.

4.4.5 Stakeholder perspective (SHT) to inter-organizational relationships

Stakeholder Theory is a theory of relationships and interactions between the organization and its stakeholders. A common way to present the focal organization and its stakeholders is presented in figure 4.8. Using this framework in the focal study of partnership governance means that 'the firm' in the center of the model is replaced by the partnership, and the partner organizations, their functions and actors are seen as the stakeholders. In the case of partnership focusing on sales and marketing cooperation, the

[23] Assumption: stakeholder management although being a part of company's strategy in no way drives that strategy.
[24] Assumption: stakeholder management does impact the firm strategy by moderating the relationship between strategy and financial performance.

customers and markets naturally are also stakeholders. Although Stakeholder Theory has not been used in a similar way in previous research, two earlier papers do provide input to the application of SHT in research at other than firm level.

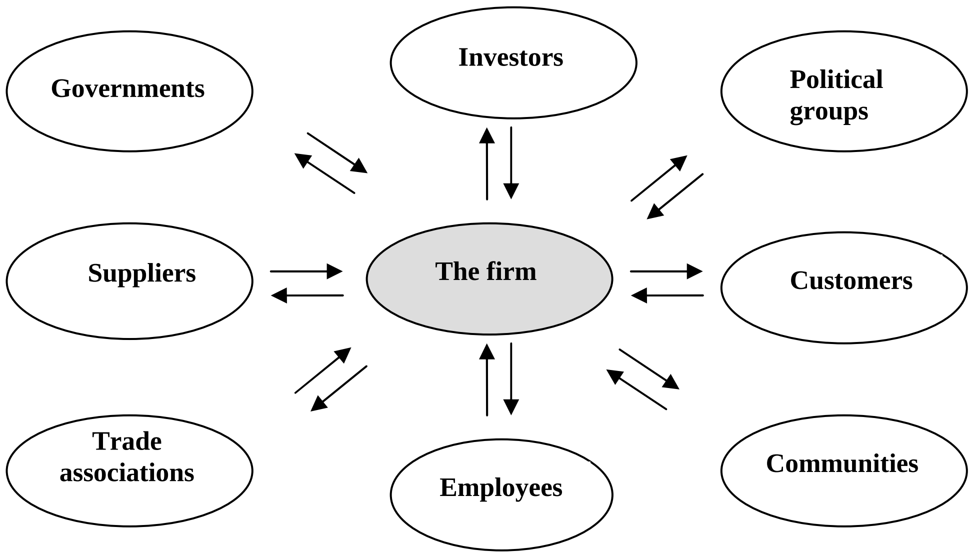

Figure 4.8 The firm and its stakeholders

Schneider (2002) introduces in her study of organizational leadership, the concept of radix organization: an organization that has the value chain as its relatively fluid foundation. The radix organization utilizes the collective resources of several firms located along the value chain. Many members in the radix organization are in boundary-spanning roles, where the authority is not formal but is based on legitimate or organizationally sanctioned power. The managers' role-complexity increases through involvement with other organizations. The organizational leaders promote and guide the cooperation necessary for goal achievement and task accomplishment rather than direct the actions of a predetermined group within the organization.

Stakeholder Theory offers flexibility to accommodate various management relationships into the organizations that are characterized by fuzzy organizational boundaries, flattened hierarchies and work relationships brought about through contracts or agreements instead of employment. In the radix organization, management effectiveness is defined as the collective sense of the leader's efficacy, based on the perceptions of multiple stakeholders. Leaders have to gain reputational effectiveness concurrently from multiple constituencies: from internal, external and hybrid[25] stakeholders. Effectiveness reflects stakeholder's narrow assessment of how the leader is performing in terms of their respective expectations, and broad assessment of the leader's overall effectiveness across stakeholder groups.

Kochan & Rubinstein (2000) define a stakeholder firm as a company that utilizes stakeholder thinking – not shareholder thinking – in its management. In their case study, a subsidiary wholly owned by General Motors called Saturn is structured, governed and organized as a partnership, where the parents are General Motors and United Automobile Workers. Employees are designed as definitive stakeholders, because they influence the organizational performance through their knowledge and skills, and bear significant residual risks. The partners co-manage the firm, where the critical governance tasks are to ensure effective negotiations, coordination, cooperation and conflict resolution to maximize and distribute the joint gains. A high level of communication is needed and problem solving is conducted informally without going through the hierarchical channels. Management is based on trust and a shared vision of the potential benefits of partnership.

Stakeholder firm ideology can be applied to other stakeholders besides employees, too. To succeed, such stakeholder firms have to meet several prerequisites: 1) stakeholders need to add value to ongoing operations; for example communities could contribute by abetting taxes, infrastructure investments or education and training programs, 2) organizational processes and governance systems need to be adapted to complement the contributions of the stakeholders, 3) stakeholder interests must be aggregated and conflicts managed effectively, and 4) managers and stakeholder leaders need to have skills in managing mixed motive interactions.

[25] Hybrid stakeholders are engaged in inter-organizational cooperative activity with the firm.

4.4.6 Building legitimateness[26] for partnership

An important aspect in developing the stakeholder perspective to inter-organizational relationships in general and partnerships in particular is building legitimateness for them as an established organizational form. Internal stakeholders of the partnerships may have challenges that Nygaard & Dahlstrom (2002) refer to as 'role ambiguity' and 'role conflict', and they have to judge, for instance, their usage of time and other resources from three points of view: first, as to their roles as salary earners; next, as a part of their own organization and its culture; and lastly, as an affiliate in the alliance their organization is involved in.

Long-term inter-organizational relationships that have developed into partnerships, have gained legitimateness of their existence. But partnerships are also formed intentionally and for these partnerships the legitimateness has to be built. Human and Provan (2000) have studied the legitimateness building in the context of inter-organizational relationships. In their longitudinal research on two evolving networks of the American wood-products manufacturing industry, legitimateness was considered a multi-dimensional concept on three different levels: network as form, network as entity and network as interaction. The two networks developed or built legitimateness in fundamentally different ways: internally, i.e., inside-out and externally or outside-in. One of the results of the research was that, "while early legitimateness can be attained using either inside-out or outside-in strategy, sustainable network legitimateness appears to depend ultimately on adopting both strategic perspectives".

Another important result of Human and Provan's (2000) research was that "as long as internal network members find value in their membership, they will provide resources and support". Thus, the inside-out strategy may ultimately lead to greater external support as well once the new organizational form is firmly established. But if the

[26] The term 'legitimacy' has been replaced with 'legitimateness' to distinguish between legitimacy as a stakeholder attribute and legitimacy of the partnership as an organizational form.

promoters and organizers of the co-operation primarily focus on external legitimateness building, they might not find the support internally if the members' needs and preferences are not met through external success.

Delmar & Shane (2003) found that undertaking legitimating activities should be the first step of organizing in the process of new-venture founding: legitimateness is a precondition to initiating social ties with stakeholders, and obtaining and recombining resources. Legitimating activities create the appearance of reliability and accountability for the new venture by demonstrating the commitment of its management, by communicating the vision and business plan of the venture and by presenting adherence to commonly held norms and beliefs. Partnership can only gain legitimateness as an organizational form through co-evolutionary processes between the partners and the environment: due to the voluntary nature of the IOR, the partnership does not have organizational boundaries in terms of people memberships. People involved in the partnership activities still primarily feel themselves as members of their own organization (Ing et al., 2003). However, gaining legitimateness as an organizational form is crucial for the partnership: it is the only possibility for the partnership to be at least somewhat stable.

4.4.7 Cooperative activities, routines and learning in partnerships

Changing work practices, outsourcing, technological developments, globalization, increased involvement in alliances and partnerships, and the emergence of new public policy issues all cause organizations to become more networked. Firms' success increasingly depends more on relationships than on the accumulation of conventional assets. The increasing co-operation between organizations has led to blurring of organizational boundaries (Bird, 1994; DeSanctis & Monge, 1999), hierarchical organizations have been replaced by entities that are "permeable" (Schilling and Steensma, 2001; Teece, 1998) or "boundaryless" (Ashkenas et.al., 2002). However, from the point of view of legitimateness the partnership should resemble an organization as closely as possible, and the maintenance of the organizational boundaries is one of the key elements of an organization (Aldrich, 1999).

An inter-organizational relationship has to have a goal, which must not be in contradiction but in line with the goals of the participating organizations' goals. The partnership has to define its boundaries, as for instance, whether or not the partnership is exclusive in nature or whether the IOR is part of a larger network of organizations. The partnership activities should be described at least on 'division of labor' –level: whether the partnership is active in research and development, sales and marketing, facilities management and so on.

Previous research indicates that there is a correlation between the firm's alliance performance or success and alliance capability[27] (Draulands et al., 2003; Anand & Khanna, 2000) that is developed on the basis of incremental learning and fine-tuning of relevant day-to-day activities (Kale et al., 2002). Besides acting as a focal point for learning and leveraging cumulative knowledge about alliance management to both internal and external stakeholders, alliance management's task is to improve internal coordination and provide resource support for alliances as well as monitor and evaluate alliance performance.

Zollo et al. (2002) define inter-organizational routines as "stable patterns of interaction among the firms developed and refined in the course of repeated collaborations, which influence the extent of knowledge accumulation and creation of new growth opportunities, and enable the partnering firms to achieve their objectives". It was found that the inter-organizational routines facilitate information gathering, communication, decision-making, conflict resolution and the overall governance of the collaborative processes.

Multiple ties at multiple levels of the partnership organizations ensure communication, control and coordination for bridging organizational and interpersonal differences and achieving value from the relationship (Kanter, 1994; Goerzen, 2005). The boundary-spanning activities between the partners can be categorized according to five levels of integration (Kanter, 1994): 1) Strategic integration deals with broad goals and changes

[27] Alliance capability is defined as the mechanisms and routines that are purposefully designed to accumulate, store, integrate and diffuse relevant organizational knowledge about alliance management (Kale et al. 2002).

in the partner companies and happens through continuing contacts between top leaders. 2) Middle managers or professionals develop plans for specific projects or joint activities on tactical level. 3) Operational integration provides ways for people carrying out day-to-day work. 4) Synergies born on paper don't develop in practice until many people in both organizations know one another personally and become willing to make the effort to integrate interpersonally. Beyond these, 5) cultural integration refers to the need to teach and learn from one another about the differences between the partner organizations.

Routines have coordinating power because they provide the actors with knowledge of the behavior of others on which to base decisions (Simon, 1947 in Becker, 2004). Besides behavioral regularities, routines can be interpreted also as cognitive regularities such as rules and standard operating procedures. Routines economize on decision-making capacity as they allow focusing attention to non-routine events, whereas recurring events are dealt with semi-consciously. Routines also combine organizational knowledge: routines are to organization what skills are to individuals. Routines can also be viewed as grammars: in the same way that English grammar allows speakers to produce a variety of sentences, an organizational routine allows members to produce a variety of performances (Lillrank, 2003).

Along the inter-organizational cooperation through collaborative activities the parties learn from each other and together. Organizational learning is often one of the goals of the partnership (Hamel, 1991; Khanna et al., 1998). Literature on the learning alliances[28] deals with issues such as absorptive capacity: recognition, assimilation and applying new, external knowledge to business (Cohen & Levinthal, 1990), the role of learning in the success or failure of alliances (Ariño & de la Torre, 1998; Doz, 1996; Khanna, 1998) and exploitation, acquisition or transfer of knowledge for increasing the productivity of capital and assets used (Koza & Lewin, 1998).

[28] In learning alliances partners strive to learn or internalize critical information or capabilities from each other (Kale et al., 2000)

4.4.8 Research questions battery based on SHT

The stakeholder lens to partnerships provides network perspectives to the research in a way that goes beyond the structural dimensions into the more managerial issues. Central to the Stakeholder Theory is the understanding of the motives and interests of stakeholders. Once the stakeholders are identified and analyzed, the stakeholder relationship strategies can be developed and implemented in the partnership management. Based on the existing literature, three types of partnership functions are identified as paramount to the alliance success: legitimateness building, cooperative activities and routines, and learning in and from the partnership. Each of the categories sets the partnership governance its own challenges and requirements.

The first research question deals with the identification of the stakeholders and their interests as well as the ways they were taken into account in the partnership. Secondly, as legitimateness is a necessary pre-condition to an inter-organizational relationship to succeed, the second question aims at determining the state of legitimateness among the stakeholders. Finally, the answer to the third research question of the SHT theoretical lens assesses the partnership governance when the IOR is regarded as an organizational form and yet consisting of voluntary memberships of the independent parties. The SHT research questions battery consists of the following questions and sub-questions:

Q1(SHT): How were the stakeholders' demands, needs and expectations taken into account in the partnership governance?

Q1.1(SHT): Who were the stakeholders of the partnership?

Q1.2(SHT): What did the stakeholders want from the partnership?

Q2(SHT): How did the stakeholders perceive the legitimateness of the partnership?

Q2.1(SHT): What matters enhanced or hindered the partnership legitimateness?

Q2.2(SHT): Did the stakeholders experience 'role ambiguity' or 'role conflict' in the sales and marketing cooperation?

Q3(SHT): How did the partnership governance support the stability of the partnership?

Q3.1(SHT): What kind of boundaries can be identified between the partner organizations?

Q3.2(SHT): What new boundary-spanning activities can be identified in the sales and marketing cooperation?

4.5 Summary table of the research questions batteries

Table 4.4 Research questions batteries according to theoretical lens

Theoretical lens	Research questions battery	Number of sub-questions
Theory of the Growth of the Firm (TGF)	Q1(TGF): How did the administrative services of the partnership management develop during the research period? Q2(TGF): How did the partner organizations perceive the partnership? Q3(TGF): How did the partnership management utilize possibilities to create productive opportunities for the partnership?	7
Resource Based View (RBV)	Q1(RBV): How did the partnership resources and operational processes develop during the research period? Q2(RBV): How did partners' group or organization culture affect the partnership? Q3(RBV): How were trust and commitment or the lack thereof present in the sales and marketing cooperation? Q4(RBV): How were resources and information, as a consequence of relational capital formation, exchanged and combined in the partnership?	10
Transaction Costs Economics (TCE)	Q1(TCE): How did the critical dimensions of transactions between the parties change during the research period? Q2(TCE): How did the nature of the partnership (e.g. voluntariness, non-exclusivity and channel partner certification) affect the partnership governance? Q3(TCE): How did environmental factors affect the atmosphere of the sales and marketing partnership and vice versa? Q4(TCE): How did human factors affect the atmosphere of the sales and marketing partnership? Q5(TCE): How did information asymmetry or other information related problems impact the partnership?	14
Stakeholder Theory (SHT)	Q1(SHT): How were the stakeholders' demands, needs and expectations taken into account in the partnership governance? Q2(SHT): How did the stakeholders perceive the legitimateness of the partnership? Q3(SHT): How did the partnership governance support the stability of the partnership?	6
Total number	15	37

5 INTERPETATION OF THE CASE BY THEORETICAL LENSES

5.1 Interpretation of the case by TGF (Theory of the Growth of the Firm)

TGF interpretation of the case narrative is essentially an analysis of the scope of the partnership governance in relation to time: the development of the administrative structure and the managerial services of the partnership. The analysis is based on inspection of the possibilities the partnership management was able to utilize in the context of the partnership structure. Despite the possibilities that were successfully turned into productive opportunities the interpretation also seeks to identify what possibilities the partnership management was not able to respond to, what possibilities was decided not to be utilized, and what possibilities were missed because the partnership management did not even see them. In addition to management abilities, the partnership possibilities were restricted by the market conditions, and additionally, the partner organizations' perceptions, activities and requirements set upon the partnership.

5.1.1 Development of partnership's administrative structure

At the beginning, when the sales and marketing partnership was formally established, both partners had their own separate frameworks on how to manage the focal partnership.

The landmark for the start of sales and marketing partnership between Sigma and Epsilon was Sigma's Crystal certification as Epsilon's channel partner. Sigma's partner management had been involved in the certification process merely as a labor force, but assumed now the role of administrative management. Partner management's first approach in managing the Sigma-Epsilon partnership was to incorporate Epsilon into the 'focused sales and marketing cooperation program' of Sigma. One of the key governance ideas of Sigma's program for partner management was to work with an internal reference group, the members of which represented quarters that were regularly engaged with the partner in addition to sales and marketing issues also, for instance, in technical or contractual matters.

Epsilon's channel partner management was organized into a separate function of channel account managers (CAMs), who were responsible for assigned partners. The Channel Partner Program was an aggregate of different sub-programs including, for example, bonus, technology specialization, training and customer satisfaction programs which were run through extensive, global web-based systems.

Right after the Crystal certification, Sigma had set the goal of upgrading the certification status to the Diamond level. Partner management took the coordinator role of this intent and began – in cooperation with Epsilon – to conceptualize how the goal would be achieved. It was decided that the new efforts were to be directed to the specialization area of voice communications utilizing internet protocol technology (VoIP), and, to this end, Sigma's partner management produced an execution plan for the Diamond certification process. Sigma partner management adapted to the administrative structure of the Epsilon Channel Partner Program.

On the sales and marketing cooperation front, the partnership-responsible functions from Sigma and Epsilon started regular joint meetings with partner organizations' sales and marketing professionals. Initially, two different groups – sales & leads and marketing – were formed, but quite soon after, it was realized that the strategic, more planning-oriented matters and operative sales cases were better handled separately: The central people for the strategic and operational issues in Sigma organization were not the same. The structure of three regularly-meeting groups was thus established and the following groups evolved: Business Cases group, Marketing group and Sales Cooperation group. These groups were led jointly by the Sigma and Epsilon managers, and so the virtual partnership management function emerged. Gradually, the virtual function incorporated the certification and most of the non-technical issues between the partners into its scope.

Following the example of Sigma, Epsilon also formed an in-house reference team as a result of a joint endeavour of mapping and determining the collective forums between the partner organizations. As presented in figure 3.2, many technology-orientated collaborative teams had evolved over the years between the parent organizations both in strategic and operational areas. The established cooperative framework clarified the roles of the different forums and provided possibilities for more efficient collaboration, since the existence of the groups, their foci and participants became common knowledge for people involved in relationships between the partner organizations.

When Sigma's partner management was downsized in the process of Sigma's organizational restructuring, the basic administrative structure of the sales and marketing partnership remained the same, but human resources became less in both amount and experience. The cooperative framework had created stability for the partnership.

5.1.2 Partnership on the market - perceived by the partner organizations

The focal sales and marketing partnership was formed to increase business and revenue, specifically, growth for the partnering firms on the market, where each of the partners had other, competing partnerships as well. Epsilon's policy was to treat all channel partners equally; that is to say, the same partnership rules were applied on each certification level such that no exclusive partnerships existed. However, innovations, ideas or requests dealing, for instance, with operational or pricing issues that became known to Epsilon, were not revealed to other partners. Epsilon saw competition on the market as being composed of different technology suppliers, and, as a result, tried to convince the market of its product excellence. Mobile technology was often an alternative, substitutive opportunity for constructing customer solutions. For Sigma, mobile communications were an important business opportunity. However, during the research period, Epsilon did not have products for that specific technology area, and mobile solutions were thus not in the scope of the focal partnership.

Sigma's goal was, in its product and services development, to create a multi-vendor network environment and vendor-independent solutions. The technology used in customers' existing ICT environment usually provided a first-comer advantage to that particular technology-vendor when new solutions were implemented and integrated into the total system. In particular, service providers, like Sigma, had to take the legacy communications technology into account when new propositions to the customers were made. Epsilon's integrator partners were not equally dependent on customers' current situation, and market prices were affected by new, agile players that were entering the market with lower cost structures.

Sigma's sales strategy was based on a service concept, the objective was to secure a deal without a firm commitment to a specific vendor. After closing the deal, Sigma would have the competing technology-vendors to bargain on the case. However, to construct a tender for the customers, Sigma needed preliminary price information of the choices. In the sales deals, especially Epsilon might be a sales partner in the same case simultaneously with several parties. This setting made Sigma sales people cautious and doubtful. However, partnership management encouraged the sales organizations to share lead and market information, and trust on the partner not to deliver confidential matters to other, competing partnerships. Partnership management's job was to promote the Sigma-Epsilon cooperation.

Sigma's service strategy was new on the market and thus contained a risk: the customers might not be ready to buy services, but could still have a mindset towards technology solutions. However, the roles of business leaders and information technology managers were in a transition. It was predicted that the change would influence decision making and buying criteria regarding ICT investments and favor the service approach.

One of the Epsilon's Channel Partner Program requirements for Diamond partners was a joint business plan. As Sigma's goal was to reach that highest certification level, the common business plan was produced in the certification process according to the Epsilon guidelines. The image of the partnership was projected in the business planning process as three different approaches of value creation: what Epsilon brought to Sigma and vice versa, and what partnership outcomes would be valuable to the end customers. The partner organizations intuitively saw resources as combined in a cost effective way into innovative operating models, and sales and service concepts. Epsilon, with a reputation as a highly successful global firm with advanced technology products thus combined with Sigma's wide local market coverage, market leadership position and excellent reputation in data and mobile communications areas, to ensure a strong partnership. The partnership was formed of the most trustful vendors and guaranteed longevity and exceptional excellence in support and maintenance for the customers. Moreover, the service-company vision and strategy of Sigma was seen as a differentiating factor on the market; no others among Epsilon's local partners had manifested so powerful a thrust to provide simplicity in their offering for customers.

The Sigma-Epsilon partnership was seen in the first place as a go-to-market procedure, with partnership management as a function that would agree on the joint actions and coordinate the efforts. The sales and marketing cooperation was not seen as creating anything 'new', but the joining of sales efforts would be a driving force in boosting more business and revenue for the parties. The collaboration would provide more resources to respond to market requests and, thus, the presence of the parent companies in the market would increase. There was no goal or willingness to allow the partnership to affect the parent organizations' strategies other than bringing in more data and information from the market. The perception was that partners would not have to adapt to each other or compromise anything when the partnership was formed, but the partnership was a separate endeavour in a supporting role for each partners' own objectives.

In line with the 'add-on' relationship, the local Epsilon management and Sigma sales leaders participated in each other's customer events and called on selected customers together. Additionally, internal events for the parties were arranged to create the spirit of a superior relationship. It was expected that the top sales management joint show-ups would set an example for the partner organizations' sales people to contact and develop common plans for approaching customers. The efforts were also shared to facilitate learning in the partnership: The partners were never stingy in providing resources for workshops or training sessions. Confidentiality and a sense of specialty were created by presenting ‘advanced information’ to the partner about forthcoming product or service concept launches and marketing campaigns.

5.1.3 Productive opportunities of the partnership: Utilized possibilities

Many of the possibilities that the partnership management was able to utilize were found through trial-and-error learning in the tasks that were demanded in the certification processes.

Although the original purpose of Sigma’s attainment to the Epsilon channel partner certification had been to enable Sigma to participate in bidding contests, the certification opened up doors for Sigma among customers who otherwise appreciated and valued Epsilon’s certifications. Some customers had also studied for the certification exams or had become familiar in other ways with Epsilon’s program. The certification could be used in offer documents as a reference so as to emphasize Sigma’s capabilities, skills and quality of services. As partnership management was coordinating the certification processes, it was able to provide sales teams with exact information on the number of certified individuals in general or with respect to specific technology areas.

Sigma’s partner manager experimented a great deal with Epsilon’s systems to comprehend the different inherent characteristics and possibilities of the establishment. The trials had started with the customer satisfaction surveys, because the demands in number of responses grew with re-certification. It was necessary to enhance the efficiency of the efforts; there simply were not enough resources to continue with the ‘original’ way.

It became clear that the whole customer satisfaction survey had been misunderstood by Sigma in the first certification process. The misconception was illustrated in the words of the first Sigma certification project manager, when the survey was dedicated to Sigma relationship-marketing department to ensure that “the survey is in line with

Sigma's own customer satisfaction studies". At that time, Sigma truly thought that it had something to do with the contents of the survey. Once Sigma realized that the attitude in doing the surveys was to be 'a cook book approach' (take the ingredients, the tools and the procedures as Epsilon has planned), efficiency was achieved.

Actually, continuing with the cooking metaphor, 'gourmet cooking' was only possible after first learning to cook. The satisfaction survey process was developed to an interactive method that maximized the number of valid responses from the customers and also made the answering of them more efficient and less time-consuming. An example of the 'flavors' that were added to the Epsilon design of the survey process was that the respondents were acknowledged with thank-you presents after they had taken part in the survey.

The experience gained with the customer satisfaction survey process was projected to other administrative services which partnership management was to produce according to Epsilon rules. The services were built into routines in a straightforward manner. For instance, the business planning was from the beginning understood as a process designed by Epsilon and applied to the partnership as presented in the figure below.

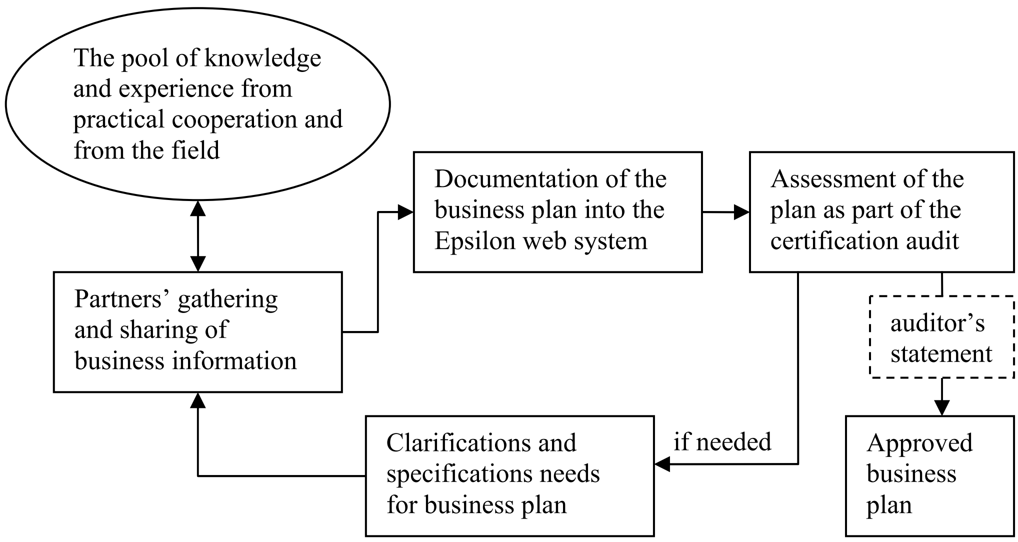

Figure 5.1 Business planning process (an example of administrative services)

The partnership management members had continuously interacted with different parties of the partner firms and the matters relevant to the business plan had been in the discussions several times. Documenting the business plan was just a tip of an iceberg of the process and drawn from the gained knowledge and information of the IOR. The partnership goals were clarified by presenting the emerged thoughts and ideas in a formal structure.

Besides demands and requirements, Epsilon's Channel Partner Program also offered benefits to certified partners, as, for instance, in the form of bonus programs. The partners had to apply for the participation in those programs and meet a set of rules to qualify for rebates that were based on sales volumes. The bonus programs ran for defined time-periods and always included customer satisfaction surveys as well. The customers could not be chosen randomly but had to be users of the technology in the scope of the program in question. Due to the time-dependency of the programs, wise planning of orders both in terms of the product choices and schedule could make a considerable difference in economic sense. Partnership management's collaboration gained bonus rebates for Sigma.

The parties were able to develop an atmosphere of seamless cooperation between the partner management of Sigma and Epsilon's channel account management. The joint partnership management created productive opportunities in the development of cooperative processes and enhanced learning in the partnership, as for example, the orientation process of Epsilon's new responsible channel account manager for Sigma could be done extremely efficiently. It was easy for him to settle into the already established cooperation modes, as for example, in the communication procedures or routines developed to arrange meetings. Many tasks had developed into administrative services – meaning that the focus had moved from learning how to do particular tasks to thinking of the benefits and outcomes of them. In fact, the partnership was able to take advantage of the personnel change as a chance to review the IOR from a fresh viewpoint and to implement new insights into the partnership management utilizing the previous experience of the new CAM.

The established personal contacts in and due to the partnership laid the groundwork for the possibility of asking for help, sharing experiences and avoiding learning solely by doing; hence, more time was available for planning activities. The connections between the partners and in the partner organizations through the reference groups provided possibilities for knowledge accession and yet still allowed for the parties' independence. For Sigma, the self-esteem as an organization in the IOR was very important and cooperation had an emotionally slanted tone, which was, to a great extent, based upon the long history of cooperation and business connections between Sigma and Epsilon.

By formalizing the partner organizations' common meetings into a comprehensive framework of cooperation, the many different forums became aware of the other collaborating bodies of the partnership. This facilitated information sharing and contacts building between the different groups. The foci of the forums were specified; collective knowledge on what each forum was dealing with was generated. The framework created a sense of control for the many interactions going on daily between the partners, and this made Sigma feel that the IOR was more equal or democratic while at the same time reducing the emotional load on the relationship.

The sales and marketing related cooperative forums were led by partnership management. Concrete joint business-model development was done by sharing leads information and feedback from customers. Workshops and customer events were organized by the parties, mutual references written and face-to-face contacts coordinated to increase confidence in the partnership and trust in the other party. Besides being a tool for knowledge accession, the cooperative framework provided a stable base for cooperation, and many individuals felt that the IOR became more valuable and worthy of the pride they invested in it. As a result, the partnership gained a more legitimate status in Sigma among those people who were involved in it. The IOR was not seen as any sort of a threat due to the increased transparency of the cooperation. The need for a 'total' framework had existed already for a long time, but as the contacts and joint doings were so multifaceted, the comprehension of the entity had not been gained. It demanded the dedication, focus and examination that was only possible after the establishment of the partnership management brought out by the sales and marketing partnership.

5.1.4 Productive opportunities: Possibilities not been able to respond to

Sigma's partner management was implemented in the sales and marketing organization's business development group and did not have its own account for the certification and cooperation efforts. Sigma's decentralized personnel policies on education and incentives hindered straight-forward approaches to attaining specialization certifications because matters such as training expenses for the technology specialization-certificate candidates were supposed to be financed from the candidate's own unit. However, such costs had not been budgeted in the units, and some other financing means had to be found in the Sigma organization. Partner management tried to lobby for the utilization of the rebates for the certification studies, but the efforts did not lead to the desired result. Similarly, partner management could acknowledge the certification candidates only by recommending rewards or bonuses to these people that had put their energy and talents to use and earned individual Epsilon technology certificates.

Partner management did try to raise the appreciation level of the personal achievements of the certifications on a corporate level, but succeeded only partly. The financing of the training was, at the end, arranged on a higher organizational level than the individual's own function and thus the economic aspect of the studying for the exams was made possible. However, partner management was unable to influence the obvious unequal treatment of individuals in terms of personal compensations or attitudes towards certification studies. The personnel policies of Sigma affected the willingness of potential candidates to pursue the certifications as well as the quality and time-tables of their studies. The overall commitment to cooperative processes was suppressed because many people regarded the partnership-initiated tasks as extra work rather than new job connotations. Thus, the Diamond certification was not achieved because of the required number of individual certifications was not reached.

The global rules of the Epsilon Channel Partner Program allowed no exceptions in aspects other than stretching the time tables due to strong grounds. The sick leave of a key person was accepted as a basis for postponing a deadline. Generally, flexibility in the procedures was possible only for such matters that were not specifically described by Epsilon. One instance of this was the laboratory lists – which were needed as pre-certification documents – being compiled from delivery reports of Epsilon Customer service organization and not from the channel partner organization.

It took time for Sigma to digest the idea that channel partnering with Epsilon was an adaptation rather than a mutual adjustment process, guided by large amount of administrative systems and processes. The adjustable part of the partnership was limited to the collaboration with local partners. However, the anxiety or uneasiness was relaxed as the systems grew more familiar and actually had their uses.

In the process of business planning, partnership management was not able to quantify specific goals for the partnership, but remained on the level of planning its own work as measurable objectives were sketched. The mode of the partnership management in practice had so far been more on setting up the stage for day-to-day cooperation than on the measurement of the results from business perspective. Integrative processes of sales functions on planning had not been established. The possibilities that the measurable goal-setting would entail were not even seen until the certification auditor's comments.

Because of the parent organizations' policies, the partnership management had to take into account that the partners would continue to be involved in other competing partnerships in the future. The whole business model of Epsilon was based on partnerships. Correspondingly, Sigma wanted to reserve to itself the possibility of choices both in terms of technology and costs. However, it was clear that the parties were interdependent - for the most part because of the large Epsilon equipment base on the market: it was often easier to enlarge systemic solutions with the same supplier's technology. On the other hand, Sigma was a market leader on several tele-communications service areas and had a large customer base. From development perspective, the relative importance of the cooperative processes as well as personal contacts would thus rather increase than decrease in the future.

The past experiences of Sigma sales personnel regarding ‘the good old days’ – back when Epsilon had operated in the mode of gaining market share – made them suspicious of Epsilon’s objectivity and trustworthiness, in areas such as sales leads and pricing issues. The apparent heterogeneity of the partners’ sales personnel on the attitudes towards the other party was a difficult issue from the partnership management viewpoint. How could the mistrust be handled? It was obvious that it was restricting the cooperation.

The lack of a formal, corporate-wide publicity about the partnership, and its goals within Sigma’s organization, made doing business quite troublesome in cases where people, without prior knowledge of the partnership were involved. In sum, the partnership had to be explained for many people over and over again. Documented guidelines or a ‘license’ for partnering that carried the top Sigma management ‘signature’ would have made it much easier to go forward with new ideas or intents of the partnership instead of wasting energy in justifying the IOR.

5.1.5 Productive opportunities: Possibilities decided not to be utilized

Partner management in Sigma was continuously updating its knowledge on the competing partnerships. Every now and then, articles relating to Epsilon’s Channel Partner Program were published in print and/or digital newsletters. Most of the certified partners produced, along with Epsilon, press releases at such times when new certifications or specializations were achieved. However, Sigma decided not to publish its certification on Crystal level because it was believed that in no time the Diamond status would be earned. In addition, internally, the accomplishment was recognized only with a low profile.

When Epsilon rewarded Sigma with the title of ‘Service provider of the year’, no press release was prepared on the issue. Internally the matter was, however, published on the local Sigma intranet pages associated with partner manager’s comments on the significance of the recognition. Correspondingly, along with the other rewards of different geographic areas, and different categories, the Sigma recognition was published on the Epsilon public internet pages.

Sigma was also not willing to utilize the possibilities offered on the use of Epsilon’s telemarketing sales function. At one time, Epsilon channel partner manager also suggested that sales leads would be produced from the material that its telemarketing had come up with. The process would have needed people from the Sigma sales function, which was ‘extremely busy´ and, at the time, could not participate. In other words: Sigma was not interested.

5.1.6 Productive opportunities: Possibilities not seen

Sigma’s partner management had earned a considerable (compared to the personnel costs of the partner management) sum of money for Sigma by organizing the participations in the Epsilon’s bonus programs. Despite the demonstrated return of the work of the team, personnel resources for Sigma partner management were downsized. Obviously, partner management had not done enough internal marketing to gain supporters among Sigma’s top sales management. With the hindsight of knowing what happened, perhaps, the image of the partner management could have been better, more efficient and acknowledged if the top management had been better informed of the function’s activities on a regular basis.

The interactions between partner management and Sigma’s sales managers were also quite one-sided, mainly, trying to enhance sales functions input into the cooperation. As the certification auditor pointed out, the sales force could and should have been provided with customer feedback that was gained in the process of conducting the customer satis-faction surveys. That would have resulted in both an internal marketing of the partnership while also producing relevant information for the customer responsible managers. Beyond this, there would have been an improved quality of relationship between the sales and partner management functions.

Epsilon’s sales goal, on which their personal incentives were partly based on, was to promote the new VoIP business. As a result, the partnership efforts in recognizing common leads and opportunities were almost entirely devoted to that area of technology. The reference-hunting was also in the same area, and the number of common cases was limited to just a few. This created a feeling of uneasiness and lack of accomplishment – if not failure – for the parties involved. Had the scope of the partnership management been broader and included the ‘old’, successful data communications business, then a positive spin for the IOR could possibly have been created. The past history of common business could have been used internally in promoting the cooperation.

Understanding the fact that the counterparts of the partners’ sales organizations were Epsilon’s account managers and Sigma’s solution sales managers was the key to improving the quality of communication: these parties had the same mindset in technical issues. Some Epsilon’s sales people, however, had experienced frustration when trying to collaborate with Sigma’s account managers. Extra work and time, along with increased dedication to connect the right people, was needed. Although it took time, the bases for a more fruitful cooperation and a new possibility for combining sales resources were found.

5.1.7 Summary and correlation of TGF research questions and interpretation

The productive opportunities that were created during the research period can be categorized into 1) process developments, 2) enhanced contact networking and information sharing, 3) utilization of certification benefits, and 4) legitimating and stabilizing the cooperation between the partner organizations. The following figure presents the analysis.

In the figure, the dotted lines symbolize the dynamics of the possibilities analysis. At first, the sales cooperation between Sigma’s solution sales managers and Epsilon’s account managers was not seen as being relevant, but it was assumed that account managers would be the natural counterparts of the organizations. As this assumption was comprehended to be incorrect, more joint possibilities were discovered. During the research period, Sigma's partner management facilitated the organization's possibilities of reaching the upgraded certification goal. However, correspondingly, the partnership's possibilities of creating productive opportunities were reduced due to the downsizing of the partner management resources in Sigma.

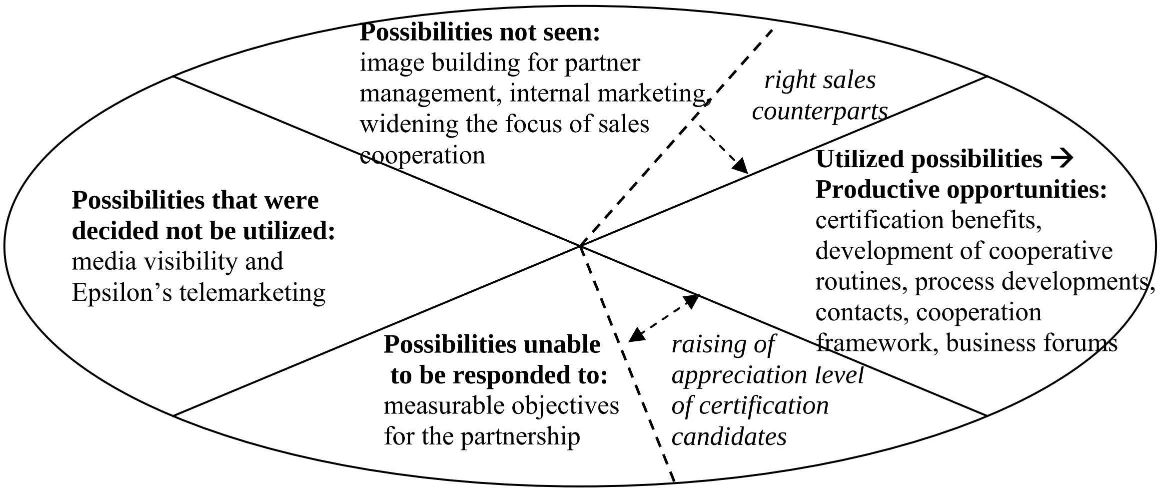

Figure 5.2 Partnership management's ability to create productive opportunities

The following table summarizes how insight was revealed by the research questions in the process of interpretation.

Table 5.1 Correlation of TGF research questions and interpretation

Q1(TGF): How did the administrative services of the partnership management develop during the research period?
Q1.1(TGF): What was the administrative structure of the partnership in the beginning of each partnership phase?
Q1.2(TGF): What formalization processes and outcomes can be recognized during the partnership phases?
The administrative structure was developed from partners' separate partnership management modes to a comprehensive framework of the relationships between the partner organizations, in both business and technical areas on strategic and operational levels. The missions and issues of the forums were documented, meetings were planned and conducted according to agendas and minutes of meetings produced.
Partnership management expanded from the certification related issues and coordination to management of sales and marketing forums. Cooperative processes, knowledge sharing and communications between different functions of the partner organizations improved. Surveys and workshop were arranged for the sales force of the partners. The administrative services provided for a better tone for the partnership.

Q2(TGF): How did the partner organizations perceive the partnership? *Q2.1(TGF): What were the goals of the partnership?* *Q2.2(TGF): What were the partner organizations' sentiments on the partnership?* The partnership was to increase, through go-to-market activities, business and sales of the partners who at the same time maintained their independence and collaborative relationships with other companies. The IOR was mostly seen as a constellation of resources from companies with excellent customer relationships and reputation. The competing partnerships caused suspicions among the sales managers in both partner organizations and it was difficult to create a trusting atmosphere for the cooperation. The tone was also affected by the fact that Sigma did not reach the highest certification status as a channel partner.
Q3(TGF): How did the partnership management utilize possibilities to create productive opportunities for the partnership? See **figure 5.2**. *Q3.1(TGF): What was the process of forming a common business plan for the partnership?* **Figure 5.1.** *Q3.2(TGF): What productive opportunities and restrictions to exploitation of partnership possibilities were perceived by the partnership management?* *Q3.3(TGF): What indications of unseen partnership possibilities can be identified?* Because the partnership had Epsilon's Channel Partner Program as its basis, it was mostly Sigma that adapted to the corresponding rules and systems, trying to benefit as much as possible from the program. Partnership management grew to understand the importance of common goals and internal marketing; connecting the correct sales functions increased opportunities. The partner management resources were downsized in Sigma. The sales and marketing cooperation in practice had a slow start. The sales force 'cried' for customer references.

5.2 Interpretation of the case by RBV (Resource Based View)

The focal partnership's resources stemmed from three orientations: Epsilon, Sigma and joint resources created in and through the cooperation. The partners' resource complementarity as well as resource differences and similarities set the basic structure for the inter-organizational cooperation and led to the development of partnership resources. The partners' organizational boundaries were spanned by the actions of people, so that the social interactions along with their various coordination played a major role in the IOR; the social complexity made the partnership unique. The RBV analysis relies on the 'model of social capital and performance' integrated from two studies, Tsai & Ghoshal (1998) and Sarkar et al. (2001) and presented in Chapter 4.2.2.

The partners' sales and marketing efforts and actions could only be partially controlled or coordinated by the partnership management because no formal authority was assigned to it. In Epsilon's organization, channel management was recognized as making a contribution to financial results and included in the compensation policy. In Sigma, the compensations did not cover the partner management function; however, no limitations were set for the coordinative actions that influenced the outcome of the partnership.

5.2.1 Partnership's sales and marketing resources and processes

From the delivery-chain perspective, the partners had a different vertical position as Sigma's services utilized Epsilon's equipment as a platform. However, the sales and marketing processes were mostly horizontal and both partners emphasized customer benefits from the business performance standpoint. Sigma accentuated simplicity and outsourcing possibilities which would allow the customer to concentrate on its own business. Epsilon, correspondingly, exemplified, through its internal and world-wide references, the slick use of VoIP technology in business use.

The partners' marketing specific resources – both intellectual and relational market-based assets – complemented each other. Because the focal partnership was non-exclusive, the partners together had a larger customer information base than either partner by itself. Epsilon's highly valued Channel Partner Program officially pooled Sigma's and Epsilon's technical and sales competences. As both parties were market leaders in their respective fields, both gained increased credibility and recognition. Sigma accumulated a lot of practical, day-to-day information on the use of communications services by its corporate customers and end-users. Moreover, Sigma could leverage and cumulate experience and learning across different customer cases.

The partners' ways to identify prospects were also different: Sigma relied heavily on its existing customer base since it was often informed early on about customers' development plans and forthcoming changes that affected IT-based communications. Epsilon, on the other hand, sought for new business opportunities through systematic scanning of the market from its installation-base standpoint. Epsilon had persistently gathered data on end-user level as a part of its delivery process. Telemarketing was used to collect data on other supplier's installations.

The external, relational market-based knowledge of Sigma was founded upon customer relationships, which were the main focus of the Sigma account managers. However, as the market situation had become increasingly competitive, it had become more common for customers to request offers from many suppliers and change their service providers.

While Sigma's account managers' focus was on the customer relationships, the Epsilon account managers were much more technical. Both partners had direct contacts with customers, but the personal networks overlapped only partly. The telephone networks and systems were the most traditional business line of teleoperators, but a new area for Epsilon. Sigma had a large range of customer contacts in the companies on operational, expert, and IT-manager levels. However, Epsilon had built relatively closer contacts to business leaders, which had a stronger role in the information technology investment decisions than before. Most IT-solutions had become integral parts of business processes rather than supportive and administrative systems.

Epsilon's sales organization emphasized the latest technology of products and their features in meeting – or creating new – customer needs. Especially, in cases where new technological solutions, such as internet protocol based voice VoIP, were planned to be implemented, the customers wanted to learn about the technical matters and also about the future development of the technology. Epsilon was seen as a messenger or forerunner of internet-protocol based technology on the market. Epsilon was known for its exceptionally accurate market development forecasts, which were based on sales reports of incoming orders on weekly, monthly, quarterly and yearly basis.

Geographically, Sigma's local presence on the market was more extensive than Epsilon's. Although Epsilon's Channel Partner Program had a very technical content, Sigma's certification impacted on customer's business managers rather than on technology managers, and enhanced the corporate reputation and credibility. The maintenance capabilities and reliability of the technology were a selling argument of the 'Epsilon inside' solutions offered by the partnership.

The customer-responsible account managers of the partners had quite different job descriptions because Epsilon did not have a buying-selling relationship with the customer. In a joint case, it was Sigma that wrote the offers, negotiated the deal with the customer and initiated the delivery process. The division of labor in actual customer cases was clear: once the deal had been secured, Epsilon's sales force was not involved in the case anymore. The contract was written between Sigma and the customer.

However, in the pre-sales process, Epsilon's account managers were involved both on the customer front, and in the offer preparation and price negotiations with Sigma's sales teams which typically included solution-design and solution-sales experts. Often there were several alternatives to configure the technical solutions from different components and combinations. The choices were done based on customer's existing IT-environment as well as on current product promotions or campaigns, which could have a significant effect on price. However, usually the composition was not finalized before the implementation planning and delivery of the solution to the customer.

5.2.2 From partners' sales and organization cultures to partnership culture?

Epsilon had established a business model that was entirely based on a network of partners: Epsilon had channel partners, production partners, logistics partners, training partners etc. Central to the model was that partners utilized Epsilon-designed web-based tools and adapted to cooperation rules set by Epsilon. Epsilon was operating globally and although Epsilon sold also services to its partners, its growth was based on new-product sales. The local Epsilon that was the counterpart in the focal sales and marketing partnership with Sigma was a part of the global entity and applied the global operational models. However, in the focal partnership, personal relationships and experience were a way to exercise some flexibility in the cooperation.

Sigma was operating mostly on the local market. Through a cross-border merger, Sigma had become a part of an international corporation, but the integration process had not really yet affected its culture. Locally, Sigma was a big player with self-esteem based on its history as a forerunner on the market. Sigma was not used to partnering in such a way that demanded adjustment from Sigma's side; interdependence with other companies in Sigma environment was understood more in the tone of 'suppliers' or 'vendors', not 'partners'.

In the local market, competition was harsh, and both partners had competing partnerships. For Sigma, customer retention was an important goal and growth was sought through a service strategy, which for customers meant outsourcing of previously internal processes and tasks to Sigma.

For Sigma's product and service development, the 'perfect' solution was the goal. Before a new service was launched, it had to meet all the possible requirements that could be imagined. Reliability was seen as a competitive asset. As Epsilon emphasized the importance of swiftness and agility on the market, Sigma seemed very slow in terms of product and service launches. Basically Epsilon was an impatient, quick-moving new-equipment seller. It is justified to question if a partnership culture evolved on a holistic level between the partners during the research period. Besides the differences between the partner firms, distinct functions of Sigma organization had different focuses and backgrounds which affected the partnering with Epsilon.

Sigma's account managers held the total responsibility of their customers as corporations and the goal was to sell corporate-wide solutions to customers. The contracts were usually made for several years, but could be modified if the scope or scale of the customer operations altered due to corporate restructurings or other changes. Customers were encouraged to outsource the maintenance of the communication solutions to Sigma, but this differentiation strategy of Sigma as a service company was still in its implementation stage on the market. As a teleoperator, Sigma also wanted to boost mobile-technology based solutions. In Sigma's sales organization, it was possible to initiate even company-wide projects without official decisions in order to respond to customer demands. However, such a procedure meant a lot of efforts for the initiator/s. High technical quality and reliability of launched solutions were presuppositions for Sigma's offerings.

Commonly, a sales team headed by the account manager was formed for sales cases to increase technical competence in the offer preparations. It was also usual that several people from Sigma organization participated in the meetings with customers. During the research period, the partners realized that most important on the sales front was to establish cooperative relations between Sigma's solution sales managers and Epsilon's account managers: those parties shared the same interests and levels in terms of technical knowledge. In Sigma's sales organization, price was the hottest single issue due to the competition on the market.

Sometimes the partners' top sales managers called on customers together, and contributed to the formation of cooperation culture by joint visibility in large sales cases and business events. Good experiences had been gained from such behavior as an indication of the partnership and collaboration. However, usually Epsilon's and Sigma's account managers approached customers by themselves.

In Sigma's solution sales function, a lot of emotions were involved with the Sigma-Epsilon sales and marketing partnership mainly due to past experiences in cooperating with Epsilon, and Epsilon's current way of doing business was not comprehended well enough. While Sigma's account managers were operating according to customer-orientation principles and practicing Sigma's service strategy in their operations, Epsilon's strategy emphasized the technology aspects of the solutions. Epsilon's approach was considered as somewhat conflicting with the Sigma vision.

Depending on the service area, Sigma's solution designers were either 'seniors' or 'novices' in cooperating with Epsilon. Traditionally, the designers of data and voice solutions had been two different groups and the 'novices' were from the voice solutions design team. However, the teams were converging as a result of the emerging technology. Many of the Epsilon-certified experts and specialists were from the functions of solution design or product and service development, and had close relations with both local and global technology professionals of Epsilon with quite similar norms and values. The focus was in solving problems associated with solutions planning and implementation.

Perhaps self evidently, most advanced in the partnering process were the counterparts that governed the partnership: Sigma's partner management and Epsilon's channel account management. Their cooperation was so intertwined and interdependent that it was justified to recognize or identify a virtual partnership management function in the IOR.

When Sigma's distinct groups of people that were involved in sales cases are evaluated according to the alliance life-cycle stages (presented in table 1.1), the different functions can be pinpointed as being in different development phases. Practically, all the different life-cycle stages can be identified in the entity as being the prevailing mode of cooperation in the operative functions. The evaluation is limited to sales cases in the voice solutions field because creating a VoIP market was the main focus of the sales cooperation between Sigma and Epsilon during the research period.

In their customer contacts, Sigma's account managers faced the growing interest in VoIP-technology based solutions. For their part, Epsilon's account managers' active marketing was arousing the interest and Sigma's solution-sales managers had to evaluate Epsilon's potential role in the open customer cases by taken into account the competitive situation between different partnerships on the market.

The solution designers' perception of the focal partnership differed depending on their previous experience being predominantly from voice or data communications planning. Strong traditions existed on both fields: the voice communications solution-designers were more accustomed to working with partners other than Epsilon and vice versa for the data communications designers. Top sales managers of Sigma and Epsilon were committed to making joint calls on certain customers as well as participating in each others' relevant events.

Sigma's partner management and Epsilon channel account management had established well-functioning operative models of collaboration and cooperative forums with business focus in the overall cooperative framework of the companies.

Table 5.2 The stage of partnership culture of Sigma's functions

	Anticipation	Engagement	Valuation	Coordination	Investment	Stabilization
Sigma's function related to sales cases	Sigma's account managers	Solution designers with previous experience in voice communications	Solution sales managers	Solution designers with previous experience in data communications	Top sales management	Partner management
Characteristics of attitudes towards the sales and marketing partnership with Epsilon	Emerging understanding of customer requirements regarding partnerships and awakening motivation to share information with Epsilon	Strategic potential of Epsilon as a VoIP partner considered as a complementary choice for traditional voice solutions partners	Customers' appreciation of Epsilon's VoIP technology in business cases analyzed and evaluated	Enhancing IP technology into voice solutions seen as an operational task, where already existing relationships with Epsilon technology and personnel can be utilized	Commitment to cooperation with Epsilon's top management especially in large sales cases or at biggest corporate customers	Partnership activities and operational routines established in cooperative framework structure
Attention focus in the IOR	References and models of how to cooperate	Learning IP technology and Epsilon's products	Evaluation of alternative solutions	Coordination of efforts with Epsilon, learning about the competing voice communications technologies	Seeking expansion and growth through successful sales cases	Promotion of the focal partnership. Efficient cooperation and coordination of activities to allow improvement in planning

The last stage (not presented in table 5.2) named 'Decision' in Spekman et al. model (table 1.1.) asking the question 'Where now?' can be modified to a question addressed to the partnership management: How should a partnership with such varying and diverging states of partnership culture be managed, and the partnership activities promoted and coordinated to form a common partnership culture?

5.2.3 Trust and commitment in the partnership

According to 'the integrated model of social capital and performance', the structural and cognitive dimensions of social capital lead to mutual trust and reciprocal commitment, which can be evaluated on organizational, group and individuals levels. Contrary to the model, many people in the partnership thought that commitment would also be a consequence of success in joint sales cases. This indicates that trust and commitment in the partnership should be distinguished from trust and commitment to the partner. Due to the non-exclusivity of the partnership and the existence of competing partnerships, trust and commitment involved an element of risk in the minds of sales people.

Trust and commitment in the partnership could be described as a belief or confidence in the partnership's value from the business point of view. Joint, completed sales cases in the VoIP business were considered paramount as a measure of partnership success. It was also believed that the common deals had to be made fast – otherwise the sales and marketing cooperation would freeze.

Sigma's certification in the Epsilon Channel Partner Program was an expression of the business-based trust in the partnership that was facilitated by the customers' high valuation of the certificate. However, at the same time, the certifications of competing companies made it obvious that Sigma's certification was only an enabling factor in the competition on the market. As a result of the globally consistent rules of Epsilon's Channel Partner Program, the certification provided a fair base for the competition because no exceptions to the rules were allowed. Some Sigma people considered the policy to prove that Epsilon was rigid, inflexible and stiff, and felt that Epsilon was just setting demands in a one-sided IOR. It was generally conceived that because of the partners' common history Sigma should have been treated as a special partner. Moreover, Sigma's deals were considered better than other partner types' sales cases, because of inclusion of maintenance and development factors.

Epsilon and Sigma perceived the certification in different ways: Epsilon considered the certification an investment, Sigma correspondingly regarded the required procedures, processes and actions as costs. In the beginning of the research period, Sigma as an organization did not understand that certification had to be maintained and thus required commitment from all organizational levels. Several Sigma people felt that the top management commitment and interest in the partnership were not sufficient. In particular, the demands of certification efforts were perceived not to be understood nor endorsed sufficiently. The motivation for the certification exams was also affected because many Sigma technology experts implied that they had more knowledge and experience in Epsilon technology than the certification test compilers.

Also, for Sigma’s partner management it took time to comprehend that the channel partnership with Epsilon was actually an adaptation process to the Epsilon systems and rules, not a mutual adjustment process. Partner management was annoyed with not getting feedback from Epsilon for its suggestions regarding the customer satisfaction surveys, the composition of which was regarded to conflict with Sigma’s strategic vision. As Sigma’s partner management learned from its experiences and started to experiment with the different possibilities of the Channel Partner Program, the attitude towards the certification gradually started to change to appreciate the benefits and value of such things as the bonus programs offered to Crystal and Diamond partners. Even the Epsilon web systems, although frustrating to learn, were good tools, once comprehended.

Some individuals in the partner organizations had reservations about the partner’s intentions and motivations in the actual business cases. Most of those attitudes had their roots in past history and involved strong emotions. Partnership management tried to impact the tone to become more rational or objective by providing possibilities for frank discussions about the issues that hindered collaboration. In the meetings and workshops arranged by partnership management, many difficult or sensitive issues, like issues on partners’ preference status and quality of cooperation as well as matters of disaffection and disappointments, were brought up and discussed.

Generally, mutual trust was strong among the technology-orientated people, who had also learned to speak out when they felt something was confidential. According to their experience, they had not been let down by Epsilon in such cases. The challenges lied in the sales functions, where individuals' levels of trust and commitment to Epsilon varied a lot, from mistrust and attitude of 'don't adapt to anything' to intimate collaboration.

5.2.4 Partnership's relational capital

In the cooperation, partners' resources were shared and combined for the partnership purposes both internally in the parties' organizations and between the partners. Internally, both parties formed reference groups for information exchange, for creation of commitment to the partnership, and for getting judgment and ideas for the further development of the sales and marketing partnership. The members of the reference groups were people who were involved in the collaboration between the partner organizations in other than sales and marketing cooperation.

It had long been a source of uneasiness in Sigma that the total scope of the joint activities between the partnering companies was not governed in a comprehensive manner. As a common effort of the partnership management and the internal reference groups, the different more or less regularly meeting collaborating groups or forums were identified, their principles of participation recognized, and their missions formulated and described. A framework of the cooperative forums was sketched according to the strategic / operational and technology / business continua. The established framework was a valuable asset when the partnership was presented to different audiences. It also helped in finding contacts, especially in Sigma's organization, both internally and for Epsilon when information or help was needed in areas that were not so familiar to the person in need.

Sigma's people who were competent in Epsilon technology were continuously kept abreast on Epsilon's new products or solutions in the training groups that were arranged according to function. In a similar way, Sigma's experts acted as trainers in workshops for Epsilon. Correspondingly, both internal and external marketing efforts were combined in several instances, for instance, in planning customer events, in preparing promotional, sales and reference material, and organizing common gatherings. The partners could use each other's marketing channels crosswise and coordinate, for example, the search for best, suitable and knowledgeable speakers to each other's customer and marketing events. Moreover, the partners contributed to each other's internal workshops as participants or sponsors.

In addition to the above, Sigma's partner management coordinated as an intermediary the certifications-related coaching and training plans. Partner management also supported the candidates through background work in Sigma by informing and influencing management. Sigma partner management maintained the corporate certification and specializations according to Epsilon's requirements, as well as coordinated Epsilon online-connections authorizations of the personnel and kept the contact database updated. Partners' resources were combined especially by using Epsilon's web systems as a medium for coordination of the customer satisfaction surveys, certifications and business planning, as well as for handling orders, product information and promotions, and bonus programs for Crystal and Diamond certified partners. Epsilon's channel account management had an important role in gaining rebates as it attended to Sigma's interest in applying the possibilities.

Epsilon had developed and modelled a huge amount of partnership processes that, once they were mastered routinely, created efficiency to the interface with Sigma. The different systems had many characteristics that could be used also for other purposes than those they had been originally meant for; it was a matter of innovation to come up with new ways to utilize them. Flexibility was also possible with Epsilon: examples included the utilization of Epsilon's delivery reports in compiling laboratory equipment lists required for Sigma's pre-certification documents and the modification of the Epsilon itinerary for the audition agenda to better fit the Sigma environment.

Epsilon had built an extensive global network of companies that had different roles in the business eco-system. Besides the channel partnerships network, Sigma also benefited as well as contributed to the network of fault detection and management. Sigma tested Epsilon's new products in a laboratory environment before accepting them for installation. Similarly, other partners world-wide detected software and hardware faults, and Epsilon coordinated the network for the benefit of all parties, including the customers. The operators and integrators, together with Epsilon's own research and development, product quality, and communications network-safety functions constituted a powerful means of rapid problem solving for all the participants. To ensure the operational capability of the system, Epsilon had established escalation procedures that were audited in the certification process.

5.2.5 Partnership performance

Partnership performance was indicated by both short-term and long-term results, which affected each other. Examples of short-term performance of the focal partnership included the different achievements required for the certification. They were not creating any competitive advantage as such, not only because the processes had to be repeated annually, but also because the customers valued the learning gained by the certified partner only indirectly; the certification status was in the eyes of the customers equally valuable no matter who the Epsilon's partner was. Short-term performance was a result of imitable projects, whose actions, processes and procedures could be documented or described at least in some detail to others who were involved in similar kinds of projects in a later time period. For example, learning and experience of the first certification project could be exploited in the second certification process even though different people were in charge of the project; in other words the former actors could provide advice as an inheritance to the next 'generation'.

During the research period, the partnership won two customer cases in the special focus VoIP area; in addition the partnership succeeded in closing one very large deal in the field of data communications services. Beyond these, the rebates Sigma gained from Epsilon's bonus programs were solely achieved by partnership management activities. Expanding the network of contacts to include colleagues from other Epsilon partners provided for experience sharing, and was still another example of the short-term performance.

Long-term performance was created by tacit knowledge in connection of the formation of social and relational capital in the relationship. Tacit knowledge was necessary in gaining more lasting or strategic performance and could, for instance, affect the partnership culture and the level of trust and commitment in the IOR. The long-term results of the partnership during the research period could be documented only partially, for example, it was impossible to describe how the partnership forums framework evolved: it was a result of numerous interactions with people from different parts of the organizations and developed over a long time period of which start or end could not be determined.

The certification and audition processes facilitated the accumulation of tacit knowledge by providing partnership management a consolidated development frame for advancing the cooperation, bonding and learning. Through coordinative tasks, partnership management gained experience of the different stakeholders in the partnership and couplings between different parties. The gained experience provided grounds for more efficiency and for new ideas. Correspondingly, the audition procedures created a common knowledge base especially between technology and sales-orientated people of the partnership, and helped in forming a more comprehensive picture of the partnership. The framework enlarged the contact network, enhanced the legitimateness, stability and continuity for the partnership as well as the appreciation of the partnership as a working system, and was an important tool in increasing the understanding of the partners' multifaceted relationship. The established personal contacts created possibilities of more rapid reactions if problems emerged.

Another example of a long-term result of the partnership was the information and administrative services that gradually became offered by the partnership management. However, it was possible that some of the services could have been offered by some other functions, too. The establishment of the services was an innovative process that again could not be fully described or documented. The experience gained allowed for re-allocation of the human resources of the partnership management, and routinization of basic tasks freed time for experimenting with new ideas.

From the partnership governance point of view, the long-term performance was problematic because it was difficult to justify its achievements in quantifiable measures. A special challenge was communication with the Sigma top sales management, which was operating under the pressure of creating financial results in a tough competitive environment and needed to adjust the structure of the organization to meet current economic situation.

5.2.6 Process model of social capital and partnership performance

Based on the RBV interpretation of the case narrative, the integrated model (figure 4.3) of social capital, relational capital and performance is modified in the following way:

- relational capital is interpreted as a resource of the partnership and is continuously developing due to feedback from short-term performance of the inter-organizational relationship
- trust and commitment are presented to be affected by the short-term performance and the 'understanding of the partnership as a way to do business'
- the 'understanding of the partnership as a way to do business' is affected by learning and the tacit knowledge gained in the cooperation
- through learning, the long-term performance is affected by the experience gained in the collaborative actions producing short-term results
- 'the resources and common processes' and 'understanding partnership as a way to do business' interact continuously, but predominantly cumulative learning is facilitated by the feedback loop from short-term performance
- trust and commitment have an effect on the common processes and on the long-term performance of the partnership

It is evident that there are two-way interactions between the different elements of the modified model, but based on the RBV interpretation of the case, only the principal directions of the effects are presented. The main difference of the constructed new model as compared to the original model (integrated from Tsai & Ghoshal, 1998 and Sarkar et.al. 2001) used in the RBV interpretation is the temporary dimension involved. The original model was designed as an input-output process while the new model is describing a continuous process.

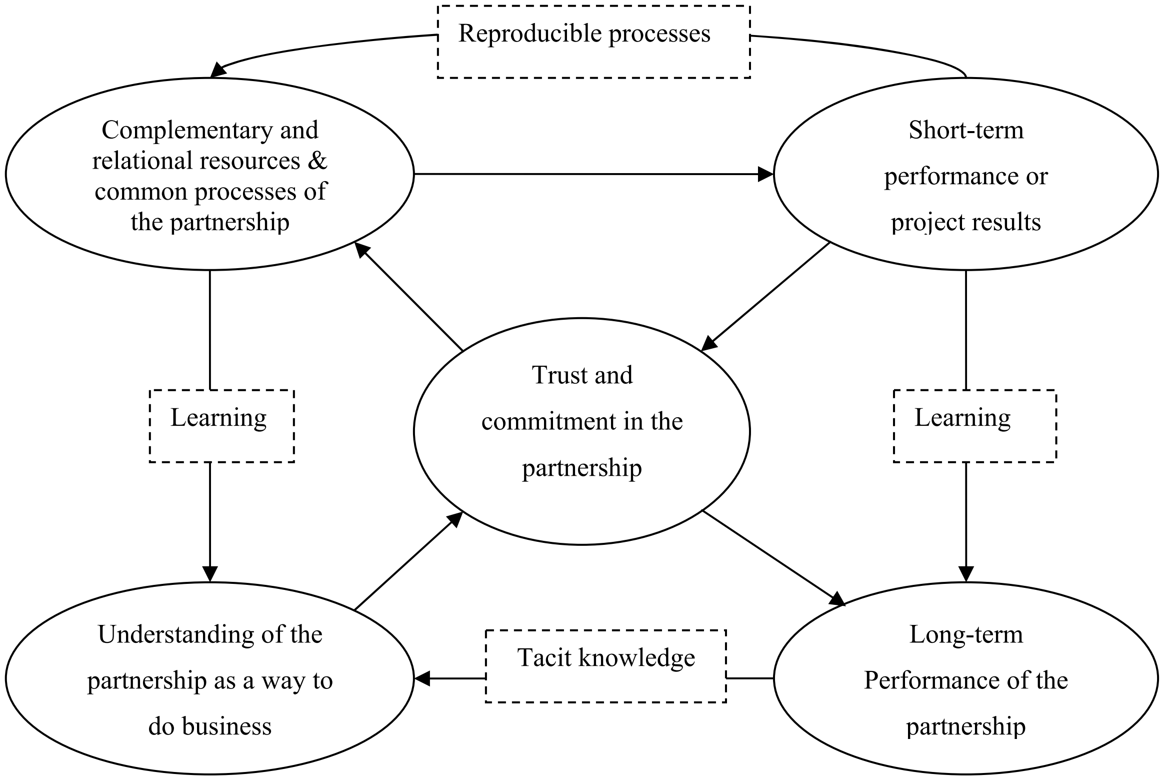

Figure 5.3 Interactions process of social capital and partnership performance

5.2.7 The correlation of the RBV research questions and the interpretation

The research questions that were refined from the Resource Based View theory were used in interpreting the case narrative as is illustrated in table 5.3.

Table 5.3 Correlation of RBV research questions and interpretation

Q1(RBV): How did the partnership resources and operational processes develop during the research period?
Q1.1(RBV): What complementarity in resources and market-based assets can be identified between the partners on individual, group or organizational levels?
Q1.2(RBV): What differences and similarities were identified in the sales and marketing processes of the partners?
The solution sales managers of Sigma and Epsilon’s account managers were ‘matched’ because their job contents resembled closest to each other. Top sales management cooperated successfully in business cases. Sigma’s partner management and Epsilon’s channel account management grew to a common, virtual partnership management. The cooperative forums framework was established.
Sigma’s long-term customer relationships provided expertise on customer knowledge, while Epsilon was well known for its forecasting capabilities of the business environment. The companies’ customer contacts and customer bases overlapped partly.

Sigma's account managers had ongoing, daily and intimate relationship with the customers on operative level. Epsilon used more formal methods in prospects' finding and relied on using databases. Epsilon's sales force did not make contracts with customers; their job content was mostly promotional. Sigma's sales processes were conducted much more as team efforts compared to Epsilon.
Q2(RBV): How did partners' group or organization culture affect the partnership? *Q2.1(RBV):What was characteristic of the partners' group and organization culture?* *Q2.2(RBV): Did the organizational cultures have an effect on the cooperation?* Sales and marketing partnering was a learning process especially for Sigma. Epsilon had to gain understanding of the variety of competences and attitudes among individuals and Sigma's functional groups. Epsilon's business model was based on partnerships and applied global rules to its operations. Epsilon's relationship with customers was basically of arms-length type. Sigma was very customer and service orientated resulting in a more flexible culture. Sigma's business rhythm was slow compared to Epsilon. Sigma's more 'emotional' culture and Epsilon's more strict business culture clashed sometimes e.g. in price negotiations. The meaning of 'partnership' was speculated.
Q3(RBV): How were trust and commitment or the lack thereof present in the sales and marketing cooperation? *Q3.1(RBV): What attitudes can be identified in the partnership cooperation on individual, group and organizational levels?* *Q3.2(RBV): Did the attitudes differ in terms of trust and commitment?* Sigma's top management commitment was considered insufficient, and affected e.g. the certification efforts. Some individuals rather chose a different partner to sales cases, because they had reservations about the focal partner. The partners considered trust and commitment in the partnership to increase through successful business cases. Because the past history in technical cooperation, some people in Sigma felt that Epsilon should treat Sigma better than other partners. Both partners considered each other quite 'difficult' companions. Technology orientated people had strong trust on the partner mainly due to the common history in the past, and also because of mutual appreciation of the technology competence and capabilities of each other. In the sales organizations, commitment and trust towards the partner was very much dependant on the individual.
Q4(RBV): How were resources and information, as a consequence of relational capital formation, exchanged and combined in the partnership? See **chapter 5.2.6** *Q4.1(RBV): What partners' resources were shared, nurtured or maintained in the partnership?* *Q4.2(RBV): What partners' resources were combined, integrated or modified to partnership resources?* *Q4.3(RBV): What kind of relational capital (if any) was formed in the partnership?* *Q4.4(RBV): Can relationship learning be identified in the partnership?* In technical and products competence areas the partners continuously provided updated data to each others' experts. Epsilon's web based systems were systematically used. The numerous, regularly meeting collaborating groups were identified, their agendas and purposes defined and described. The cooperative forums framework was established including also the sales and marketing groups. The internal reference groups of both partner organizations were important also from the partnership point of view due to their confidentiality. Joint efforts related to certification and audition processes as well as the conceptualizing of the cooperative forums framework produced also common insight to the partnership and provided for new ideas. The common partnership management function was strong.

5.3 Interpretation of the case by TCE (Transaction Costs Economics theory)

Transactions are the fundamental unit of analysis in TCE, and transaction costs are defined as the costs of running an economic system. In the focal partnership, the parties had a vertical relationship in the delivery chain and a horizontal IOR in the sales and marketing cooperation. The partnership was formed to strengthen the competitiveness of the partners, but, at the same time, it created new cooperation costs in the form of governance and collaboration needs mostly in the context of sales and marketing cooperation. As the channel-partner certification greatly determined the atmosphere of the partnership, special attention is paid to the certification related issues and processes. The transaction costs also depend on the critical dimensions of the transactions.

According to Das & Teng (2000) the partnership would be faced with three kinds of simultaneously affecting tensions: 1) behavioral tensions, where the mutual interests and common benefits contradicted with the partners' own interests, 2) structural tensions, that dealt with the rigidity and flexibility of interdependence between the partners, and 3) psychological tensions, that formed due to temporal, long-term or short-term orientations of the partners.

5.3.1 Transactions in the partnership

In addition to the transactions between the partners, running of the partnership also required internal transactions between the different functions of the partner organizations. The cooperative forums were particular establishments for the purpose of information sharing and planning. The joint partnership management functioned virtually in the centre of the IOR. The following figure illustrates the role of partnership management.

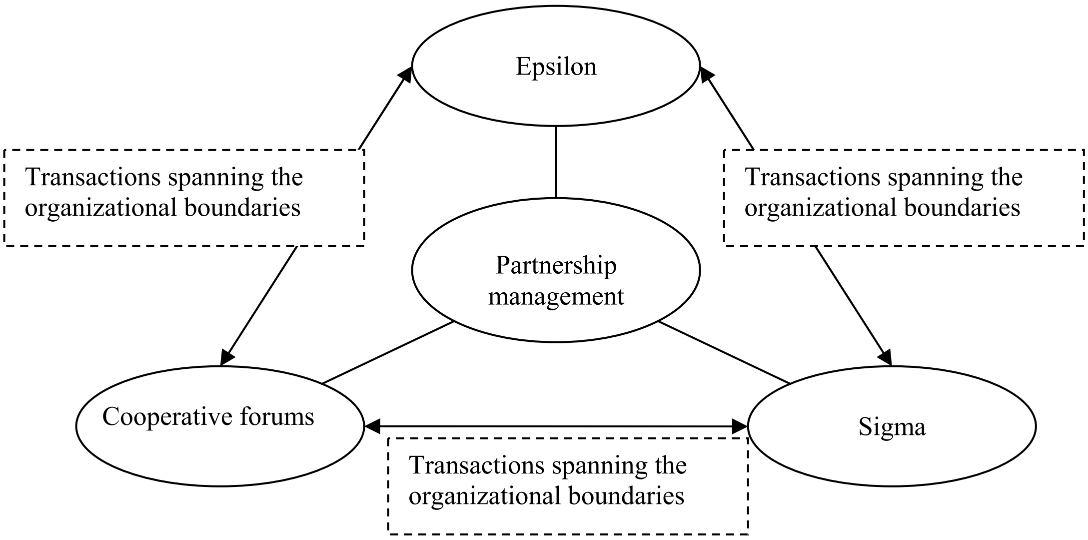

Figure 5.4 Partnership transactions

The partnership transactions can be categorized according to their frequency into four classes:

- The easy frequent transactions could be classified as *routines* because they required no special knowledge of the partnership. An example of a routine would be the verification of new Sigma online-users of the Epsilon web site: after the check-up of the applicant's employment the acceptance could be done simply with just one 'click'. Another example of a routine was inputting of customer contact information into the system that controlled the customer satisfaction survey process.
- However, as many recurrent transactions included a lot of details and required partner, product or systems specific knowledge it is justified to classify them as *intelligent routines.* The customer satisfaction survey process or related reporting transactions and the online ordering of Epsilon products in the web system as well as Epsilon's forecasting transactions were examples of this category.
- Some transactions were repeated in more or less similar way at some intervals that were either induced by the Channel Partner Program or were otherwise agreed to be done according to some schedule. Examples of these *periodical transactions* were updates of Sigma contacts as well as submissions to different Epsilon programs.
- Most of the joint transactions were constantly developing and can be called *collaborative transactions,* which could have been taking place as interactions between the parties.

In the focal partnership, due to the extensive use of e-mail as a communication medium, the interactions mutated into a series of transactions, as presented below. Characteristic to them was that they were not conducted according to any predetermined schedule.

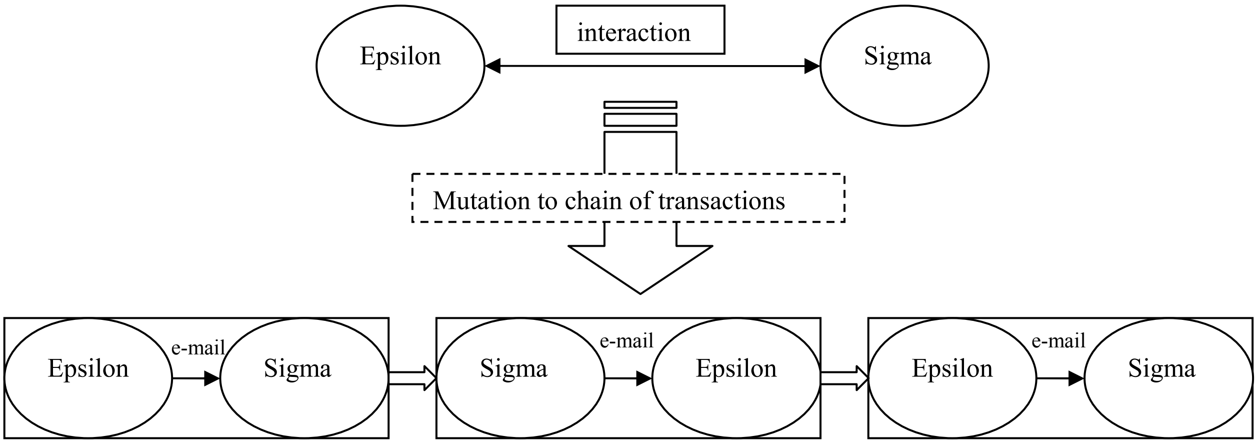

Figure 5.5 Collaborative transactions – mutations of interactions

According to TCE, in addition to the frequency, the other critical dimensions of transactions are uncertainty and asset specificity. The scope of the partnership by itself meant that uncertainty was always present; the actions of competing partnerships were not known but anticipated. Uncertainties specific to the focal IOR culminated most often to pricing issues. As described above the transactions-manner of collaboration was generally favoured and also the price information – including promotions and campaigns – were available on the partnership web pages. Only the customer or industry dependant special-deduction negotiations were done in an interactive manner at later rather than earlier stages of the offer preparations.

Sigma's customer deals were mostly done on the corporate level and the sales negotiations could easily last for six months or more. Most often, the price issues were on the table concurrently with other issues during the process. As Epsilon's price promotions and campaigns were time-dependent, setting the price for customers was difficult. Sometimes the current promotions had to be used for competitive reasons even though it was uncertain if the negotiations would last longer than the promotion period or if new promotions would be available at the relevant time.

Another source for uncertainty in the transactions was the frequent organizational and responsibility changes of people. Unfortunately, not all people (mostly from Sigma) informed the partner about such situations and often it took some time before all the ‘old’ tasks were assigned anew. The personnel changes also affected the certification and re-certification processes.

There were several indications of bounded rationality and opportunism associated with the certification efforts. For instance, Sigma’s arrogant attitude to the Crystal status in its ambitions relating to the certification proved that the requirements were not understood. In addition, the certification candidates were expected to perform “normally” during the studying periods and their workload was not generally justified and candidates were not treated equally. The commitments required from some certification-candidates – without any corresponding individual benefits – were regarded as an indication of Sigma, as a corporation, trying to safeguard only its own investments.

The channel partner certification was a specified asset that could not be used in other partnerships. Although it had some elements that increased technical competences or cooperative capabilities in general, most of the gained knowledge could not be utilized in other contexts than Epsilon partnership. In addition, a few certification candidates felt that some of the exam questions were based on language gimmickry, and non-native English candidates had not been taken into account in the compilation of the tests. This caused unnecessary ‘learning by heart’ efforts to the Sigma people.

At the time when Sigma was in the decision process of choosing the third specialization into the Diamond certification, Epsilon let Sigma to understand that there would be restrictions in the future on who could sell Epsilon equipment for VoIP solutions. Eventually, these restrictions were not realized and official announcements were not made during the research period.

As a lot of time and effort was devoted to building the contacts and partnership framework, a specific relationship network was created. From Epsilon viewpoint, partner's certification safeguarded its investments in the relationship because, due to market demands, Sigma really did not have the alternative of returning to an uncertified status. The re-certifications had to be done annually on corporate and every two or three years on individual level specializations.

5.3.2 Tensions in the partnership

The business rhythms of the partners differed considerably: Sigma's long-term corporate-customer relationships manifested themselves on corporate frame contracts, which meant, on the end-customer level, that the agreements and deliveries related thereto could not be known at the time the deal was made. The detailed planning started only after the signing of the contract. Epsilon's business culture, on the other hand, was based on accurate weekly, monthly, quarterly and annual forecasts. It was not easy for the counterparts of the organizations to comprehend the different conceptions of the businesses.

The focal sales and marketing cooperation had several characteristics that caused tensions to build in the IOR. The tensions stemmed from the market conditions and competition with other partnerships. Secondly, tensions could be rooted in partners' previous and current bonds, different viewpoints to technological issues, and Sigma's internal tensions in relation to channel partner certification.

5.3.3 Competition tensions on the market

Because both partners had other, competing partnerships in addition to the focal IOR, a tension existed between cooperation and competition practically in every sales case. Epsilon's cooperation with all channel partners followed the same global rules of the partner program. Epsilon-certified channel partners on the same status level had the same baseline in terms of business bargains for a case. The composition of the certifications was, however, possible to build in many different ways. In addition, the partnerships certainly differed due to individual-based knowledge, capabilities, experience, competences and the like in the use of Epsilon systems, promotions, on the way technology components were bundled and so on.

Locally, Epsilon influenced the way resources were allocated to each partnership and how different partner programs were exploited in the relationship. The Channel Partner Program provided the frame for the cooperation, but did not mean that all partnerships were managed the same way. Sigma's strength from Epsilon's viewpoint was the large customer base of long-term relationships and the geographical coverage of the market. Epsilon could not ignore the potential that Sigma represented and had "had all the time more or less dedicated resources to Sigma", which, according to Epsilon, was "not a general rule". In addition to locally certified partners, Epsilon had global alliances operating on all continents of the globe that might have a role in local sales cases, if the customer was a company with world-wide operations.

Besides differing according to the certification status level, the Epsilon partners were different in terms of their customer relationship with Epsilon. Service providers, such as teleoperators, were direct customers, meaning that Epsilon provided them with support and maintenance services. From the customers' viewpoint maintenance was included in the solutions contract. The customers of integrators or resellers bought the products and maintenance as separate components of the solution from the integrator or reseller. Although Epsilon had more than fifty partners on the market, a small-number condition existed on the market for both Epsilon and Sigma. As the focal partnership competed mostly in the large companies segment, the relevant partner candidates for Epsilon were the service providers and the biggest integrators. Sometimes, the customer environment was such, that technically the reasonable, most feasible solution would be based on the same technology that had been previously used. In certain sales cases, Sigma partnering with some other partner than Epsilon was in the position of offering the customer a true alternative for the Epsilon technology based VoIP solution. It was in the business interest of Sigma in either case to try to create options that could be used in the negotiations with potential partners.

Sigma's other partnerships that competed with the focal partnership were either more informal in terms of their structure or Sigma had a more powerful position in the relationship compared to the cooperation with Epsilon. Collaboration in the other Sigma IORs was not so much an adaptation process with the partner, but the tone became one of “adjusting together” to the business situation. Sigma’s competing partnerships were influenced a lot by past relationships. For instance, in its history, Sigma had been an exclusive importer of telephone equipment from a company that it now was cooperating with in the IP-based voice-solutions business.

To reduce the risk of losing a case because of technology choices and still have options for bargaining with Epsilon, Sigma encouraged its customers not to fix the technology at the call-for-bids stage of their procurement process. Based on the service-company vision, Sigma tried to convince customers to buy total service with management and maintenance of the system included. This way Sigma could postpone the partner selection to a later phase in the sales process and gain a better strategic position in the technology negotiations.

The partners evaluated the possibilities and strengths of different partnerships when making their partnering decisions. The technological difficulty of the case was definitely one factor that had to be considered. If a customer’s request for tender already had specified the demand of Epsilon technology, it was possible that Epsilon had several partnerships competing on the same case. The customer’s IT-environment was one of the factors that affected the supplier choice. The current or previous customer relationship also paid a major role in the sales strategy taken.

In addition to the above, the personal relationships between the partners and customers could make the difference in choosing the partner. The long cooperation in the data communications area between Sigma and Epsilon, and the brands and reputations on the market among the customers had to be taken into account. The other partnerships of Epsilon and Sigma represented a threat or challenge to the other partner. At the same time, they could be used as a tool in bargaining.

The focal partnership had horizontal as well as vertical characteristics, and the partners approached the customer both together and separately. Epsilon’s direct sales-and-marketing efforts’ main goal was to introduce new opportunities of IP communication solutions. Epsilon's goal was that customers would identify and realize new and future business needs that could be fulfilled with new features or new products based on Epsilon technology. Sigma's strategy, on the other hand, relied on the customer's need to concentrate on its own business and its willingness to buy communication solutions as services. In other words, Sigma offered the customers services that included outsourcing the communication networks, their maintenance and development. A tension existed between the technology-orientation and customer-orientation business strategies.

The focal partners' different business strategies became evident also in the connection of the customer satisfaction surveys that Sigma conducted as part of the channel partner certification requirements. Besides rating the partner's pre-sale and post-sale performance, the questionnaire contained strictly technology-orientated questions on Epsilon products. From Sigma's viewpoint, those questions conflicted with its service strategy.

Many customer business-needs could be met also with mobile solutions, which Sigma was able to provide. However, during the time of the research, Epsilon was on the market with wireless technology only in the IP technology field, not in the mobile solutions. Sigma, on the other hand, was keen on utilizing its already made investments in the mobile network and the unused potential therein. Epsilon had taken the role of educating the customers on the up-coming technological alternatives for mobile solutions. Remarks that Epsilon had been making on mobile technology to the customers were obviously not appreciated by Sigma. The contradicting messages to customers did not enhance sales cooperation.

5.3.4 Other roots for tensions in the partnership

The partners had different contacts in the customer organizations and usually the account managers called on customers on their own, although the top sales managers had set the example by joint meetings with customers' leaders. Sigma's account managers traditionally had stronger bonds with IT-managers than with customer's business managers. For the Epsilon account managers, the situation was the other way around. In addition to the Sigma account managers, also solution sales managers had direct contacts with customers especially during active sales cases.

Sigma's sales operations had to consider the optimization of Sigma's currently existing voice and data communication networks. In the customer role, Sigma was buying network development, optimization services, consultancy and maintenance from Epsilon in addition to constantly upgrading the network with Epsilon and other vendor's products. However, in Epsilon's problem-escalation processes the multi-vendor situations were not paid attention to and in this respect many partners – not only Sigma – ascribed to the standardization of the partnership processes as exceeding a limit: the system was regarded as being laborious containing elements that created no value to the partner or the partnership.

In the maintenance area, the technology-based relationship between Sigma and Epsilon had been tested in crisis situations with good experiences. Most of Sigma's problem escalations of Epsilon hardware or software products happened during the testing phase that Sigma conducted before network installations. Sigma was part of the eco-system of networked companies that was controlled and operated by Epsilon and provided the participating firms access to the problem resolutions of a vast, globally-cooperating community. Epsilon kept the solutions and product and service development functions of Sigma continuously updated on its new offerings. Correspondingly, Sigma sent product and service experts as speakers or lecturers to Epsilon seminars. In the high velocity business environment, with frequent structural organization changes, the technology-based cooperation created continuity for the partnership.

Contractually, the customer and sales-partner roles of Sigma had been separated by the signing of two agreements: the service provider contract and the integrator contract. The service provider agreement was meant for the business that was associated with Sigma's own network, and, correspondingly, the integrator agreement was the one to be applied when Sigma's customers were the equipment buyers. However, especially in tight customer case negotiations on prices it was argued that the total business volume between Sigma and Epsilon should be considered.

In the past, voice and data communications had been two different technological fields and Sigma's solution designers typically had specialized in one or the other. Consolidating voice and data communications business through the IP-technology was a new trend. Due to the tradition, the currently alternative Sigma partnerships had evolved through a different historical path, and, in sales teams, individuals often were biased in the partner related questions depending on their experience predominantly from voice or data communications field. Previously, Sigma's organizational structure had been designed on product lines and the technical partnership capabilities were stronger compared to partnering on the sales front.

In the channel partner certification process, the initial purpose of the certification was forgotten. The ultimate goal of the certification had been to obtain the status of a certified partner. From the business point of view the differences between the Crystal and Diamond status were less significant compared to the differences in the requirements set by the Epsilon program. Instead of being appreciated as an achievement, the Crystal certification converted to just being a threshold stepped across on the way to Diamond status. Internal tensions relating to the certification started to build up as the personal, economic and administrative investments needed to meet the Diamond status requirements were clarified. The costs of the channel partner status for Sigma were perceived to exceed the value created by it due to the complexity and diversity of the certification system, which Sigma had no influence on, but had to continuously adapt to.

The efforts to raise the certification level aroused dissatisfaction inside Sigma towards the human resources policies in respect to compensations. The HR policies were considered unfair. People were also treated differently in terms of commitments they had to make to be able to participate in the certification activities. Sigma's top management made the decision that certification costs could be allocated on higher than business unit levels, and acknowledged that the certified partnership was a company-wide project. However, the top management did not actively support the creation of a company-wide compensation policy for rewarding the certified individuals.

From Sigma's viewpoint, Epsilon was a different company compared to the 'good old days'. The scope of current Epsilon business and its global wide operations was not well comprehended by those Sigma people, who had historical perspective. Epsilon had succeeded in developing a business model that, through the extensive use of its web-based system minimized handling information in all sections of conducting business. For instance, the channel partners inputted the orders straight into a system, from where the Epsilon production partners and suppliers could pick up data for their manufacturing processes. The same principle was applied to sales cooperation and a lot of the traditionally interactive sales processes had been transformed into the transactions mode as presented in figure 5.5. People who preferred personal contacts were not satisfied with such procedures; thus, a tension between past and present sales cooperation cultures existed.

5.3.5 Edges of the partnership tensions: summary of the sources

From the behavioral tensions viewpoint, the partners exercised a process of choosing a partner in every sales case because of the non-exclusive nature of the partnership. Epsilon could be involved in many partnerships in the same business case, if the customer's requirements were based on Epsilon technology or if it was an obvious choice due to customer's IT-architecture. By promoting its service strategy, Sigma tried to secure its position in the competition and postpone the partner choice as far as possible. Towards the end of the research period, the partners clarified the cooperation-versus-competition option by defining some criteria that would help in evaluating the potentiality of joint sales cases. Besides customer's current use of Epsilon technology, the most potential common customer would be operating on several locations and have more than 200 employees. The potential customer would request a total service solution with a long-term focus and have an existing, active relationship with both Sigma and Epsilon.

The above criteria definition did change the tension between cooperation and competition to a more balanced stance, and allowed a more fruitful starting point for handling cases. Provided that the potential-customer criteria existed the partners agreed that they would work on the case together. However, the other possible partners were not ruled out. It was evident that the partners' own interests would be the most powerful motivation for their behavior.

Structurally, Epsilon's Channel Partner Program brought elements of rigidity to the IOR and helped cooperation between the partners among the people, who were familiar with the different aspects and rules of the program. However, in Sigma there were several sales people who couldn't tolerate the complexity of the program. They called for more flexibility and negotiations in the cooperative efforts. Moreover, it was requested that Sigma should be treated as a whole and the total volume of Sigma's procurements should be considered in bargaining.

The established cooperative framework describing the different, mutual forums reduced the structural tensions of the partnership by providing control and governance arrangement to the IOR.

Although the thrust for the Diamond status certification was initiated internally in Sigma and caused mostly internal tensions, it did affect the partnership and some of the frustration was channelled towards Epsilon. The specific requirements, contents and usefulness of the exams were criticized.

In terms of temporal orientation, Epsilon expressed both long-term and short-term views. On the one hand, Epsilon marketed the idea of the partnership being an investment; while, on the other hand, fast, immediate business results were demanded. Sigma's sales management was inclined to short-term performance in the form of new deals, but, at the same time, was committed to incremental growth from long-lasting customer relationships rather than expecting huge improvements in sales figures in the short run due to the partnership.

Table 5.4 Sources of tension in the partnership

The extremes of partnership characteristics or partner attitudes, that created tensions to the IOR	
Cooperation on the market ↔	Competition on the market with other partnerships
Sigma's sales strategy based on customer orientation - *customer needs as the premise of service solutions* ↔	Epsilon's sales strategy based on technology orientation - *emphasis on the new possibilities of technology*
Sigma's legacy of previous investments ↔	Epsilon's boost for selling new products
Sigma's business rhythm based on long-term customer relationships ↔	Epsilon's business rhythm based on quick reactions on market actions and forecasts based on them
Sales and marketing cooperation ↔	Technology based cooperation
Sigma as Epsilon's channel partner ↔	Sigma as Epsilon's customer
Transactions based communication - *Epsilon's web and systems utilizing business processes, where Sigma had to adapt to* ↔	Interactions based communication - *'old' sales culture with the tone of adjusting together on market circumstances and bargaining*
Sigma's status as a certified Crystal partner of Epsilon ↔	Sigma's thrust for the status of a certified Diamond partner

5.3.6 Efficiency of the partnership governance

Defining the structure of the partnership as the cooperative framework – according to strategic versus operational and technology intensity versus business foci - as well as descriptions of the different forums' missions and tasks helped to ease the finding of pertinent contacts and resulted in increased efficiency for both partners through the improved contact data from Sigma. Due to the small size of the Epsilon's local organization, contacting and finding correct Epsilon people had never been a problem.

The transactions-based working-method utilizing e-mail provided possibilities of sharing information effectively inside the partnership. Although it is possible that e-mail-based correspondence can increase inefficiency, for instance, in the form of large distribution lists, this was not the case in the focal partnership. E-mails were used in a disciplined manner, which allowed the participants to design their working time in a more flexible way as well as working concurrently on many issues.

One of the most obvious increases in efficiency through learning was the conducting of customer satisfaction surveys of the Channel Partner Program. During the first round, the responsibility of conducting the surveys rested in three different spots in the Sigma organization: the certification project manager, the relationship marketing department and the partner management function. At first, it was not understood that the content as well as means of doing the survey was totally determined by Epsilon. The Epsilon system for handling the surveys was not understood in other aspects than as a place where the surveys were sent from and where the number of accepted answers could be checked.

Around fifty people were involved in conducting the first customer satisfaction-survey, including account managers of both Sigma and Epsilon. The whole process of attaining the required number of fifteen responses demanded sending forty-one questionnaires: the hit-rate was 37 %. Several customers were contacted many times because of the different problems in creating the customer base for the first time. Sigma wasted a lot of time and effort because of lack of information on the survey system and its features. Partner management was brought into the process at a crisis situation and did not realize the deficiencies in the knowledge of the parties that had been performing the task beforehand.

The second customer satisfaction survey process was started the same way as the previous one, but soon it was realized that a more effective method was needed. The customers were contacted solely by the partner management. The number of required responses was thirty for a recertifying partner. Although the total hit-rate was even less than for the first round (33 %)[29], towards the end of the process, utilizing the developed joint method of filling out the questionnaire with customers proved valuable and feasible. It was really the third satisfaction survey process that demonstrated the efficiency of the joint on-the-phone collaboration with customers in the filling of the questionnaires. The hit-rate was 80 %. Due to the Sigma's organizational changes,

[29] The total hit-rate became worse due to a mistake of pre-scheduled surveys sent automatically from the system: The customers' names had been reserved by setting the sending schedule to far future, and as a result of the partner manager not remembering to postpone the sending date again, a big batch of surveys was allowed for sending unplanned.

partner management did not conduct the whole lot of surveys for the next re-certification, but conducted the amount needed to meet the requirements of the Epsilon's bonus program. However, these surveys were applicable also to the certification demands. Epsilon's decision to consolidate the satisfaction surveys of certification and bonus programs increased the efficiency of the total system.

Besides the lack of basic understanding and information on the customer satisfaction surveys, there was evidence of other information asymmetry between Sigma and Epsilon that affected the partnership efficiency. It was obvious that the top sales management had not been informed well enough on what kind of operation the certification process would be; nor did they understand that, in practice, Sigma at the same time, assumed commitment to re-certifications in the coming years. Similarly, some customers on the market had only limited knowledge of the demands and requirements that the corporate certification included. Yet, the customers were assuming that their supplier was certified. In addition, the sales managers set the target for upgrading the certification without considering the possible consequences.

In the early stages of the sales and marketing partnership, the partners did not have enough information on the job descriptions of each other's sales function. As a result, promoting the cooperation was first focused on 'wrong' counterparts. Besides wasted efforts, the unfortunate lack of knowledge hindered the collaboration between Sigma and Epsilon sales forces because once-formed opinions about Sigma's 'unwillingness to talk about technology' were difficult to alter.

Due to the complexity of Epsilon's web systems and processes, a great many of the transactions had to be done by people in the partnership management because mastering the systems required a special effort from the outset, as well as quite frequent, regular use. The pricing system of Epsilon products was so complicated and had so many different possibilities for each configuration that it was more an exception than a rule that all the information related to it was clear for sales people, and left them feeling suspicious and strained towards the partnership. One example of the difficulties was the failure to stress the importance of the Deal-ID's which was not emphasized strongly enough, and, thus, was often missing in the orders. As a result, the prices did not match the ones keenly negotiated, leaving the sales people to draw conclusions that Epsilon was not keeping its promises. The risk of opportunistic attitudes and behavior increased and commitment declined. Generally, there were a lot of emotions involved in the Sigma-Epsilon relationship among the sales functions, so that attitudes towards the partnership varied a lot depending on the individual.

On the other hand, Epsilon did have a remarkable role in the exploitation of the bonus programs for Sigma's benefit, when channel partner management modified the orders in the large customer case that, at the end, yielded considerable rebates for Sigma. Epsilon complemented the lack of information and capabilities of Sigma in the case.

Self-evidently, the parties did not share confidential information regarding their other partnerships with each other, nor did they inform the other party of their technical choices if they cooperated in the same case with some other company. Although strategic decisions on product and service development were not shared, the partner was normally informed in the technologically focused cooperative forums about new products or services before their launch.

5.3.7 The correlation of the TCE research questions and the interpretation

Table 5.5 demonstrates how the research questions based on the Transactions Costs Economics and the interpretation relate to each other.

Table 5.5 Correlation of TCE research questions and interpretation

Q1(TCE): How did the critical dimensions of the transactions between the parties change during the research period?
Q1.1(TCE): What categories of transactions, that differ in terms of their frequency, can be identified in the partnership?
Q1.2(TCE): What matters caused uncertainty for the partnership transactions?
Q1.3(TCE): What asset specificities did the parties gain or develop during the research period?
Much of the previously interactive communication mutated to series or chains of transactions, and (due to the high e-mail ethics) the efficiency of the partnership management was increased. Categories of transactions were routines, intelligent routines, periodical transactions and collaborative transactions.
Uncertainty was a characteristic of the field of sales and marketing as such, especially pricing in preparing offers. Organizational and people's responsibility changes were frequent. Crystal processes and required knowledge held a lot of elements that did not have other uses.

Q2(TCE): How did the nature of the partnership (e.g. voluntariness, non-exclusivity and channel partner certification) affect the partnership governance?

Q2.1(TCE): What administrative and incentive factors of the partners promoted the partnership?

Q2.2(TCE): In what kind of situations did the parties adapt autonomously to external circumstances and when did they cooperate in adaptation?

Q2.3(TCE): What existing company or corporation level agreements affected the partnership?

Sigma encouraged customers to leave technology choices open in the pre-sales phase, Epsilon, correspondingly, tried to ensure customers of the superiority of Epsilon's product. In Epsilon, the sales as well as channel account management were compensated based on the partner's sales figures. In Sigma, no other incentives except for optional compensations to certifying experts were offered based on the partnership. On corporate level the bonus programs were important. The parties developed criteria on which the cooperative cases could be chosen. In the earlier phase, the only cause of a joint effort was customer requirements. Sigma and Epsilon had signed service provider and integrator contracts.

Q3(TCE): How did environmental factors affect the atmosphere of the sales and marketing partnership and vice versa?

Q3.1(TCE): In what respects were the competing partnerships different or similar compared with the focal sales and marketing IOR?

Q3.2(TCE): What relationships between Sigma and Epsilon (in addition to the sales and marketing cooperation) contributed to the partnership atmosphere that existed between the partners?

Q3.3(TCE): What was the role of partners' direct sales and marketing activities in the partnership?

Q3.4(TCE): What effects on the atmosphere did the channel partner certification process have?

A small number condition prevailed on the market. The past personal and sales relationships influenced the attitudes and pre-conceptions of people. All Epsilon's partnerships applied to the same global rules of the partner program. Sigma on the other hand had only guidelines for practical, operational partnership management. Epsilon could locally allocate resources to different partnerships. Epsilon's partners had certifications on different levels.

Other relationships were: technical partnership in maintenance and service areas, joint product and services development, research and development relationship from the past, top management relations, individual relationships, partners as each others' customers.

The sales people most often contacted customers by themselves; the sales process was much more complex in Sigma because previous investments had to be considered in decision making. Because the Diamond certificate was not achieved, a sense of failure and non-achievement emerged; on the other hand the certification brought structure to the IOR, and created also a feeling of accomplishment.

Q4(TCE): How did human factors affect the atmosphere of the sales and marketing partnership?

Q4.1(TCE): Can influence of opportunistic attitudes or behavior be detected in the partnership?

Q4.2(TCE): What indications of bounded rationality can be found in the sales and marketing partnership?

Some of the certification related tasks were considered redundant, frustrating and laborious. The certifying candidates were not fairly compensated for their efforts either financially or in terms of work load justifications. The fact made the certification upgrading efforts difficult. Epsilon let Sigma to believe that there would be restrictions in which partners could sell VoIP solutions, and influenced strongly the selection of specializations field in the certification. The first decision to enter the route of Epsilon channel partner certification was not made considering different perspectives and costs. Sales negotiations between the partners could be very emotionally slanted.

Q5(TCE): How did information asymmetry or other information related problems impact the partnership?

Q5.1(TCE): What indications of lack of information can be traced in the case?

Q5.2(TCE): What information the parties were not sharing with each other because of competition or other reasons?

The customer satisfaction surveys processes were developed using the learning-by-doing method. The job descriptions of sales forces were not well known and promotional efforts were misdirected. Sigma's management did not understand and had not been informed about the scale of efforts and resources the certification demanded, nor were they knowledgeable about the benefits and possibilities of the channel partnership. Information on the activities with other partners of the focal partnering organizations was not shared.

5.4 Interpretation of the case by SHT (Stakeholder Theory)

The Stakeholder Theory is applied to the case narrative by identification of the partnership's internal, external and hybrid stakeholders. The characteristics and expectations of each stakeholder group are analyzed, and the sales and marketing partnership is interpreted from the point of view of legitimateness. By definition (Freeman, 1984), stakeholders have justified interests in the partnership. The justification may stem from their inputs to the partnership, from the effects the partnership has on them, or from the responsibility the stakeholder has on the partnership performance. According to SHT, no stakeholder has a prima facie priority of its interests over others'. However, the management of the stakeholder relations varies according to the stakeholder's relationship attributes: power to influence, legitimacy of the stakeholder's relationship with and the urgency of the stakeholder's claim on the organization. The stakeholders have expectations – including demands or requirements – on the partnership, and, correspondingly, the partnership has anticipations for the stakeholders.

5.4.1 Identification of external, internal and hybrid stakeholders

The stakeholders of the focal sales and marketing cooperation can be grouped into three different categories: external, internal and hybrid. When the partnership is perceived as an entity, the partnering firms Sigma and Epsilon were external stakeholders that provided resources needed to make the partnership work in practice. Competitors as well as existing and prospect customers were other external stakeholders, since they created and assessed the alternative supply against the offering of the focal partnership. Sigma's experts on Epsilon technology were needed as certified individuals in the channel partner certification and in the post-sales processes with customers and thus external to the sales and marketing cooperation. Typically, the Sigma experts were continuously involved in Epsilon cooperation as members of some technology forum that had evolved between the partners through the years. Sigma' internal reference group was formed mostly from representatives of the technical forums. When technology expertise of Sigma personnel was needed in the pre-sales and sales phases of customer cases, the experts were participants of the sales team. As internal stakeholders are the 'employees' of the partnership, the only true internal stakeholder in the focal partnership was the virtual partnership management function, which was jointly run by Sigma's partner management and Epsilon's channel account management.

In this research, hybrid stakeholders are defined as partners' personnel that in addition to their role in the focal IOR, were involved with competing partnerships: for example, sales teams and account managers considered cooperation with other partners case by case and had boundary spanning roles with other potential partners. The top management of the partners networked with different players in the industry. The partnership with its stakeholders is presented in figure 5.6. Each stakeholder is denoted with a letter E, I or H as an indication of its characteristic as an External, Internal or Hybrid stakeholder of the partnership.

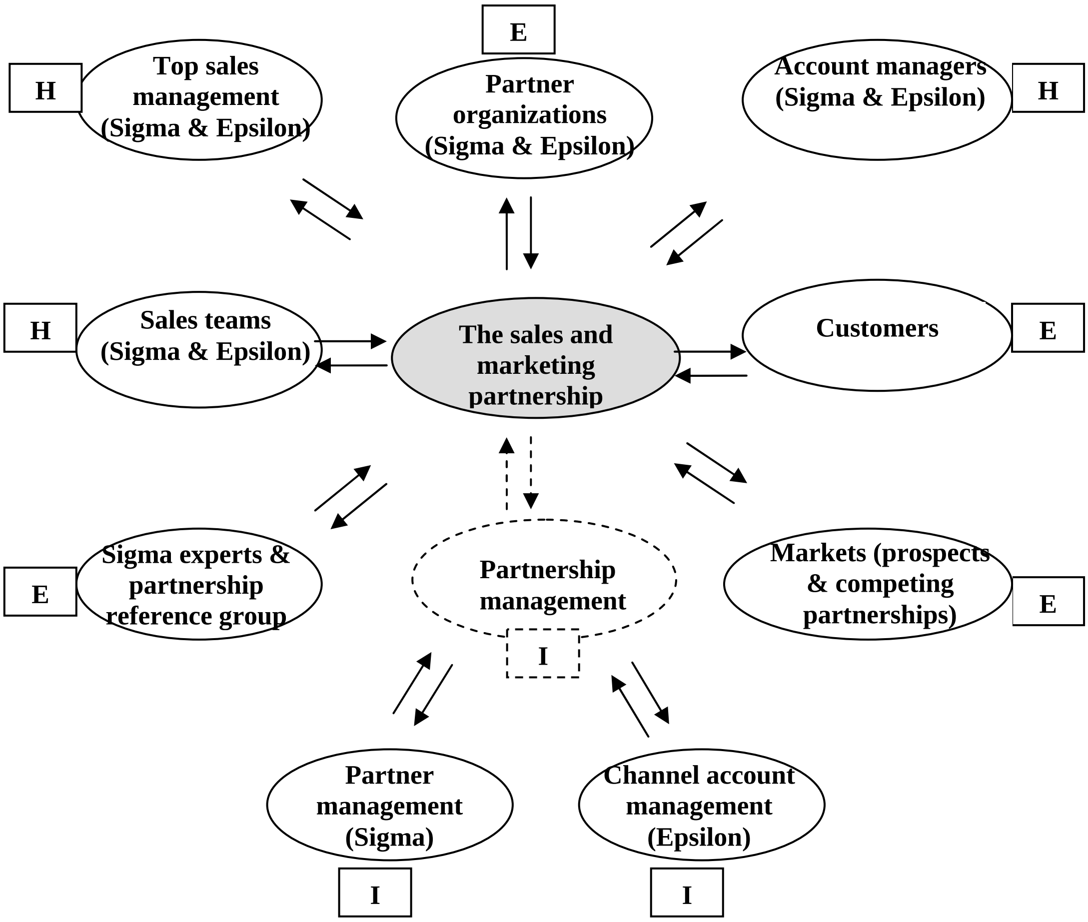

Figure 5.6 The partnership's external (E), internal (I) and hybrid (H) stakeholders

5.4.2 Stakeholder attributes and expectations: external stakeholders

Partner organizations, customers and markets had power over the sales and marketing partnership. Sigma and Epsilon provided both financial and personnel resources for the partnership. The markets set the requirement for Sigma to certify in the Epsilon Channel Partner Program by demanding the certification as a prerequisite for being able to participate or compete in bidding contests. The market perception was that the certification guaranteed service providers to have competence and know-how in Epsilon technology. Epsilon's products had an excellent reputation on the market, and they represented quality, reliability and latest developments to meet customers' needs. As such, customers had decision-making power in accepting or denying the offers of the partnership.

Besides setting the certification requirements for the focal partnership, the markets created the 'playing ground' through demand and supply for the sales and marketing cooperation. No significant changes on the market constellation happened during the research period: Although some Epsilon partners upgraded their certifications during the time, in actual practice, the value of the Diamond or Crystal certification on the market was 'equal' because of the small number of certified companies. Besides, two of the six existing Diamond or Crystal level partners were defined as global alliances of Epsilon with a distinctly focused customer and prospects base. The markets had legitimacy in demanding certifications as a factor in the competition, but had neither power nor urgency in the partnership.

The customers, defined as having an existing customer relationship with either of the partners, did possess urgency to the partnership because neglecting their claims could have affected the retention of the prevailing customer relationship of one or both of the cooperating parties. As external stakeholders they did not have legitimacy in the partnership.

Besides finding better technical solutions to their needs, the customers often pursued cost savings. Customers could achieve lower costs, in principle, by increased efficiency or by lower prices. Outsourcing the communications networks along with their maintenance and development was considered an economic possibility for the customers and a lucrative opportunity for the suppliers. The cost efficiency was to be achieved due to the fact that IT-technology was the supplier's core competence. The other extreme of customer-base was still buying equipment so it could own it and arranged bidding contests as a result.

In the middle ground were customers who bought the ICT solutions as a service, but had their own professionals in charge of further development. These experts formed their conception of the future from many sources including parties like Epsilon and Sigma. In addition to future technology visions and new features, the customers asked for references: how had other customers enforced the partnership's offering? Customers valued suppliers' competence in understanding their business processes.

The partner organizations expected the sales and marketing partnership to create more business and growth in terms of revenue and profits for the parties. In Sigma, the business-to-business sales function had initiated the channel partner certification, and the large corporate customers unit provided for the sales force and solutions planning – that is, the human resources of business expertise.

However, the certification additionally covered post-sales issues such as problem-solving and maintenance of customer solutions. For instance, the products and services development function had a big role in conceptualizing the services based on Epsilon technology. The services had to be compatible with the technical architecture of Sigma networks and customer's ICT environment. Thus, the sales and marketing partnership needed resources from other functions as well.

As an organization, Sigma had delegated the partnership governance to the business-to-business sales organization. Correspondingly, Epsilon's local sales organization was in charge of the partnership. The partners on the corporate level affected the partnership through the company strategies.

Epsilon's sales and marketing strategy was market-making: the sales and marketing efforts aimed at creating new markets for Epsilon's products. Sigma's sales and marketing strategy was based on customer needs for ICT communications solutions provided as a service and outsourced to a service provider. Unless the strategies were to change, the partner organizations had no urgency as stakeholders in the sales and marketing partnership.

Sigma's experts on Epsilon technology had legitimacy in the partnership due either to their competence and know-how as certified individuals or due to their role in the maintenance processes. However, they had no power in the partnership unless they were participating in the sales teams. Regarding product and service development, the experts had urgency because of their role in timing new service launches. Similarly, the network had to be continuously developed as a platform in the customer solutions. The partnership reference group had as members all the specialization owners to the specific technology areas that Sigma had included in its corporate certificate, and as such the group was a 'door' to the expert human resources in Sigma.

The Sigma experts expected that their contributions, especially as certified individuals, would be valued by the organization. The minimum requirement was that top management and superiors would understand the experts' achievements and how much work passing the certification tests demanded. Secondly, they thought that while preparing and studying, their workload should be justified. Thirdly, the rewards, bonuses, incentives, commitment requirements, and the like should have been defined in a corporate-wide policy and applied on an equality principle to all the people qualifying in the Epsilon or other vendor's certification procedures. Fourthly, the Sigma experts needed support from the partnership management in practical issues related to training.

5.4.3 Stakeholder attributes and expectations: internal stakeholders

The management of the sales and marketing cooperation was conducted by the virtual partnership management function that had resources from both partnering firms. The core of the virtual function was the cooperation between partner management of Sigma and channel partner management of Epsilon. However, other personnel from the organizations were involved in the practicalities of the partnership management more or less regularly according to the current situation.

Partnership management held all the stakeholder attributes: it had power on the running of the partnership and in designing the governance structure of the IOR. It had legitimacy because the operative management had been delegated to it. Moreover, the function had expanded its range of operations to different borderlines affecting the sales and marketing cooperation. Through the setting of timelines and schedules for decision making, the partnership management also applied urgency to the partnership.

Partnership management expected cooperation from the partnering firms. The sales and marketing partnership had been established on the footing of the channel partner certification of Sigma with the goal of upgrading the status from Crystal level to Diamond. Therefore, the partnership management, as a coordinating function, regarded it as being self-evident that the partners would support the efforts and intentions that aimed at hitting their target. Furthermore, it was expected that the parties' sales and marketing functions' would collaborate more actively and visibly than prior to the announcement of the partnership.

As an outcome, the partnership management expected that the IOR would develop new cost-effective operating models and sales or service concepts. The process of finding joint leads and business cases would be improved through account manager cooperation and would also expand into the small and medium business customers sector.

Partner management of Sigma or channel account management of Epsilon – of course – had power only in their respective organizations. Moreover, they did not have hierarchical authority over the sales force or other resources needed in the IOR. Their leadership was based solely on the mandate of making the partnership work. Epsilon's Channel Partner Program and the 'focused sales and marketing cooperation program' of Sigma provided for the general framework of the cooperation: nevertheless, the success of governing the partnership depended on the commitment of the many Sigma and Epsilon people needed in the cooperative efforts.

The cooperation of partner management and channel account management relied on mutual trust. The tone of the collaboration was honesty, openness and confidentiality. Facilitative actions for enhancing the sales and marketing cooperation were planned and executed as agreed. The parties believed in the power of objective information: it was expected that possible difficulties would be overcome by reasoning and planned moves or operations based on facts. Beyond quantitative measures, corporate strategic intents or observations and opinions of people were considered as ‘facts’. Additionally, it was believed that internal and external marketing of the partnership was critical to the success of the partnership. However, the parties saw it as being quite probable that the different sales cultures of the partners would cause some conflicts in the IOR.

Partnership – as a way of conducting business – was not a self-evident pathway for Sigma and, thus, partnership management needed to gain legitimateness for the partnership as an organizational form. Legitimacy of the partner management in the partnership was apparent, but the question of accepting the partnership as a business-making model was not a matter-of-course. Epsilon’s channel partner management did not have the same problem internally, but had a stake in the legitimateness-building activities of the partnership. Urgency of the partner and channel account management functions varied sales-case by sales-case, and depended on the perceptions of the sales teams and account managers of the partnership as well as the customer relationship in question. However, the channel partner certifications and audits had a predetermined annual schedule. Partner management and channel account management possessed urgency through the program on the focal IOR.

5.4.4 Stakeholder attributes and expectations: hybrid stakeholders

Top sales management of Sigma and local Epsilon had delegated the management of the partnership, and, thus, their legitimacy to the partner management and channel account management respectively, and had the power to decide on the resource allocations of those functions. Because of a hierarchical authority structure, top sales management could set up incentives or cooperative efforts to boost the partnership performance by doing such things as requesting reports and information on the efficiency and results of the IOR and thereby held urgency as a stakeholder. Another example of urgency attribute attached to the top managers, was, for instance, the funnelling of sales leads or cases to the sales organizations. Those assignments had to be taken care of immediately.

Account managers of both partners had similar roles in identifying new business opportunities in the customer organizations and on the market. However, Sigma account managers were mostly engaged in ongoing customer relationships, and Epsilon account managers' objective was to prepare ground for new-equipment sales. Sigma's account managers in general were knowledgeable about the customer's current ICT-environments, solutions and applications on a more intimate or detailed level than their colleagues in Epsilon, who, in contrast, had more competence in dealing with future prospects of emerging technology. Past experiences with and attitudes towards the other partner varied a great deal according to individuals. Proactiveness in handling of sales leads was a competitive edge on the market, and so the account managers had a high degree of urgency in the partnership.

When a new prospect sales-case was at hand, Sigma's account managers typically formed a sales team to design the sales strategy and make decisions on what kind of solution would be offered to the customer. Potential partnerships were considered at this pre-sales process phase, and the sales teams had the power and legitimacy in determining the competition tactics. Very seldom were customers content with an offer from just one supplier, but preferred to have alternatives and considered it important to gain bargaining power as a result of rivalry between bidding partnerships.

Even in cases where either Sigma or Epsilon had been successful in becoming an obvious choice for either the telecommunications services or technology platform provider in the case, it was especially in Sigma's interest to try to create a competitive situation between potential partners so as to create a bargaining situation. Epsilon's position was more straightforward since it had only the seller's role in the final deal.

Sigma, on the contrary, acted as both a seller to its customers and as a buyer of the equipment from its partner.

The basic tasks of a Sigma sales team were to analyze the customer needs, to convert the needs to an ICT-technology based solution, to plan or design of how the solution could be implemented into the customer environment, and, finally, to prepare the offer and all attendant documents. Epsilon's pricing system was very complicated and special skills were required to find out the economically 'best' way to assemble the components of the total solution. Although Epsilon had built their so-called bundled products into their offering its business was predominantly transactions-based. The Sigma sales teams sought for 'special treatment' from Epsilon in terms of price-setting. They argued that due to the Crystal certification and the commonly held, long-term business traditions of each, Epsilon should be more flexible and ready to discuss the pricing in an interactive manner with Sigma. The experience of sales people was that the only way to make Epsilon account managers listen was to create a 'threat', that is, a competitive situation with another partner.

Epsilon's sales organization regarded Sigma's product and service development too slow and too concerned with attaining perfection while claiming that possible sales cases were lost because of the inertia. Epsilon's account managers also expected cooperation with Sigma's account managers in the form of common customer calls and by promoting the partner's offering. They were disappointed to find out that Sigma account managers in general did not talk about technology with customers. On top sales management level, for example, common customer calls were agreed to be undertaken on selected customers, but on the account manager level, cooperative actions varied a great deal depending on the individuals involved, and their competencies and motivations.

Generally, the two partnering sales organizations expected the very existence of partnership in and of itself to enhance the knowledge of the other partner's products and services as the result of increased contacts and continuous training. The ability to present the benefits of the partnership would thus improve, and coupled with common promotional material, marketing of the VoIP services would not only become more efficient but also more effective.

5.4.5 Critical stakeholders of the partnership

According to Mitchell et al. (1997), the identification of the expectant stakeholders; that is, the stakeholders with two attributes called dominant, dependent and dangerous stakeholders, and analysis of their interests is critical from the organization's point of view. In the case sales and marketing partnership, the expectant stakeholders were sales teams, Sigma experts and the top sales management of Sigma and Epsilon. This categorization assumes that the experts' role in the sales team was restricted to bringing in more technology know-how and to adding input to the planning process of the customer solution which consisted of existing products and services. The categorization according to stakeholder attributes is presented in table 5.6.

Table 5.6 Partnership's stakeholders by type

Stakeholder category	**Stakeholder**	**Power-legitimacy-urgency attributes**	**Stakeholder type**
External stakeholders	Partner organizations (Sigma and Epsilon)	power	Dormant stakeholder
	Customers	power, legitimacy, urgency	Definitive stakeholder
	Markets (prospects and competing partnerships)	legitimacy	Discretionary stakeholder
	Sigma experts	legitimacy, urgency	Dependent stakeholder
Internal stakeholders	Partnership management	power, legitimacy, urgency	Definitive stakeholder
	Partner management (Sigma)	power – only in Sigma, legitimacy, urgency	Definitive stakeholder
	Channel account management (Epsilon)	power – only in Epsilon, legitimacy, urgency	Definitive stakeholder
Hybrid stakeholders	Top sales management (Sigma and Epsilon)	power, urgency	Dangerous stakeholder
	Account managers (Sigma and Epsilon)	urgency	Demanding stakeholder
	Sales teams (Sigma and Epsilon)	power, legitimacy	Dominant stakeholder

The hybrid stakeholders had the potential to threaten the partnership as well as to cooperate within it. Thus, the account mangers of the partner organizations were also critical stakeholders from the partnership point of view and their needs and expectations were to be satisfied maximally, too (Savage et al., 1991).

5.4.6 Legitimateness of the sales and marketing partnership

A prerequisite for the sales and marketing partnership to succeed in its goal of creating more business and revenue for the partners was that the partnership would hold legitimateness as an organizational form, as an entity and as an interaction (Human & Provan, 2000).

Previous research (Ibid., 2000; Boeker, 1989) indicates that "environmental and contextual factors at founding affect the early direction and structure of a firm [or of an inter-organizational relationship] ". In the research case, the initial formation of the partnership was based on external stakeholders' demand for certifications. Consistent with previous literature, the legitimateness-building activities were first predominately directed to markets and customers. And, in the beginning of the IOR, the only activities, for hybrid stakeholders were the 'sales cooperation kick-off' and 'Crystal certification' happenings.

External legitimateness activities included a press release on the launch of Sigma VoIP services based on Epsilon IP technology, along with joint appearances at Sigma's customer event and Epsilon's customer conference. Epsilon also awarded Sigma a title of 'Service provider of the year' at its annual, global conference.

As time progressed and the joint cases were just not rolling in, frustration among the sales force became obvious. Additionally, the frustration was building up in Sigma because it became evident that the Diamond certification level probably was not going to be achieved. In fact, retaining the Crystal status was not self-evident or easy in Sigma's turbulent business environment. The partnership resembled a facade – pretty and certified on the outside, but in sales collaboration sense, internally hollow.

The predominantly external legitimateness-building period lasted for about half a year. During that time partnership management had gained a basic understanding of the certification related, recurrent actions. Partnership management had itself gained legitimateness as a coordinator of the certification process, and it was possible to expand the scope of the management to a mode that aimed at enabling sales cooperation. In addition to the certification issues, the energies and attention of partnership management were directed to the hybrid stakeholders of the partnership.

5.4.7 The partnership legitimateness as form, entity and interaction

Epsilon partnerships had in-house legitimateness as an organizational form because IORs were used as the prevalent model of cooperation with other companies throughout the corporation. Likewise, Sigma had recognized the need to partner from strategic and business development viewpoints but had not implemented other than subcontractor partnering widely in practice. The overall mode of the already long-lasting cooperation with Epsilon was regarded as being valuable, but being led totally by Epsilon. Sigma people described the relationship as one of Sigma being kept ‘on a leash’ and not having a control of the plentiful interactions that were taking place around the company with Epsilon. The collaboration did not have a structure; it did not possess legitimateness as an entity. Moreover, the perception of the partnership was as a multidimensional, uncoordinated bunch of meetings, seminars, sporadic customer events and so on; the partnership concept was not regarded as an organizational form in Sigma.

Epsilon’s Channel Partner Program did provide structure for the partnership; it necessitated administrative coordination of actions needed in the certification and bonus programs. From Epsilon’s viewpoint, the partnership had gained legitimateness as an entity because it had been qualified according to the program rules. For Sigma, the situation was not so simple due mainly to the fact that following the program rules was just adaptation to Epsilon’s systems and regulations: Sigma personnel wanted ‘genuine’ partnership, which essentially meant that Epsilon should not be just a rule maker, but should also invest in the relationship and adapt to working with Sigma. The partnership should not be unilateral.

Because the partnership had been established on the basis of the Channel Partner Program, the partnership management aimed at attaining all the possible benefits from the certification. Sigma's partner management got acquainted with different aspects of the program and developed its skills to become more efficient in using the Epsilon systems. In particular, the method for conducting customer-satisfaction surveys was improved considerably. However, the possibilities of using the results as a feedback mechanism for account managers were not used systematically. The Epsilon bonus programs were utilized successfully, services for certification candidates were provided and their efforts were supported as much as possible. The legitimateness as interaction between Sigma's partner management and the candidates as well as with the Epsilon channel partner management was excellent. However, partner management was disappointed in getting no feedback from the global Epsilon organization regarding development suggestions on customer satisfaction surveys.

Through contacts of the internal reference group, Sigma's partner management was able to construct a general framework of the multidimensional cooperation between the partners. The framework provided a structure, where the sales and marketing partnership was presented in relation to the other existing collaborative forums and the input of Epsilon in technology areas became evident. Many technology forums had been running for several years and had gained legitimateness in both partnering firms. Paralleling the sales and marketing forums with the big picture removed to some extent the lack of legitimateness of the focal partnership. The sales and marketing partnership was realized as being a missing piece in the entity. The framework set the partnership in business context and could be used as a tool in describing the partnership both internally and externally.

During the process of the detective work on the cooperative forums, a best practice in relation to the Epsilon channel partner specializations was found, and a specialization owner for the VoIP technology area was nominated. The specialization owner gained legitimateness resembling an organizational responsibility and authority in the activities of that technology field.

The building of legitimateness for the partnership among the hybrid stakeholders relied on gathering information of the current status of the cooperation in the sales front. Considerable improvement could be observed when comparing the results of the in-house survey in May 2005 and the joint workshop in December 2005. In part, the better result was due to the comprehension of Sigma's solution sales managers' central role as acting as counterparts for Epsilon's account managers. When the Sigma's sales team role had been clarified and the criteria for a good joint sales case defined, the partnership legitimateness was enhanced. However, it was still felt that the partnership had not met the high expectations placed on the IOR. But – as the certification auditor had pointed out – no numerical targets had been set meaning that no common perception of the actual opportunities had been formed.

Having both vertical and horizontal aspects in the IOR was not easy to comprehend; it was common for the vertical relationship to overrule the horizontal approach in the hybrid stakeholders' minds, with the result that the price of the Epsilon equipment became the major common issue in a sales case. Sigma sales managers were in general not satisfied with the way prices were negotiated. Actually, it was the lack of negotiations that was bothering Sigma sales, which would have preferred discussion and flexibility according to sales case over the 'rules based' pricing method. As a result of this, partnership legitimateness as interaction was poor in the new deals context but once an 'Epsilon inside' solution was up and running, the legitimateness of the partnership as interaction in terms of the technical partnership was excellent.

Sigma's hybrid stakeholders' role – especially the solution sales function's position – as having to take into account both the commercial and technical aspects in sales cases had several sources of suspense: solution sales managers were faced with both role conflict[30] and role ambiguity[31]. Pressures for cost efficiency coupled with market expectations for alternative, competing propositions from different suppliers complicated decision-making on what to offer. To be able to provide the customer with an offer that was

[30] Role conflict is defined as "degree of incongruity or incompatibility of expectations associated with the role" (House & Rizzo, 1972 in Nygaard & Dahlstrom, 2002)
[31] Role ambiguity is defined as "lack of clarity and predictability of the outcomes of one's behavior" (Ibid., 2002).

based on the ‘service company strategy’ meant that several technology choices had to be calculated. Cost efficiency was obviously decreased with multiple approaches. However, the service strategy was a differentiation factor on the market for Sigma.

Epsilon’s complicated product and pricing system increased the amount of work necessary because a technical solution was possible to construct in many ways. As Epsilon stuck to its policy of treating all its certified partners equally, Epsilon helped in making alternative calculations only when Sigma had first come up with the choices. Epsilon could not pass information from best solutions invented by one partner to others. This was frustrating to Sigma solution sales managers, who felt that partnership should have meant combining competences in finding the best pricing policy for customers.

Another factor affecting Sigma’s sales offer decision was the customer’s existing ICT environment and Sigma’s current network. The needs to utilize the legacy technology and to construct new voice solutions based on IP-technology as part of a total communications solution had to be taken into account in making development decisions on both the network and customer environments. It was difficult to predict all the consequences of different alternatives. Also, Sigma’s internal power switch of the business responsibility from product and service development to sales front still affected and added up to the ambiguity of the sales function’s role.

One of the problems with the sales and marketing cooperation was described as stemming from ‘Sigma selling services and Epsilon selling features’, and it was suggested that the Epsilon products and Sigma services should have been aligned to a coherent story about the partnership for the customers. It was not realized that the technical partnership supported Sigma’s service strategy: the customers needed not to worry about technology. In the sales and marketing partnership the role of Sigma-Epsilon cooperation in the whole life-cycle of the sold solution was not strongly enough taken into account as a sales argument for customers. The technology related collaborative processes and forums guaranteed from sales perspective that possible problems in implementation and/or maintenance phase would be dealt with reliably and efficiently; customer satisfaction in the long run would be assured.

The partners' sales functions focused on meeting their own goals expressed in the respective companies' compensation policies. The way sales functions were managed in the partner organizations did not support, coordinate or control partnership efforts. The strong focus on VoIP in the business forums of the partnership was predominately derived from Epsilon's sales goals and resulted in the feeling of lack of common references. As a matter of fact, a lot of common references existed, if the partnership had been envisioned more broadly. A common partnership definition as well as a shared goal was missing. From a legitimateness viewpoint a collective statement from the top sales management of the partners' would have been important.

Even a general partnership policy or definition would have guided the sales to cooperative efforts of selling the partnership and its accomplishments instead of Epsilon products and Sigma services. As it was, the sales and marketing cooperation had been understood as joining forces in selling own and each others' offering. When the top sales managers of the partners cooperated they actually were displaying their commitment to the partnership and marketing the cooperation – as opposed to its offerings – and the results were quite positive. Evidence of commitment, promoting the partnership as such and creating an image for the cooperation was deemed as being important for building legitimateness for the partnership both in the partnering firms and among customers. It was doubted whether the partnership, lacking common goals, would be any better than an ad-hoc, case by case partnering.

The established partnership framework emphasized the boundaries of the sales and marketing cooperation, which were defined on strategic and operational levels to be coordinated through the Sales Cooperation, Marketing and Business Cases groups. All these cooperative forums were led by the joint partnership management. In addition, it was agreed that partnership management would organize a Partners' Day for the sales functions of the partnering firms once or twice a year. The two other business forums Top Management Meetings and Contract Management were not coordinated by the partnership management. The technical forums similarly were coordinated according to interaction systems that had evolved through the years. Partnership management built contacts to the forums governed by other parties by establishing internal reference groups in both respective partner firms. The cooperative forums framework-building provided for the boundaries and contents of each group.

The framework was, however, only the starting point: the common perception among the hybrid stakeholders was that the relationships between the partners had to be continuously developing and evolving. The different stakeholders' influence strategies could vary according to situation. The partnership had to be dynamic and meet the business environment and partners' current needs. It was suggested that the common goal had to be defined at least on a yearly basis according to changes, and it was regarded important that trust was consciously enhanced and developed on multiple levels of the organizations.

5.4.8 The correlation of the STH research questions and the interpretation

Below, the correlation between the interpretation and SHT theoretical lens is presented.

Table 5.7 Correlation of SHT research questions and interpretation

Q1(SHT): How were the stakeholders' demands, needs and expectations taken into account in the partnership governance? *Q1.1(SHT): Who were the stakeholders of the partnership?* *Q1.2(SHT): What did the stakeholders want from the partnership?* The stakeholder approach was not on conscious level introduced during the research period in the sales and marketing partnership. Stakeholders according to groups were the following. 1) External stakeholders: customers, markets, Sigma experts and partnership reference groups; 2) Internal stakeholders: partnership management, Sigma's partner management, Epsilon's channel account management; 3) Hybrid stakeholders: top sales management, account managers, sales teams. Stakeholders were further identified according to their attributes as definitive; dormant, discretionary, demanding; and dominant, dependent and demanding stakeholders. Markets and customers demanded certifications, competitive offering and competence in delivery and maintenance. Partners' sales management demanded growth in revenue and market penetration. Sigma's experts wanted partnership management to facilitate their efforts in specialization processes and to lobby to increase the level of awareness and appreciation of the certifications. Partnership management expected active operative cooperation. Sales functions were hungry for new business, shared leads, joint sales cases and references.

Q2(SHT): How did the stakeholders perceive the legitimateness of the partnership? *Q2.1(SHT): What matters enhanced or hindered the partnership legitimateness?* *Q2.2(SHT): Did the stakeholders experience 'role ambiguity' or 'role conflict' in the sales and marketing cooperation?* The legitimateness was enhanced by success in Epsilon's bonus program, top management cooperative sales actions, jointly won cases, the establishment of the cooperative forums framework, and partnership management's increasing professionalism. On the other hand, legitimateness was hindered, because the way the cooperation was started as a certification project. Furthermore lack of common goals and knowledge of partner organizations' job descriptions as well as ways to operate slowed the legitimateness development The hybrid stakeholders except top sales management had problems in terms of 'loyalty' in practical situations: how to deal with the contradictive demands of different parties. The many relationships between the partners were difficult to understand (how did they relate to each other and match).
Q3(SHT): How did the partnership governance support the stability of the partnership? *Q3.1(SHT): What kind of boundaries can be identified between the partner organizations?* *Q3.2(SHT): What new boundary-spanning activities can be identified in the sales and marketing cooperation?* The boundaries of concurrent partnerships became comprehendible through the cooperative forums framework, and the role of the case partnership was clarified, legitimateness was gained. The sales and marketing related cooperative forums were: sales cooperation, marketing and business cases group, Partner's Day. Partnership management became an easy contact point and gatekeeper; in addition the function organized workshops and surveys as well as established the internal reference groups. Promotional and other common presentation materials were produced.

6 DISCUSSION AND CONCLUSIONS

This chapter presents the combined interpretation of the case study, the theoretical and methodological contributions, the managerial implications of the research as well as its limitations and ideas for future research. In deriving the combined interpretation, the case narrative, the research question batteries and theoretical interpretations were systematically studied side by side to disclose what new insight, explanations and learning the use of the different theories added to the analysis of the case.

The theoretical lenses utilized the central concepts and constructs of each theory as well as pertinent models based on the theories. Since the assumptions for the research remained the same during all the readings, it is contemplated that the different viewpoints can be consolidated and used to form the combined interpretation of relevant sections of the case partnership. Each theoretical lens emphasized different factors, which could display some fresh angle or support to the other theories' viewpoints answering the dissertation research question 'What is the role of partnership governance in sales and marketing cooperation?'

The theoretical interpretations complement the case narrative by adducing possible, sensemaking explanations to questions such as the following:

- How did the way partnership management operations were started affect the partnership performance?
- Why it was felt that the partnership did not meet the expectations set on it?

Secondly, sensemaking explanations provided learning opportunities by bringing out 'missing issues', i.e., matters that could have caused different partnership outcomes if they had existed or been taken into account in the partnership governance during the research period. For instance, the following questions can be asked:

- Could the downsizing of Sigma's partner management have been avoided, had something been done differently?
- What would have been different in the partnership, if the object of marketing had been the partnership instead of products and services?

The interpretations were compressed into arguments based on the operational sales and marketing partnership studied, and generalized to propositions that would be applicable to other partnerships. Along with the arguments and propositions, the recommendations for practicing partner managers highlight issues that, based on this research, are essential in governing partnerships.

Finally, the research method used and systematized in the current research, is evaluated, and ideas for future research cover also the further development of the Alternate Templates Strategy as a research method for process research.

6.1 Combined interpretation and propositions

6.1.1 Evaluation of the partnership goals and achievements

The partnership management was given very few guidelines for its practical management work from the partner organizations' top sales management. Basically, the only objective set by the partnering organizations to the sales and marketing partnership was to 'create more business and revenue to the parties'. The mission of the partnership management was to 'make the partnership work'.

The partnership management operated as a virtual function and had participants from both of the partnering firms. Sigma's partner management and Epsilon's channel account management functions were naturally empowered only in their home organizations and neither had authority stemming from the organization structure over the sales force that was the front-line actor in the marketplace and in sales cases. However, Epsilon's incentive systems recognized the impact of channel account management on the revenue created to Epsilon by their channel partners and also the CAMs earned compensation based on the sales figures. During the research period, Epsilon's main focus was on creating the market for IP-technology based voice solutions.

In Sigma, the partner management was unconnected with sales organization's incentive programs, which were not technology orientated, but regarded the corporate customers' total revenue in counting the compensations. Although new sales cases might have a higher weighting factor in the calculations, the customer-retention and continuation of existing contracts was a significant element in the compensation model. Sigma's business was based on telecommunications services that were run on platforms composed of Epsilon's and other technology vendor's hardware and software products. Because Sigma and Epsilon held vertically different positions in the delivery chain, it was understandable that Epsilon was ahead in the schedule of creating the VoIP-business market when compared to Sigma.

The stakeholder analysis identified three different customer segments:1) the customers who seriously considered outsourcing their communications networks; 2) customers, whose telecommunications strategy was to own and control, maintain and develop the networks and equipment themselves; and 3) customers, who bought the ICT solutions as service but wanted to control the development of them. The first segment was the group of customers that Sigma was most interested in, while the second group did not fall within the scope of Sigma's sales strategy, and the third segment certainly valued the insight and forecasting capabilities that Epsilon was famous for. The segments perspective as a basis and tool to agree on effective, collaborative actions could have contributed to the development of the sales and marketing cooperation.

A well-defined goal for Sigma's partner management was the upgrading of the Crystal channel partner certificate to the Diamond level. The goal was 'well-defined' in the meaning that it could be clearly justified whether the target had been reached or not in the timetable set by the Epsilon program. The goal was not 'well-defined' in the sense that the certification processes would have been envisioned or assessed beforehand in terms of different resources that would be needed to meet the particular requirements of the Diamond partner status.

The markets set the requirement for the channel partner certification for Sigma, but in practice, due to the small number of certified companies on the market, the Crystal certification was sufficient in terms of meeting the expectation. From this perspective, it would have been wise to set the target of Sigma's certification status as 'maintain the Crystal certification'. Anyhow, it was possible to evaluate the degree to which the Diamond certification goal was met mainly due to the fact that in the Epsilon Channel Partner Program the different certification requirements were explicitly listed.

The combination of Epsilon's active lobbying and Sigma's internal desire to prove itself led to the decision to pursue the Diamond partner status. The goal was not impugned on facts: the benefits as well as needed investments, human resources, organizational support, and so forth had not been assessed. Additionally, Sigma's partner management was blind in terms of questioning the goal or the grounds for the decision. It had false assumptions about the level of knowledge on the Channel Partner Program in Sigma's organization. This blindness was to a great extent due to the way partner management became involved in the first certification processes: from the certification project viewpoint partner management was called for help in a crisis situation, where more actors were quickly needed to meet the first Crystal certification goal; it was not a proper time to start asking questions.

According to the SHT analysis, the most critical stakeholders of the partnership were the hybrid stakeholders, namely the top sales management, account managers and sales teams, and Sigma experts, whose technology specialization certificates were needed as part of the requirements in qualifying for Epsilon's Channel Partner Program. From the partnership viewpoint it was crucial that the certified experts sustained their motivation and commitment, and new certification candidates at advanced level would be recruited into the corporate certification program.

On a longer perspective, a corporate certification policy that would guarantee a fair deal and equal treatment of the employees involved in the certifications would be a necessity. Becoming a certified Epsilon expert should have been a beneficial, lucrative and alluring opportunity for the personnel who would thus be more highly appreciated and valued by Sigma organization, its management and its superiors. The support services offered to the candidates should have been defined and standardized. Transformation of the training and hiring plan into measurable and scheduled targets, which were negotiated and agreed on with the business units, would have made Sigma's investments more secure and reduced risks by creating commitment in the technology functions, as well as assert partner management in its efforts to gain controlling authority in the organization.

It was an announced goal of the partnership management that the parties would share sales leads and develop them together into sales cases. However, no numerical targets had been set, agreed on or presented to the sales organization. This is quite curious because both parties separately had compensation policies drawing from numerical sales targets. Based on the case narrative and the theoretical interpretations, it is possible to suggest several explanatory factors for the lack of measurable goals, and also to speculate on the matter of 'what difference the existence of measurable goals would have made'.

First, from a planning point of view the sales and marketing cooperation got off on the wrong foot. For example, in the early phases of the sales and marketing partnership the certification processes overruled the planning activities and the whole partnership management attention was directed to operational and routine work. Partnership's predictions of sales figures were needed in the joint business plan required for the Diamond partner status. However, a short cut was taken in meeting the requirement: the figures were extrapolated on the basis of previous data available from the total business between the partner organizations from several years as well as on Epsilon's knowledge and experience of the forecasted general growth. At this point, the alignment between the operational focus on VoIP business and the budget was not considered. Moreover, the sales budget was not converted to a number expressing the objective as a number of joint sales cases.

Secondly, in the business forums, the task of 'resource sharing and planning of sales cases' was allocated to the Business Cases group, and 'to review the business plan' was considered more strategic and the responsibility of the Sales Cooperation group. The division of duties did not really reveal, whose responsibility setting the sales goal actually was. At best, this suggests that it was assumed that budgeting would be done by partnership management that had no power over the account managers in either organization. Although the Sigma sales people had strongly influenced the decision of pursuing the Diamond certification, the sales organization had not considered how the Diamond investments would be paid for as increased sales. The sales and marketing partnership was based on a loose foundation; it was an ad hoc decision rather than a result of careful planning. The partnership was based only on the certification project.

Thirdly, in the beginning phase of the focal partnership, the focus and scope of the cooperation was on the creation of the new business area, the VoIP market, which was the most important goal for local Epsilon. The upside potential for Epsilon-technology based VoIP-business was difficult to assess. The partners did not observe and study the market together or share market information. Epsilon was not pleased with the pace of Sigma's service development, and they considered Sigma's service launches as falling behind from the market-demand viewpoint. There was a lot of controversy and uncertainties in Sigma organization regarding the new IP voice services. Those debates and disputes were related to 'cannibalism' (new services eating up revenue based on old services), optimizing the use of legacy network technologies and promoting the use of mobile services instead of VoIP. Moreover, the emergence of VoIP services caused pressures for the re-organizing and re-allocation of responsibilities. Sigma wanted to reach a unanimous opinion before sharing the market perceptions with any outsider. Epsilon attempted to start the discussions by proposing the use of their market research results, which were produced by Epsilon's telemarketing organization, but Sigma did not seize the opportunity. Certain skepticism, opportunistic attitudes and mistrust could be detected between the partners. Besides, during the research period the Sigma account managers were just beginning to consider cooperation with Epsilon as a reaction to the customers' growing interest in VoIP solutions.

Fourthly, Sigma's solution sales function had developed quite a complicated sales philosophy based on Sigma's multi-vendor technology strategy. In an ideal situation, a customer would outsource the network service solution to Sigma, who got to make the technology partner choice. The solution sales managers aimed at creating a competitive situation between different technology partners *after* Sigma had secured a deal with the customer. The solution sales managers were reluctant to agree on any commitments with any vendor. This sort of reasoning was also induced by the role ambiguity and role conflict the managers were experiencing: they wanted to arrange a bidding contest between different technology vendors to avoid being accused of subjectivity in choosing the partner for a sales case. They tried to cope in a complex situation in a way that before anything was aligned with the objectives of their own organization. However, at the same time solution sales managers did not see that by using their power and making sure that several vendors succeeded on the market, they actually – in the long run – would have supported the vendor independence strategy by ensuring that there would be alternatives in the future. Moreover, agreeing on common, measurable sales goals would not have violated the tactics of buying products, nor would it have meant firm commitment.

The general perception of the partnership achievements and performance was that expectations were not met. If measurable goals had been defined, it would have been possible to assess the partnership success on some comparative scale: if it had been possible to say that the goal was met in half, 30 %, 80 % or whatever, some of the non-accomplishment and uneasiness felt in justifying the partnership performance quite possibly would have vanished and a positive development spin achieved.

6.1.2 Propositions 1 and 2: Stakeholder management and measurable goals

Perry et al. (2004) found in their study on horizontal sales alliances that partners' commitment is positively related to the degree to which the alliance has attained predetermined goals and objectives. On the other hand, Selnes & Sallis (2003) regard the existence of goals as an indication of partners' commitment to the relationship. Commitment affects the tone of the cooperation. According to TGF, setting the tone for the cooperation is a task of the partnership management.

Based on the combined interpretation of the case narrative, it can be argued that the lack of common goals reduced the rate of commitment development in the partnership. On the other hand, the lack of common goals also indicates that the understanding of the partnership as a way to do business had not evolved. Measurable goals would have provided the partnership with a tool for evaluating the cooperation from a common perspective, and the evaluative process would correspondingly have aided the partnership culture to advance. It is argued that measurable goals as such would have improved the atmosphere and would have been essential from the partnership tone viewpoint. It would have been important that the goals existed; their quality and the success in meeting them would have had a secondary effect on the tone. Partnership management could have set the goal for the sales and marketing cooperation despite all the prevalent uncertainties based on stakeholder analysis and management.

Argument 1. Identification of partnership stakeholders and their active management could have improved the partnership performance especially through the better understanding of the expectations set to the partnership.

Proposition 1. *Partnership stakeholder management improves the partnership performance by developing comprehension of stakeholders' expectations and by enhancing the partnership goal setting.*

Argument 2. A more relaxed and better tone for the partnership could have been created by the determination of a measurable goal for the sales and marketing partnership, e.g. as a number of common sales cases. The performance of the partnership would likely have improved through increased commitment.

Proposition 2. *Jointly set common, measurable partnership goals improve the tone of collaboration by providing a means of evaluating the success of the cooperation and perception of the achievements. The better and more relaxed tone of cooperation leads to a better performance of the IOR.*

6.1.3 The impact of history in the partnership

From the customers' point of view, the telecommunications technology had developed as three different streams: voice, data and mobile communications. During the research period, the merging of technologies of the different streams had advanced so far that IP technology was starting to be used in voice communications. Moreover, customers were offered telecommunications as ICT solutions and services. The focus of telecommunications had switched from ‘how to do it’ to ‘how to use it’ mode. Sigma’s business-to-business sales strategy relied on offering services and network outsourcing to customers, who would be freed of concerning themselves with technology issues, such as product and supplier choices, maintenance and on how to develop the corporate infrastructure.

The former voice and data communications equipment and technology providers were entering and competing on a common market. Because the VoIP technology usage was still in its emerging stage, the technologies currently used in the customer networks could make a difference in how easy or difficult the implementation of VoIP services to the existing IT-environment would be.

The early, common history between Sigma and Epsilon was in the data communications field, and the partners had collaboration traditions in products and services development from the time when commercial internet ‘revolution’ was at its dawn. The partners had cooperated in the development of pioneering new network solutions based on IP technology. At those times, Epsilon’s main focus had been to grow in terms of volume and every sales case had been important. Frequent negotiations on prices and other terms, compromises, special deals and jointly handled customer cases had been a more characteristic mode of sales cooperation.

During the years, Sigma’s data communications solutions with ‘Epsilon inside’ had gained a status quo position in Sigma’s offering. The data communications solutions were compiled both in terms of technology and prices into ‘easy to sell’ packages by the product and service function of Sigma. The sales persons provided information on how much capacity and between what geographic places were needed, and received prices to be offered to customers. The product and service function carried the responsibility on both the economic design of the technological solution and the business profitability.

Later on, Sigma had transformed from a product and technology-centred enterprise to a customer-focused, service orientated company. Internally, the change had meant a power switch between functions: the profit and loss responsibility was carried by the sales functions. Account managers answered for the customer-relationship based business and solution sales managers were accountable on the commercial and technical solutions that were sold. Product and service function was still responsible for the cost-effectiveness of the way technology was used in the service products, but was not in the position of determining the customer price.

With the emergence of the VoIP solutions, the competition on the market had become much more intense. The number of potential competitors had increased as integrator-type players entered the game; customers arranged bidding competitions and changed suppliers much more easily than before. The competition on prices had become more important.

Sigma's personnel who had been involved in cooperative selling activities of data communications solutions during Epsilon's major growth-seeking phase were not satisfied with Epsilon's current mode of selling. The channel partner model and 'equality' policy according to partner status was the principle applied to sales cooperation. Sigma's sales force did not have patience or motivation to learn Epsilon's transactions-based pricing systems implemented in the web-pages, and would have preferred cooperation in the interactive, negotiations mode as in the 'old days'. Furthermore, they did not trust on Epsilon's 'fair play', but claimed that Epsilon was calculative and supported the partner that it speculated to have the best chance in each sales case. Besides, Sigma's sales people wanted to be treated 'special' (possibly including also small recognitions of 'work well done' from Epsilon after completed sales cases).

Although the Sigma people rationally comprehended that the times had changed, emotionally they did not understand the consequences of Epsilon's growth to a totally different, global corporation. Epsilon's former strategy of volume-based growth had changed to the mode of seeking growth by creating value to the customer. In practice, the global Epsilon had consistent, world-wide business policies and procedures that were applied on all the local markets, too.

Aligned with Sigma's internal power and responsibility switch between the functions of products / services and sales, the solution designers had been moved to the sales organization. In history, the solution designers had specialized in designing and planning either data or voice communication network solutions. Now, when the IP technology was emerging into the voice solutions, the former separate solutions designer groups were being united.

The voice solution designers were new-learners in Epsilon technology and did not have previous connections with Epsilon people. Quite to the contrary: they had close contacts and bonded with other Sigma partners that were entering the IP-world from the traditional voice communications technology angle. Similarly, the solution sales managers had a background either in data or voice solutions. The former data solution sales managers and solution designers had strong traditions in Epsilon technology and cooperation. Depending on their personal historical background, Sigma's solution sales managers as well as solution designers were biased at least in terms of the depth in which they knew the partners.

The cooperative practices of the different Sigma partners differed in scope and style. The other partners, excluding Epsilon, did negotiate and bargain with Sigma on prices, and also in other respects the communication with them was much more interactive – at least locally. Generally, all the sales people preferred that manner over the transactions method. On the other hand, Epsilon's way of training and keeping Sigma continuously updated on the current trends and features of IP-technology in the technical forums was a valued asset, and considered better organized as compared to their rivals. In addition to the accustomed training participants in the data field, the former voice solution designers had joined the technical groups.

The technology-based cooperation between the focal partners had a long history, and the strong technical partnership was a competitive advantage since it supported Sigma's service strategy by creating long-term customer satisfaction. Most technical problems were eliminated beforehand, and if they did occur, corrective actions were efficiently carried out. Sigma was an active member of Epsilon's global eco-system of software and hardware faults detection and resolution community. Also, service maintenance and implementation had a superior quality as a result of the continuous technical and new-products training taking place in the operational technology forums. The legitimateness of the technical partnership was excellent: the parties' interactions on technical issues were frequent and recurrent on both support and development areas. Strategic collaboration was also done in enhancing the network performance. Moreover, the technology-based cooperation created continuity for the partnership in the business, where the competition environment changed rapidly and teleoperator organizations were frequently restructured and altered.

However, in the focal sales and marketing partnership, the technical partnership was not perceived as a resource nor was the opportunity of using the technical partnership as a sales argument realized. In the urge to push, sell and market the VoIP services and solutions, the partners had not sufficiently brought up the already existing strengths in the cooperation between them. VoIP was the new business area and building up the market for those services so important that the 'old' issues were ignored.

Had the history between the partners been seen as a resource, and the scope of the sales and marketing partnership comprehended more broadly, the atmosphere of the cooperation could have been different: there would not have been any shortage in references, common sales cases or cooperative actions. In fact, the partners' top sales management operated in this manner and succeeded in making the difference in the large non-VoIP sales case, which the partnership won during the research period. The top sales managers marketed the whole partnership and the technical competencies that had evolved during the years in the cooperation; they did not just cooperate in a narrow sector.

6.1.4 Proposition 3: The scope of the partnership

According to TGF, the partnership governance of the sales and marketing partnership reflected the productive opportunities perceived by the partnership management. The limits for the cooperation were a subjective image of the partnership, which could be altered. The perception of the circumstances and relevant environment affected the behavior of the actors in the cooperation. Although the sales and partnership governance structure was developed to be incorporated into the cooperative framework that included the technology-focused forums, partnership management did not alter its perception of the scope of the IOR. In addition, the resources of the partnership were evaluated as separate, being held by either partner: the well-established cooperative technical operations and common processes were not seen as producing services for the new cooperative arena.

Argument 3. Expansion of the scope of the sales and marketing cooperation from only focusing on IP-voice technology solutions and comprehension of the well-established technical cooperation created in the data communications field as a resource for the partnership, would have resulted in better performance of the partnership and in the VoIP business (e.g. by offering superior and more convincing argumentations in the sales cases).

Proposition 3. *Expansion of the scope of sales and marketing partnership to include, and comprehend both the common history between the partners and the cooperation without direct sales focus, as a resource, improves the credibility and plausibility of the IOR among the customers and creates more business opportunities for the partnership.*

6.1.5 Development of the cooperative framework

The governance structure of the partnership evolved during the research period through stages. Sigma's first approach to managing the Sigma-Epsilon partnership was to incorporate Epsilon into Sigma's 'focused sales and marketing cooperation program'. Central to the governance model was establishing and working with a partner-specific internal reference group, which facilitated internal information exchange on the IOR matters and provided for judgment and ideas to the further development of the sales and marketing partnership. Correspondingly, in Epsilon, partnership management was put into practice according to the guidelines of the Channel Partner Program that actually was an aggregate of many different sub-programs and run through extensive, global web-based systems.

Thus, at the early phase of the partnership both partners had their own separate frameworks on how to manage the focal partnership. Together, Sigma and Epsilon started regular joint meetings with partner organizations' sales and marketing professionals. The perception of the partnership was a multidimensional, uncoordinated bunch of meetings, seminars, sporadic customer events and so on. The collaboration did not have a shared, common governance structure. However, the cooperative activities between the partners evolved to a virtual partnership management function. In addition to the nominated Sigma partner manager and Epsilon channel account manager the virtual function incorporated other people, who on a regular basis contributed to the partnership management processes. Those other people operated according to their roles in the partner organizations or to their special capabilities and represented, for example, the sales management and business development functions of the parent organizations.

Sigma decided to pursue the Diamond corporate certificate and Sigma's partner management began in cooperation with Epsilon to conceptualize how the highest channel partner certificate would be achieved. Once Sigma partner management learned and comprehended that the channel program was applied globally to all certified Epsilon partners, and that there was no room for mutual adjustments, Sigma incorporated the certification processes into its governance structure. Sigma's partner management expanded its scope of services from customer satisfaction surveys to activities aimed at technology specializations on both the individuals and corporate levels. Sigma utilized the global guidelines and web tools as an information source for the requirements and rules of Epsilon's world-wide Channel Partner Program. Locally, Epsilon influenced the way its resources were allocated to the partnership and how different elements of the partner program were exploited in the relationship.

From Epsilon's viewpoint, the partnership was a legitimate entity because it had been qualified according to the channel program rules, but from Sigma's perspective more was demanded. The sales and marketing partnership had more stakeholders in Sigma organization than just the sales organization: thus a more comprehensive structure of the partnership governance was needed.

As a common effort of the partnership management and internal reference groups, the different collaborating forums between the partners were identified, their principles of participation recognized, and their missions described. A general framework for the multidimensional cooperation on strategic and operational levels was constructed. Moreover, the forums were set into the framework according to their primary intensity of business or technology foci. The sales and marketing partnership was presented in the cooperative framework as three regularly meeting forums: 1) Business Cases, 2) Marketing and 3) Sales Cooperation groups, all of which were led jointly by the virtual, common partnership management.

The established framework was an important element in making sense of the sales and marketing cooperation. It presented the joint efforts between the partners as a working and governance system to different audiences and created an impression of control especially for dozens of Sigma people, who were regularly connected with Epsilon. The framework increased the transparency of the collaboration and defined the boundaries of the sales and marketing partnership in relation to the other joint forums between Epsilon and Sigma. It became self-evident that such a dimension had been missing in the cooperation, and the sales and marketing partnership gained legitimateness as an entity.

The developed governance structure consisted thus of the virtual partnership management function, the internal reference groups, Epsilon's Channel Partner Program and the cooperative framework.

6.1.6 Proposition 4: The governance structure

The partner organizations had been collaborating for a long time before the announcement of the sales and marketing partnership, but common understanding of the many sides of the cooperation was missing and the fragmented images and visions of involved people diverged. The cooperation was grounded on inter-personal linkages. However, the sales and marketing partnership was a proposal on firms' level. A unanimous way of thinking about the new dimension of cooperation in the multifaceted network of people and collaborative groups was needed for the partnership to gain legitimateness[32]. The partners' own programs guiding the administrative management of the sales and marketing partnership were not sufficient.

Argument 4: The cooperative framework as a grand governance structure for the sales and marketing cooperation enhanced the partnership legitimateness and recognition as an organizational form chiefly because it defined the boundaries of the partnership as specific forums and related them to the other collaborative groups.

Proposition 4: *Presenting the partnership in a sensemaking manner in relation to other, earlier existing organizational entities between and in the partner organizations increases the legitimateness of the IOR. Legitimateness is a prerequisite for the partnership to succeed.*

6.1.7 Unfolding of partnership processes

The partner organizations based their success expectations of the sales and marketing cooperation on partners' complementary market-based assets, and the argument for the partnership's value-creation to customers on innovations on operating models, cost efficiency or sales and service concepts. In other words, it was expected that the partnership would create growth for the partnering firms by sharing knowledge and information on the markets and by coordinating customer relationships management, as well as by the development of joint, cost-efficient sales and marketing processes.

The combination of resources and development of joint sales and marketing processes required interactions spanning the partners' organizational boundaries. The partners' corporate cultures were quite different in terms of partnerships. For Epsilon, partnerships were a routine way of doing business in several functional areas and an extensive web-based system for handling items such as product, price, orders or

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[32] Legitimateness is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. (Suchman, 1995, in Mitchell et al., 1997)

production data had been developed. A high degree of efficiency had been achieved in outsourcing sales- related work to partners, who retrieved and inputted data in the form of transactions with Epsilon. As a result, Epsilon's sales and marketing efforts could be focused on creating future markets for new products.

Contrary to Epsilon's focus, all the temporal dimensions – the future, the present and the past – were important for Sigma's sales force work. Sigma was selling telecommunications-based services for corporate customers' business use and the existing ICT solutions had to be taken into account when new services were planned and designed. Furthermore, both customers' and Sigma's legacy investments had an effect on the future decisions. Sigma approached the customers from the comprehensive customer relationship viewpoint, where technology was a platform for services. However, the goal of making technology invisible demanded robust technological knowledge, and Sigma's sales projects were carried by sales teams with business *and* technology experts.

During the research period, the sales processes of Sigma and Epsilon were not integrated as a conscious effort since the focus of the operations remained largely on conceptualizing and determining the scope of the partnership governance in the focal IOR. However, it was realized that interactions especially with the solution sales managers and solution designers with voice solutions background needed enhancement. The designers and other technical VoIP specialists were invited to participate in relevant technical cooperative forums, and Epsilon sponsored a training day for the solution sales managers. The work on harmonizing the different stages of partnership sub-cultures among the different sales people categories was started.

One of the visions of how to develop common sales processes was that the partners' account managers would be doing customer plans together. However, the viewpoints of Sigma and Epsilon sales people did not match: Sigma's account managers did not possess enough technological competence to be at the same level with Epsilon's account managers. On the other hand, the solution sales managers' jobs were quite hectic, and as a result they were typically occupied by the current sales cases. They could, though, be used as experts in prospecting the future for customers.

Sigma had announced in its technology strategy the principle of vendor independency in the development of both networks and service solutions. During the research period, Sigma's sales teams developed a sales tactics that relied on that strategy: Sigma's offers on VoIP solutions were, as often as possible, constructed totally as service concepts, and so the technology choices were left until after the securing of the sales deal. The solution sales function claimed that this procedure led to cost savings, because a competitive situation was created between the vendors, and Sigma thusly got to negotiate on the product prices. The sales tactics evolved at least partly because of the Epsilon's rigid, transactions-based pricing systems. From Epsilon's point of view, Sigma's sales tactics meant that Epsilon had to try to influence and convince the customers about Epsilon's competitive edge on technology in such a way that customers would in their call for bids request for Epsilon technology. That way Epsilon would secure the deal, no matter who its partner in the case would be.

The mere existence of competitive partnerships created tensions to the sales cooperation, especially so in cases where only the other party had an advantageous starting point. That is, the prospective VoIP solutions client had a customer relationship with either Epsilon or Sigma but may not have been a common customer. However, if the sales lead or case was a new prospect customer for both parties, the situation was a matter of decision making: would the partners try to win the case together from the early phases of the sales process or not. An example of a positive outcome stemming from the determination of working together, during the research period, was the important, large sales case where the partners' top sales management cooperated.

An essential characteristic of the conditions in which sales and marketing processes took place was uncertainty: sales could be described as a game between the seller and buyer, who both wanted to optimize the result from their own viewpoint. Uncertainty created tensions: how well did the seller understand the needs and demands of the customer and their business processes; what was the trigger in the decision process; how important were customers' previous experiences on competing service providers and technology; what was the weight of visions on future development in the decision making? Trust between the seller and buyer was also and important element in purchasing since the decision maker would be accountable as to the choice in her/his organization and she/he had to consider the risk of losing face.

Tensions between the partners arose also because of differences in partner organizations' cultures, business tempos in relation to customers, and the global/local scope of the two corporations. However, from the cooperation and partnership governance viewpoint, it would have been crucial to recognize that tensions were a 'natural' phenomenon in IORs, and that tensions would always exist in hybrid organizational forms. In the focal sales and marketing cooperation, partnership management tried to facilitate discussions on matters that seemed to be hindering collaboration. It was believed that uncovering these various tensions was the first step in their control, and if it proved impossible to remove the tensions or weaken their effects, then they would be considered as external conditions to which the partnership had to adapt.

Development of partnership processes was easiest to identify in the channel partner certification endeavours. During the research period, the total certification processes were repeated more than twice, Epsilon's requirements remained practically the same, and the whole procedure was scheduled annually. The certification processes developed through experimenting and trial-and-error learning, both as incremental changes and as intentional elaboration. In much the same way, partnership management developed other administrative services associated with the Epsilon's bonus programs, coordination and running of business forums' meetings, consultation on Epsilon's pricing or training procedures, and with intelligent, periodical and collaborative transactions and so forth.

6.1.8 Proposition 5: Partnership development drivers

The focal sales and marketing partnership research supported the proposition of Das & Teng (2000) that tensions are inevitable in IORs. Das & Teng studied only internal tensions of three key pairs of contradictory forces – cooperation versus competition, rigidity versus flexibility, and short-term versus long-term orientation, but suggested that future research should discuss external factors such as changing market conditions as causes of tensions for alliances.

In the focal sales and marketing partnership, many tensions could be identified. Contrary to the referenced study, (Ibid., 2000), in this research, the tension 'cooperation versus competition', stemmed from the markets. The partners did not compete with each other but had competing partnering constellations within the market. However, the roles of Sigma as Epsilon's customer and channel partner were a source of tension because the partners had different perceptions of how the roles should be differentiated or consolidated in the mutual business transactions. Generally, the tensions recognized in the IOR were social phenomena relating to how the people perceived the differences and similarities between the partners as well as the behavior and attitudes towards customers and competing cooperative parties on the market. On the other hand, the way cooperation between the partners developed in the IOR was a consequence of different interactions, such as discussions, negotiations and bargaining. The partners' personnel also deliberately created or presented different perceptions for instance of the market situation for business purposes.

Argument 5. The drivers for the partnership development were the differences and similarities between the partners and the tensions based on market conditions and relationships. The partnership practices evolved as a continuous process in a socially complex environment.

Proposition 5. *Partnerships evolve and the practices, processes and common perceptions of the IOR – along with mutual trust – continuously develop in a complex social environment of the partnership. The development in a sales and marketing partnership is trigged and driven by internal and external tensions.*

6.1.9 Path dependence effects on the partnership

From Sigma's partner management point of view, the cooperation with Epsilon started off in a very operative manner since help was needed in conducting the customer satisfaction surveys required as one aspect of Sigma's first channel partner certification process. The certification project was initiated in Sigma's business-to-business sales organization and was a reaction to customer demands. It was necessary to remove the bar to competition in sales cases in which the Epsilon channel partner certificate was a qualification requirement.

When Sigma's Crystal certification was accepted and the sales and marketing partnership was announced, Sigma's partner management assumed the responsibility of the IOR on Sigma's side. Because the re-certification on Diamond level had been set as the objective at the next certification audit, the development work needed in building a realistic plan to meet the goal was prioritized. Besides planning on how to earn the required additional corporate specialization, the certification processes had to be made more efficient. Due to the earlier experiences and the way Sigma's partner management had got involved in the IOR, the certification-processes related work overruled the cooperative sales perspective in the early phase of the newly announced sales and marketing partnership.

The focal sales and marketing partnership was announced at a kick-off event, where the sales people of both partner organizations had been invited by the local Epsilon's CEO and the leader of Sigma's business-to-business sales. The planning and execution of the event was a joint effort of the marketing professionals of the firms supported by Epsilon's channel account management function. Sigma's partner management was not involved in the preparatory work since its role to date had been only to provide resources for the customer satisfaction surveys execution. Although both parties had presentations in the event program Epsilon acted as a host in running the 'show' and sponsoring the kick-off party.

The main target group of the kick-off was the partner organizations' sales personnel, but the participants in the certification process were also invited to the event and included people from Sigma's solution sales and solution design as well as from product and service development functions. It was assumed that the main counterparts of the focal sales and marketing partnership were the customer-responsible account managers of the firms. During the informal part of the event, the account managers were encouraged to get to know each other in group actions, where the teams had been built according to common customer relationships. The facilitation was seen as helping the account managers to agree on joint customer case activities.

The legitimateness-building efforts of the partnership were thus started with the most critical group, the hybrid stakeholders of the partnership. Since Sigma's organization culture perceived most of the cooperative inter-organizational relationships through the supplier/subcontractor lens, Epsilon's stronger profile as the program's speaker supported an already firmly-established interpretation: Sigma participants in the kick-off event felt like guests instead of the key actors in the new partnership. The commitment of Sigma's hybrid stakeholders to the cooperation was not advanced. Moreover, because correspondence of the account managers' job contents in reality was not what the party organizers had supposed, the planned facilitation of joint customer actions did not succeed as anticipated. Even though the event became a memorable and successful happening in the minds of the participants, it did not improve the partnership legitimateness among the sales force.

Right after the kick-off event, the external marketing and legitimateness building of the partnership on the market was started with a press release. During the next six months the informative marketing of the partnership to external stakeholders was continued as an integrated part of the programs in the customer events arranged by Sigma and/or Epsilon. However, the opportunities for public marketing offered by the acceptance of Sigma's Crystal certification and Epsilon's admission of the title of 'Service provider of the year' to Sigma were not really exploited, chiefly, because the legitimateness building activities were already strongly biased towards the external stakeholders.

The evolved virtual joint partnership management observed and analyzed the development of the tone of the cooperation and decided to conduct a survey about the sales cooperation. It was found that the attitudes towards the partnership varied a lot according to the person in question. When the results were compared with the activities the parties had been doing together, it became evident that people had continued working with each other in the same manner as before the official announcement of the sales and marketing partnership. People who had been cooperating on the market already earlier continued to do so, but enhanced joining of forces had not been initiated. The partnership status as a legitimate entity had not become better.

In fact, from the cooperative sales development point of view, the situation had become worse mainly because Epsilon account managers had already become frustrated with the non-technical attitude of Sigma's sales force. To connect the right counterparts, Sigma's solution sales managers with Epsilon account managers, demanded that the previous experiences had to be first unlearned and forgotten and contact building facilitation re-started. As an unanticipated consequence of the kick-off event, the Sigma sales force had perceived the activity aimed at building internal legitimateness in just the opposite way, and the situation did not change because legitimateness building of the partnership after the kick-off happening continued in the external mode 'outside-in'.

6.1.10 Proposition 6: Partnership legitimateness building

In their research on legitimateness[33] building in a network context, Human & Provan (2000) define legitimateness as "a perception that the actions, activities and structure of a network are desirable and appropriate…by both the member firms and outside constituents" and propose that legitimateness building is to be done along three dimensions: network as form, network as entity, and network as interaction.

Applying the above concepts to the focal sales and marketing partnership means that the partnership was considered legitimate, if the partnering firms, the customers and the markets considered that partnering was a proper organizational form of doing business,

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[33] The term 'legitimacy' instead of 'legitimateness' is used in the original article.

that the partnership would benefit the parties and that the partners would establish and sustain relationships so as to cooperate in sales and marketing activities with each other.

In the case partnership, the development of integrated cooperation in practical sales work did not start as well as was hoped. In their paper, Human & Provan introduced the concept of 'strategic orientation of legitimateness building' referring to the order in which the internal and external stakeholders of the network were approached. The legitimateness-building activities could be conducted as 'inside-out' or 'outside-in'. It was found that inside-out strategic orientation was more successful in establishing legitimateness as interaction.

In the focal sales and marketing partnership, the kick-off event failed in creating legitimateness as interaction between the partners' account managers for two reasons: they were not the right cooperative counterparts, and, secondly, the Sigma sales people did not perceive the event 'internal'. Instead of improving the legitimateness of the partnership in the interactive dimension among the sales people, the legitimateness as interaction became worse, requiring corrective actions at a later stage of the partnership. To make the kick-off event a successful legitimateness-building activity would have required a more thorough understanding of the partners' differences in organizational cultures and in sales people's roles.

Argument 6. Successful internal legitimateness building in the early phases of the IOR would have improved the pace at which the interactive sales processes developed in the partnership.

Proposition 6. *The development of the partnership processes starts earlier if the internal legitimateness building activities are prioritized in the early phases of the partnership.*

6.1.11 Marketing and communications on the partnership

Sigma’s partner management and Epsilon’s channel account management functions were in very different positions in their respective organizations. In Epsilon, partnering was an established manner of doing business. Models of partnership governance were built into the administration structure, and channel account management was conceived to create value and revenue for the business. On the contrary, Sigma’s partner management was regarded as part of business development; in other words, it was a costs-creating function for the business, and its results did not unfold in the standard reporting systems. The first Crystal certification had been regarded as a project, which had reported to the sales management respectively. However, the sales and marketing partnership was from administrative viewpoint considered as a settled agreement of go-to-market cooperation with Epsilon.

According to Sigma’s ‘focused sales and marketing cooperation program’, the partner management was to create and cooperate with an internal reference team. In Sigma’s sales organization structure, reporting on partner management performance was done in the business development management team meetings. Sigma’s top sales management was not informed on a regular basis about the activities or outcomes of the partner management.

Although the top sales managers of the partnering firms had common show-ups in customer events or even cooperated on the largest business cases, the Sigma sales executives had only a shallow understanding of the operative activities of the partnership and Sigma’s partner management role in it. Partner management had challenges in learning and adapting to the administrative Epsilon systems, in developing the certification processes, setting the scene for the corporate certification to be achievable, running the business forums together with Epsilon and in pursuing the cooperation between partners’ sales people. Internal communications or marketing of its own work were not on the agenda of Sigma’s partner management, but it focused on operative efficiency and actually tried to bother ‘other parties’ as little as possible.

The stakeholder analysis identified the top sales management as dangerous stakeholders: besides urgency, they had the decision power on resource allocations for the partnership management functions. After the successful participation in the Epsilon bonus programs and the gaining of sales rebates, Sigma partner management did not realize that its position would be at stake. If Sigma's partner management had understood the importance of its internal image from the top sales management angle, and also invested in ensuring that the sales organization leaders knew more about its efforts and practices, perhaps, the function would not have been downsized.

However, the downsizing of partner management was done in connection with a major organizational restructuring process, where decision-makers in the sales organization changed. Thus, it is conceivable that – from partner management viewpoint – the end result could have been the same even though its profile had been assessed on a more factual basis. Epsilon knew how efficient the Sigma partner function was and could have informed Sigma's top sales management of Sigma's partner management achievements. However, Epsilon's involvement could have been interpreted only as an attempt to look after its own interests.

Another example of Sigma's too-introverted attitude from stakeholder management viewpoint was its failure to recognize the opportunities of using the customer satisfaction surveys as a tool in building commitment to the sales and marketing cooperation among the Sigma account managers. Only the first satisfaction survey process involved them.

In the later rounds of customer satisfaction surveys, partner management did not involve the account managers or solution sales managers in finding the respondents, but cooperated more in the product and services development front. Although the procedure resulted in reaching better quality respondents for the surveys, the account managers could have been informed about the contacted customer representatives. After all, being the customer responsible quarter, they should have known everything that was going on with their customers. Moreover, giving the account managers feedback on the opinions measured in the customer satisfaction surveys would have been an opportunity to enhance cooperative attitudes.

Partner management approached the customer satisfaction survey processes as a necessary step in the certification processes, but did not really analyze the results. The main goal for partnership management was to meet the average score requirements and build a permanent customer-base for the annual surveys. The attitude was a result of the way partner management got involved in customer satisfaction surveys in the first certification process. In addition, Sigma saw the contents of the survey as not being a good match with its service strategy or customer-orientated business stance.

6.1.12 Proposition 7: Partnership governance legitimateness

Aligned with Sigma's organizational and administrative structure, the partner management had intuitively set a goal of processual efficiency for itself. Partner management put a lot of effort into developing the certification processes, which it considered as necessary enablement for the sales and marketing cooperation. Partner management reasoned that routinization of the 'inevitable' practices and increased professionalism of the administrative services would later free its resources to allow for more innovative and productive engagements. The prioritization led to neglecting the importance of building legitimateness for the function, which partner management failed to assess from all the stakeholders' viewpoints. Nor did they see or use the opportunities that were at hand to market its expertise and future plans. Internally, the joint partnership management valued its contributions to the development of the partnership and considered that a strong basis had been created for the sales and marketing cooperation to take off to a higher level, but they nevertheless failed to present its achievements to top sales management.

Argument 7. More active and regular communication to Sigma's top sales management and with Sigma's account managers would have been a way to internally market the partnership and Sigma's partner management.

Proposition 7. *Besides partnership legitimateness, the partnership governance legitimateness is an important factor in creating continuity and sustainability for the partnership.*

6.1.13 Routines and experimenting in the partnership

A lot of the partnership management boundary-spanning activities were done in the form of routine transactions in Epsilon's web-based systems. The systems were also a source of comprehensive information, and a way to intelligently disseminate ordering data among Epsilon's networking (production, logistics, etc.) parties. However, the downside from partners' viewpoint was that the system had grown very complex and many web pages could be reached from different angles. As a result, it was difficult to remember where certain information was. Moreover, Epsilon, being committed to continuous improvement, did change contents or layouts periodically. Although some of the updates were scheduled and concentrated to take place at the change of Epsilon's fiscal year in August, it seemed that alterations were done at other times, too. Epsilon's partner helpline assisted with such problem cases in finding the relevant information and was a resource for some administrative routines, too.

Due to the complexity and extensive data content of the Epsilon's web system, it took quite a long time to learn and master the navigations effectively. In order to stay agile and skilful, personnel needed to use the system recurrently and frequently. Typically, the Sigma salespeople's schedules or their personalities were not very compatible with the kind of exigencies the system demanded of its users and many of the Epsilon web-based routines evolved to or were incorporated in the administrative and information services of the partnership management.

Besides learning routines, partnership management as a joint effort created new practices, connected routines between the two partner organizations, and developed processes that were applied, as for instance in business planning and in arranging meetings. The routines were a way of rationalizing work, and due to increased efficiency, time was freed for experimentation. Experimenting in the focal partnership proved its value especially, when the methodology of the customer satisfaction survey process was being developed such that the number of invalid survey responses was successfully reduced. Customers responded to the questionnaire in a user-friendly ‘guided tour’ conducted by Sigma’s partner manager, who had tried and experimented with the alternative choices and details of the questionnaire.

Three other examples of experimenting for the purpose of detecting possible partnership productive opportunities were Sigma’s participation and trials in Epsilon’s different bonus programs, the presentation of the different cooperative forums between the partners in the form of a comprehensive framework, and surveys, workshops and training sessions arranged for various target groups. Experimental attitude was also needed when new information sources were sought for compiling pre-audit documents in the most efficient way. Partner management succeeded in combining partnership internal information with data obtained from Epsilon’s global organization and with practical knowledge of colleague partner managers of other firms. At times, for instance, as in the case of Epsilon’s bonus program addressed to businesses with small and medium-sized customers, the experiments did not produce new efficiency or lead to new opportunities, so efforts were wasted. However, from a development viewpoint, experimenting was crucial.

6.1.14 Proposition 8: Practical experimenting

According to TGF, experimentation is essential for changing the firm’s productivity (Kor & Mahoney, 2000). In the case partnership, the development of many productive services of the partnership management resulted from the actively conducted practical experiments of using the systems’ tools offered by Epsilon. Efficiency was increased in the administrative management of the IOR for instance in conducting the customer satisfaction surveys. Through the experimentations, also new aspects of the partnership possibilities were detected due to enhanced knowledge of the structure of Epsilon’s Channel Partner Program. An example of such new opportunities was gaining rebates from the bonus programs.

Argument 8. Practical experimenting by the partner management improved the partnership performance, especially because of the central role of Epsilon’s extensive web systems both as a communications medium and as an information source for the partnership.

Proposition 8. *Practical experimenting in the partnership governance leads to an improved comprehension of the partnership opportunities and is essential from the partnership development viewpoint.*

6.2 Theoretical contributions of the research

The research contributes to the research field of inter-organizational relationships in several ways. The study investigates the sales and marketing partnership as an organizational form using rich, practice-based research data, which was organized into a case narrative. Qualitative research on horizontal sales and marketing partnerships is very scarce in the IOR literature, and even more so in the operational context. The research data in the focal study was both processual and evaluative, and offered a unique opportunity to conduct a sensemaking study on the partnership.

Moreover, because the researcher was an ‘insider’ in the partnership during the research period, the practical and theoretical perspectives are combined well in the study. The research was based on the case narrative, which was verified by the most salient stakeholders of the partnership, and the bias resulting from the researcher’s background was eliminated as thoroughly as possible. It can be claimed that the case narrative portrays the actual partnership of the time (April 2003-April 2005) accurately. After the research period, the researcher did not get involved in the everyday practicalities of the partnership management, but from the study viewpoint concentrated on compiling the case narrative, on previous IOR literature, on research design and on interpreting the case narrative through the different theoretical lenses.

The partnership was non-exclusive and both partners had rival partnerships on the market. It was even possible that a partner from the case partnership was simultaneously competing in the same sales case as a member of more than one partnership. Although it is often mentioned and recognized that partnerships are and will be competing against other partnerships on the market, the competitive perspective in the IOR research has mostly dealt with competition *between* the partner organizations.

In addition to the non-exclusive nature of the partnership, there were other aspects that enhanced the complexity of the research setting. The only simplification done – intentionally, in this case – was that the customer's role was restricted and defined as that of a decision maker in the buying process and a 'receiver' of the telecommunications service infrastructure. In reality the customer / service supplier relationship had IOR characteristics as well.

The customers of the partnership were corporate customers buying ICT services from a telecommunications services provider that, in turn, used the products of the information technology equipment supplier as a platform for the services. The case partners thus had in addition to the horizontal partnership a vertical IOR which was considered in the study as an external condition. Similarly, the common history between the partners was expected to be an environmental factor to the partnership. However, as the interpretation deepened it was found that considering the common history and especially the technical cooperation as a resource to the sales and marketing partnership probably would have improved the partnership performance.

The research question of the dissertation was formulated as "What is the role of partnership governance in the sales and marketing partnership?" Using Theory of the Growth of the Firm (TGF) in comprehending growth also in the sense of getting better or more mature actually meant that the research question was approached from a processual viewpoint. The following formulation of the research question capture the nature of the research more precisely: "How did the partnership governance of the case partnership develop?" The timeframe used in the study included all the temporal dimensions: past, present and future, and it can be concluded that the research yielded results that could also contribute to the future growth of the case partnership governance. And the final formulation of the research question could be as follows:

"How could the partnership governance be improved in the sales and marketing partnership?"

An important theoretical contribution of the study is the use of Stakeholder Theory on other than firm-level research: the stakeholders are identified and analyzed with the perception that the unit of analysis is the partnership. The concept of hybrid stakeholders provides a sensemaking explanation for the complex and confusing situations, where the people in the boundary-spanning roles were. Furthermore, the validity of using SHT in anticipating the different relative positions of the stakeholders and their expectations of the partnership was demonstrated in the research: The research uncovered the importance of stakeholder management as part of the partnership governance.

The study also expanded understanding of the role of tensions in the inter-organizational relationships and identified tensions as necessary drivers for the partnership development. In addition, the development of the RBV theoretical lens produced a continuous process model of social capital as a partnership resource.

6.3 Methodological contributions of the study

In the research, the Alternate Template Strategy was developed into a systematic research method by making the research design as transparent as possible. The different phases of the research were clearly separated from each other. As a result, a set of sequential procedures was conceptualized. The ATS research design consisted of four phases: 1) the choice of theories to be used in the study, 2) formulation of research question batteries based on each theory, 3) readings of the case narrative through the theoretical lenses, and 4) combining the distinct readings, and building of argumentations and propositions on the combined interpretation.

An important aspect in evaluating the research method deals with the question of how the sequence of theoretical lenses utilization affected the interpretations. All the readings were done by the same researcher, and thus it was not possible to start applying a new theoretical lens to the next interpretation afresh, but it is self-evident that the earlier accounts affected the next endeavour. It proved necessary to pause between the different readings to 'clear one's head' before the application of a new theory. The experience was that it required at least one to two weeks to free the intellect from the previous encounter and approach the case from a new mindset. However, although a fresh start was attempted, with every reading of the case narrative, the comprehension of the happenings deepened, making it difficult if not impossible to rule out the previous ideas and 'enlightenment' gained. The figure below presents the actual ATS research process as it folded out in reality.

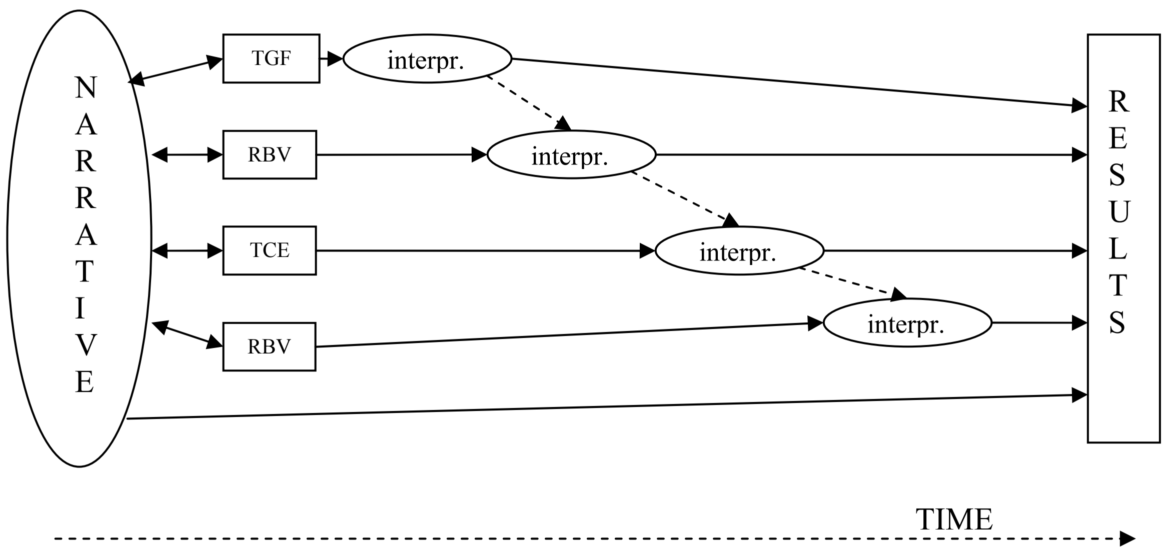

Figure 6.1 Theoretical interpretations relative to time in the ATS research process

Based on the above discussion, it can be claimed that the order of applying the theoretical lenses to interpret the incidents in the case has an impact on the end results – the propositions and recommendations – of the case study. Therefore, in constructing the research design according to the Alternate Templates Strategy, the theories should be evaluated from this temporal viewpoint.

The impact of time on the interpretations could be avoided if the readings would not be done by the same individual. However, this procedure would increase the impact of personal biases in the interpretations.

The chosen four theories were different in terms of their scope: Theory of the Growth of the Firm (TGF) and Stakeholder Theory (SHT) could be described as bringing light to the case more broadly as compared to Resource Based View (RBV) and Transaction Costs Economics (TCE). In the focal research, the broader readings were done first and last. The sequence was unintentional; in other words, the order of interpretations was not considered and its impact can only be anticipated. It is possible that if the SHT lens had been utilized before the RBV and TCE theories, a clearer conception of the various stakeholders might have somehow affected the partnership internal comprehensions.

However, each of the theoretical lenses provided some unique insight to the combined interpretation; the following are examples of such extraordinary viewpoints. First, the categorization of productive opportunities according to the TGF lens brought focus to matters that were neglected or not seen by the partnership management in the case. Secondly, the RBV lens provided a means to model how interactive processes provided resources for the partnership and developed into processual resources themselves. Thirdly, the Transactions Costs Economics, TCE based lens highlighted the effects of different kinds of tensions to the partnership. Finally, the stakeholder view created understanding of the difficulties the people involved in boundary-spanning roles encountered in the partnership.

In addition to presenting unique viewpoints, the theoretical lenses provided views that were partly overlapping. This is a direct consequence of the requirement set to the theories to be utilized in forming the theoretical lenses in this research. It was required that the theoretical perspectives were grounded on same ontological and epistemological assumptions. In writing the interpretations, those identical issues were not unnecessarily repeated.

6.4 Managerial implications / recommendations

The managerial implications of the research are presented as recommendations for practicing partner-managers. They are preceded by a short discussion indicating the context from which the recommendation stems.

Recommendation 1

The case narrative analysis and theoretical interpretations highlighted that the order or sequence of carrying out activities or focusing attention to different matters had a significant influence on how performance outcomes unfolded. The sales and marketing partnership was a newly established cooperation arrangement between the partnering organizations and its aim was continuity. Therefore, the partnership legitimateness in all aspects – as an organizational form, as an entity, and as an interaction – should have been given more thorough attention in the early phase of the partnership with more emphasis put on building internal legitimateness for the IOR. As was learned in the case partnership, the legitimateness-building activity that was intended to be partnership internal, turned out to be perceived mostly as an external event. When such a consequence has been observed and the possibility recognized, the potential incorrect interpretations should be considered in planning the partnership legitimateness building activities.

Recommendation 1: Introduce and market the partnership first internally and make sure that the activities advance commitment to the partnership by considering the possible different perceptions of them. Evaluate the development of partnership culture as a way of doing business, in the partnering organizations and continue internal marketing in various forms concurrently with external activities.

Recommendation 2

In the case partnership, the stakeholder analysis would have greatly helped the partnership management in setting practical goals for the partnership. It would have been important to consider the goals from the viewpoints of different stakeholders' expectations as well as in relation to each other, and then prioritize, channel and direct operations according to a consolidated comprehension. The goals might differ in terms of their importance but would also vary according to the organizational level. For instance, in the case partnership, the goal of certification on the Diamond level probably would have yielded sub-goals for top management, middle management and expert levels. The goals should also be measurable in such a way that the performance of the partnership could be evaluated against them. Improving the partnership performance is difficult without measurable goals.

Recommendation 2: Analyze the stakeholders of the partnership, and use the stakeholder expectations as a basis for setting measurable goals for cooperation on different organizational levels. Use the measures for evaluating the partnership performance and also as a tool for planning the future.

Recommendation 3

In the case partnership, the development of the grand governance structure was important in making sense of the sales and marketing cooperation as an essential part of the larger frame of cooperative actions between the partner organizations. Secondly, the partnership was also justified on the grounds of market demand for Epsilon channel partner certifications as a qualification for taking part in bidding contests. The third element of the governance structure of the case partnership was collaborating with internal reference groups in the respective organizations. Conceptualizing the case partnership as adapting to the external conditions set by the partner organizations and the markets as well as enhancing the general comprehension and control of the joint activities improved the partnership legitimateness.

Recommendation 3: Present the partnership and its governance structure as a part of a larger whole that makes sense to the partnership stakeholders. Determining the boundaries of the partnership in relation to the known environment enhances the credibility and plausibility of the cooperation.

Recommendation 4

Scientific literature on inter-organizational relationships suggests that tensions always exist in cooperation that spans organizational boundaries. The knowledge that tensions are a common and ‘natural’ phenomenon or ‘a rule of the game’ greatly eased the analysis of the partnership and allowed for a more objective attitude towards the assessment of partnership management's role in its coordinating and controlling efforts. Sometimes, in practice, the partnership management was hesitant in bringing up difficult or discreet matters with the hybrid stakeholders, fearing that such action would in fact create tensions between the parties. As frustrations among the sales force grew, a more daring approach was taken, one example being the facilitation of workshop discussions. As a result of these face-to-face meetings, the teams came up with suggestions on basic criteria for partnering decisions case by case. The issue had been a 'taboo' in previous discussions mainly because it was considered to be too revealing of various confidential or strategic matters to the other party. However, trust was able to be built, and, as a result, the quality of cooperative work increased due to the frank discussions.

Recommendation 4: Because tensions always exist in partnerships, it is better to recognize and deal with them than to harbor them up. Once the tensions are known, it might be possible to remove them, and if that's not possible, the tensions can be treated as external conditions that the partnership has to adapt to.

Recommendation 5

In the case partnership analysis, it was realized that different parts of the Sigma sales organization were in different phases in terms of their attitudes and knowledge on cooperating with the partner. The present conditions depended on the path and history of how the people had entered into the current situation. During the research period, the situation was not consciously comprehended, but partner management remained bewildered by the people's behaviors and their sentiments. Applying the life-cycle thinking to the different groups with different postures would have opened up new opportunities to the partnership management efforts in creating partnership culture in Sigma.

Recommendation 5: Consider the possibility that different parts of the organization may be in different phases in terms of their partnership culture. The new perspective may provide clues on how to improve the partnership performance.

Recommendation 6

In the early analysis of the focal partnership, the common history between the partners was considered as external conditions which the partnership had to adapt to; after all, history couldn't be changed. However, later it was conceived that, for instance the technical partnership, although out of the scope of the focal sales and marketing cooperation, was in fact a resource to the collaboration in the business frame. Similarly, narrow thinking had limited marketing and argumentations of the cooperation with customers. The partnership had not been marketed from the point of view that the parties had a long, successful track record of cooperation from years back. Instead, the strengths of the partnerships were perceived to rest on the partners' *separate* reputations, product excellences and so forth, while marketing had been strictly focused on the IP voice solutions business. Besides neglecting the organizational memory related to the technical partnership, the partnership was not marketed as a whole.

Recommendation 6: Try to think 'out of the box', or, in other words think more broadly than in terms of what is the defined area for the cooperation. Market the whole partnership. If common history exists between the partners, consider its value as well as possibilities of established best practices and common processes between the partners as selling and marketing arguments.

Recommendation 7

It was possible to identify both short-term project results and long-term achievements in the focal partnership. Moreover, the development of trust and commitment in the partnership was the central element in the development of the partnership, and it was directly affected by short-term results and the partnership culture of the IOR. Trust and commitment, on the other hand, affected the cooperative, common processes development and the long-term results. An example of the results that would have a long-term effect on the partnership was presenting all the collaborative forums between the partner organizations in relation to each other in the form of the cooperative framework.

Recommendation 7: Because trust and commitment in the partnership are essential in the development of the common partnership resources, as well as the partnership as an entity and its competitiveness on the market, pay special attention to activities that could increase trust and advance commitment to the partnership.

6.5 Limitations of the research and directions for future research

The research examined the role of partnership governance in a single case context by using several theoretical lenses in interpreting the narrative written on the case. The case is by no means universal, but nevertheless stands as in its uniqueness. It is possible to draw theoretical conclusions based on it, but the generalizability of the propositions must be tested. In addition, the propositions may not be exhaustive or cover every aspect of the case partnership especially since making sense of the partnership governance is limited by the bounded rationality of the researcher. In addition, the original, raw research data was extensive and some few pieces of information had to be synthesized in forming the case narrative. The raw data was assessed from the sales and marketing partnership viewpoint and, although every effort was made not to leave any important issue out, the choices were, in the final analysis, made by the researcher.

In the study, the researcher's role was clearly described and the bias controlled by the verification of the case narrative by the most knowledgeable and salient stakeholders of the sales and marketing partnership from both of the partnering firms. The different interpretations were based on the case narrative and on the theoretical lenses. Both are presented in the dissertation, and, in principle, it is possible that some other researcher could make a peer review of the study. The case narrative was written before choosing the theories to the ATS research process and forming of the theoretical lenses to minimize the possibility that the narrative was written just to answer the questions in the research question batteries.

The research covered only superficially the issue of rents or benefits appropriation from the partnership by the partner organizations, which would be an interesting subject for further studies. The case partnership was approaching the market of a developing, new-technology-based business, which partly explains the difficulty of setting measurable goals for the IOR. In more mature circumstances it should be possible to evaluate the partnership results more precisely.

The research highlighted the importance of stakeholders and of defining the scope of the sales and marketing partnership more broadly than was anticipated in the partnering organizations. Although the sales and marketing partnership did not involve the whole partnering organizations, it was shown that the supporting and backup functions of the firms affected the partnership performance in various ways. The focal research managed to reveal the unused productive opportunities due to the lack of planned stakeholder management in the case – definitely a subject that should be further elaborated on.

To develop further the Alternate Templates Strategy as a systematic research method, experimentations of different people doing interpretations on the same case for comparison would create insight to how ATS, as a method, captures the essentials of the case at hand. Similarly, conducting the readings in different order could provide understanding on the importance of interpretation sequences in ATS research processes. Another idea for further research on increasing the systematic way of conducting process research in the ATS framework would be to develop a method that would allow for considering the extent to which the interpretations on a given case overlap, i.e., support each other, versus the extent of distinct perspectives created.

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