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## Alliance building a Sisyphean task or just a great way to get ahead?

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## Alliance building a Sisyphean task or just a great way to get ahead?

### Abstract

Information and Communication Technology (ICT) is arguably the most important, emblematic and ubiquitous technology of contemporary society. We see ICT used increasingly in new product areas and help resolve problems and challenges to mankind; it has even gotten to a point where life without ICT is hard to imagine.

For many incumbent firms, the infusion of ICT into their industries poses both threats and opportunities. It might drive significant shifts of financial wealth and make firm performance change drastically. It entails managerial challenges of a kind we might not have seen before, but where knowledge of what possibilities and limitations reside in ICT will be a key success factor.

This short paper highlights the key aspects from a recent doctoral thesis in order to illustrate some of the challenges that arise when incumbents ally with ICT firms – our case is the security industry, which has had a strong analogue technology base in the past, but where ICT offers opportunity for business development now as well as in the foreseeable future.

Key words for the paper: Security Industry, alliances, partner strategies, inter-organizational alliances, and collaboration.

### Introduction

In our present time we see alliances in all shapes and sizes in all companies within a variety of industries, ranging from NGO's, the public sector, industries at large and by extension also to private citizens. We see these alliances being formed in all manners, within all markets and within most firms in one way or another. Most alliances are formed in order to achieve some specific goal, e.g. reduce risk in the market, increase speed to entering into a market, attaining new technology or to achieve change at a discounted price (Sivadas and Dwyer, 2000). Hughes and Weiss (2007) have suggested that alliances represent as much as 30% of revenues for many companies. This is because corporations are now forced to constantly and rapidly navigate through unknown and murky waters. Taking into account today's pressing need for traditional industries to acquire novel knowledge about ICT, it is not surprising that we for instance see so much talk about the cloud within the security industry. This paper handles the main attributes of how companies can use alliances to increase their ICT capabilities. The empirical data was collected and analyzed during a 6-year research program called Lusax, which was focused on the transformation of the physical security industry between 2006 and 2012.

### Strategic Alliances

Looking to alliances at large within the industry there have been a number of them presented over the past years. Evidence would seem to suggest that while companies often advocate that they have learning motives, they might just really want a shortcut to products and markets where a possible byproduct is to learn about the alliance partner's products. This is an interesting observation both in its own right, i.e. if this is true for alliances in all fields, we would need to rethink a lot of previous alliance theories, and it is interesting for the security industry and IT industry as such. The observation implies that we should not focus on ICT knowledge being transferred, but rather we need to focus on how the security companies are able to use and avail themselves of their partners ICT knowledge as well as products. By default that also means that the IT companies might need to rethink their alliance strategies.

Let us focus on this aspect for just a moment. Studying the security industry and their perceived need for ICT capability, it could also be argued that there is no need since the industry has enjoyed double-digit growth for more than a decade. The empirical material as well as theoretical

insights point to extra costs associated with wanting to transfer ICT knowledge with an uncertainty of how to measure the gains. Furthering the thoughts around gains, there is the aspect of time when transferring knowledge. Looking to for instance Cohen and Levinthal (1990), they actually discuss the possibility of buying knowledge in different ways as well as whether short-term alliances are a better way of retaining a high level of innovation. These are both ways of shortening the time it takes to control knowledge. This could point to: a) shorter alliances being preferable and b) the possibility to extract innovation and sales from our alliances.

During the research it became apparent that there are a number of softer issues that help, or hinder, alliances. Trust being one of the strongest ones. All alliances are based on trust in some ways, but the more interesting aspect to consider is if the trust has to be on a personal or an organizational level or possible even on both levels? The material seems to point to successful alliances needing both parts, where personal trust can get you far, but not all the way. To exemplify individuals can trust each other implicitly, but they cannot control what is done on a higher level where the alliance as such can be made and broken regardless of their personal trust. On the other hand personal trust between for instance two CEOs can also sustain an alliance far longer than any legal contract or letter of intent can do.

Another factor that has been shown to be of importance is intent, where the intent can be connected to motivation in and around the transfer of knowledge, just as intent can be connected to general attitude towards relationships and relationship governance. In some cases we see intent as a strong part of the context of the alliance as such. Commitment to alliances can be seen as an important factor, and this could arguably be to show an intent. Nevertheless the actual word intent was mentioned often enough to warrant a discussion here, especially on the aspects that were hard to pinpoint. One such aspect was the intent or intention with the alliance as such. This could mean to know your goals, e.g. if they are short or long term.

In connection to this there was also a discussion around having and implementing resources towards these goals, and to do so a clear intent is needed. One example of this from the cases was when the ONVIF alliance was set up. The goals were quite clear from the beginning (Standardization, Interoperability and Openness) and looking to interviews done, we can also see that resources were allocated both towards achieving the goals and towards setting up a framework of rules and IPR documents in order to know how flexible the partners could be.

This still leaves us with more questions, of which the most central is *What is it with ICT capabilities that makes them so hard to transfer?* It would seem that firms prefer to skip learning about ICT capabilities and just use them to some capacity to get products to market. In previous white papers presented to SNG I have discussed speed to market as one possible aspect, but there are others. From a marketing and image perspective, it might be better to have an alliance with a well-known player than trying to acquire the knowledge internally. Recall the Assa Abloy – Cisco alliance that was a real media splash at ASIS in San Diego in 2006. Taking something from the pure IT side, many different computer manufacturers have an “Intel inside” logo to signify that they buy their processors from Intel instead of producing them in-house. Let us now further our thoughts on what makes it easier to use alliances than to focus on transferring knowledge. On a meta level, I would argue that organizations will learn about the qualities of their alliance partner over time, regardless of what the official aim of the alliance is. On the other hand it could also be argued that it might be pointless to learn since by the time you have learned, there is new technology on the horizon that needs to be incorporated and used. Hence you should not focus your energy on learning that but rather on learning how to use and integrate alliance partners’ knowledge.

Staying on a meta level, it could also be argued that there is no coercive factor on the security industry to adopt ICT to any greater extent. What I mean by this is that there are plenty of legacy systems with long lifespans ahead that need to be both maintained and in some instances replaced with other legacy systems. Furthermore there are vast numbers of hybrid systems that can help bridge the technology gap for many years to come, and unless we have what Christensen

(1997) describes as a disruptive technology change, hybrid systems will continue to bridge the knowledge divide between legacy systems and IP enabled systems as described by Weaver (2009).

Of course the more obvious answer could be that acquiring ICT capabilities is just too hard for the security players since they missed what Cohen and Levinthal (1990) describe as the early investment in absorptive capacity and that has caused a situation where catching up is just too costly.

Without taking away from the discussion above I would still venture as far as to say that some factors are more important than others in alliance work. There needs to be an understanding of the context in which the alliance takes place. This context, e.g. that transfer of knowledge is the focus of the alliance, needs to be backed by motivation from source and recipient. There needs to be absorptive capacity throughout the alliance and the relationship as such needs to be governed. Trust and a similar professional culture will get you far but not all the way; there still needs to be mundane things such as contracts, resources and an ability to share or transfer information/knowledge which, more likely than not, will include ICT in different shapes and formats.

### Framework for ICT capability transfer

Transfer Capacity	Relationship Governance	Cultural fit
<u>Characteristics of knowledge transferred</u> <ul style="list-style-type: none"> <li>- Causal ambiguity</li> <li>- Unprovenness</li> <li>- ICT</li> <li>- Purpose of learning</li> </ul> <u>Characteristics of the source of knowledge</u> <ul style="list-style-type: none"> <li>- Motivation</li> <li>- Reliability</li> </ul> <u>Characteristics of the recipient of knowledge</u> <ul style="list-style-type: none"> <li>- Motivation</li> <li>- Absorptive capacity</li> <li>- Retentive capacity</li> </ul> <u>Characteristics of the context</u> <ul style="list-style-type: none"> <li>- Barren organizational context</li> <li>- Arduous relationship</li> <li>- Intent/measurability</li> </ul>	<ul style="list-style-type: none"> <li>- Juridical/Agency</li> <li>- Strategic fit</li> <li>- Communication, ICT augmenting</li> <li>- Attitude/Intent</li> <li>- Resource allocation</li> <li>- Trust as a product of the others</li> </ul>	<ul style="list-style-type: none"> <li>- Professional culture</li> <li>- Organizational culture</li> <li>- Industrial culture</li> </ul>

The aim of the study was to research how companies could use alliances in order to obtain ICT capabilities where the model above is the final result of theory and practice as described by the thesis *Using Alliances to Increase ICT Capabilities*, (Pierce, 2013)

### Transfer Capacity

#### Characteristics of knowledge Transferred

Looking to empirical as well as theoretical material I would argue that there is ample evidence showing that ambiguity is a key dimension in complex organizations. It handles complex problems or even complex relations, which could include alliances. The problem or challenge

that has emerged numerous times during this work is that ICT in itself is ambiguous. Therefore the transfer of knowledge around it is ambiguous in nature when it comes to what characteristics of knowledge we are supposed to be able to transfer. This is not to be confused with unprovenness, which in this instance refers to the different views on unproven knowledge between the recipient and source. They need to be recognized as a potential barrier to knowledge transfer. ICT as a medium of transferring knowledge on is also an important factor to take into consideration when looking at the overall characteristics of knowledge transfer.

### **Characteristics of source of knowledge**

This segment discusses motivation and reliability of the source of knowledge, but it was also interesting to see the impact that the individuals had on the results. Whether it be a reluctance to stray outside of individual comfort zones, as described by Alvesson and Sveningsson (2003) or a mismatch between recipient and source, as discussed by for instance Kalling (2007). The key aspect from the empirical work showed that individuals' commitment to the alliance was instrumental in the success stories. The issue of non-reliability was such that no alliances were struck outside of what would be considered a reliable partner. This is something I have argued is an intrinsic value of the security industry as such where it would be inconceivable to work with an unreliable source. The end result was that both factors were confirmed.

### **Characteristics of recipient of knowledge**

In the research I have shown that on an overall basis *motivation* was somewhat weak since there were few formal commitments towards learning and knowledge sharing. Such commitments are one prerequisite for being able to share knowledge according to among others Kalling and Styhre (2003). That being said, I would still argue that there were a number of motivated individuals who could possibly receive knowledge. There was a clear lack of formal commitment to learning agendas, but there were other goals attached to the alliance, often sales oriented. I would go as far as to say that the motivation that was in place was focused towards learning how to use different technology. This brings us to *absorptive capacity*. The fact that there was no indication in the interviews that would suggest knowledge transfer taking place would indicate a lack of absorptive capacity. I think that would be to simplify matters greatly. The interviews pointed towards alliances being seen more as a steering tool than a way to transfer knowledge, but the cases clearly showed that many alliances were set up to absorb knowledge from alliance partners, albeit with varying success. One reason for this apparent lack of absorptive capacity – I would argue – is because of a lack of routines, policies and procedures by which knowledge can be both absorbed and retained. Even though there was a certain lack of apparent absorptive capacity, I argue that it is important in order to have transfer of knowledge. The studied industry will see more knowledge sharing as the industry converges, which in turn will drive a need to form standards that all can adhere to. *Retentive capacity* is very much connected to absorptive capacity. Teece (2007) advocates that firms need to embrace technology change and increase their absorptive capacity by accumulating skills, which translates to increasing the retentive capacity. I would argue that the cases pointed towards some learning programs being in place. Despite the fact that both absorptive capacity and retentive capacity were shown to be somewhat lacking by the analysis.

### **Characteristics of the context**

The final part of Transfer capacity was not easy to handle from the empirical perspective. The data clearly showed that only the *organizational context* was of importance. The fact that there was no support for *arduous relationships* I would attest to the second part of the framework, which is focused solely on relationship governance. Much of an arduous relationship falls under or into the barren organizational context. Going back to the organizational context it was remarkable to see that there were large resources put in place for training on existing products. This in itself should have pointed to what Aral and Weill (2007) and Gravier et al. (2008) term senior

management championing. This championing did not seem to be evident since it was attested by both theory and empirical work, the hardest sell of all for an alliance can be internally. The cases showed differences between the companies when it comes to organizational context, but it would seem uncontested to not include this factor. You need to provide employees with a context from which they can both work, grow and learn. I think that the key elements from the interviews relate to the converging security market where people are worried about their ability to manage outside expectations.

Looking to *Intent* I would say that I was somewhat reluctant at first to put it in the contextual box. Most of the “intent” discussed and described within the alliance literature to me falls under different forms of motivation as described in the entire vertical of Transfer Capacity. More interestingly though is a discussion on situations where the alliance manager typically has to make a range of decisions both on how to enter into an alliance and on how to manage one. In order to do this in an efficient manner, you need to be clear on what your intent with said alliance is. Where the key issue is why the organization has an alliance in the first place. Is it to achieve positive outcomes or to avoid negative outcomes? The empirical material shows that there are different intents with the alliances as such, and in the alliance part of this paper I allude to the fact that the intent with the alliance might not be towards learning or knowledge sharing. Instead the firms use alliances as a tool to harvest the potential out of joining different products. This brings my discussion in a full circle since I would argue that this is exactly what we see happening in technology alliances. There the alliance is about getting a product to market in the most efficient way possible, which often means that you just use your partner’s knowledge rather than incorporating it into your own organization. I would claim that it is within this process that capabilities are won and potentially lost. The companies can develop an alliance capability as well as a capability to use partners’ technology to their own needs. I would further argue that one possible byproduct of this is to actually learn and transfer knowledge about the product being used, but that is seldom either aim nor intent for the alliance.

### Relationship Governance

Alliances are to a great extent about relationships. Starting with *Juridical and Agency* aspects, I would argue that even though there are examples from the interviews that show that alliances can succeed based purely on Trust and relationship values as described by for instance Noreen (1988) as well as Das and Teng (2001). There was also evidence that supported the notion that alliances have a better chance of succeeding when legal matters such as contracts have been taken care off, i.e. evidence in line with that of Daboub and Calton (2002). The agency aspect is very interesting since it seems to overlap other thoughts on alliance management, where for instance Park and Ungson (2001) discuss the potential failure of alliances from agency costs, which they specify to mean coordination of partners and differences in intent. What is clear is that firms suffer less from coordination costs when juridical aspects have been sorted. Regrettably coordination is not only hinging on contracts, but also on how well partners intermesh.

The *strategic fit or steering* of firms has many implications. I would like to start with steering of the firm where I would argue that steering should be about resource allocation, which I will get back to at the end of the relationship governance segment. Let us then look at strategic fit from an absorptive perspective. Where for instance Cohen and Levinthal (1990) argue that having overlapping knowledge is needed in order to be able to recognize when knowledge and learning is desirable, but at the same time too much overlap will stagnate innovation. What is needed is a strategic fit that implies a sufficient level of overlap of knowledge in order to ensure effective *communication*, i.e. lower coordination costs. More importantly there is a need for functioning *communication* interface since:

“an organization’s absorptive capacity is not resident in any single individual but depends on the links across a mosaic of individual capabilities, Cohen and Levinthal (1990:133)”.

Furthering our discussion around communication and to certain extent agency, it could be argued that dialogue that tries to transvers differences will create a better intercultural understanding, which in turn will facilitates intergroup alliances. This is done through communication and the development of personal agency. This leaves us with a strong case to why *ICT* is a great tool for augmenting the need for communication and agency building. Despite the fact that there was not significant data to support the notion, I would still argue that it has value. The data showed that *ICT* is a crucial aspect in alliance work, where *ICT* can be both a facilitator for communication and, more importantly, a tool for knowledge transfer. Looking to *ICT* applications they are singularly well suited to help us make sense of complex systems. This would strongly suggest that they should be a key factor in helping firms realize and find potential value in their alliance base.

*Attitude* and *Intent* are hard to measure as such, but never the less intent was mentioned frequently during interviews and was shown to have a significant impact by the survey. I would argue that strategic fit in some instances is similar to having similar intent, and not a product of having similar technology or similar knowledge. Pérez et al. (2012) argue that by having similar intent, companies with asymmetric technologies, e.g. an IT company and a Security company can still work together. Going back to the empirical material it was clear that intent, committing resources and accepting that learning may implicate changes were important factors. Understanding attitude and intent, to some extent is also about understanding knowledge overlap where less overlap of knowledge between partners requires more effort. The idea is that it is not enough to expose individuals to relevant knowledge, rather there also needs to be emersion, and intense efforts to learn. This has been confirmed by Aral and Weill (2007) who in reference to learning about *ICT* discuss the importance of both intensity and frequency of use.

The word *Trust* has significant impact on relationship governance. It was ever present within interviews as well as survey. And I would continue to argue that using trust to overcome potential problems is a good supplement to formal contracts, good communication and intent. Think of Trust as the final safety net for the alliance. Strong trust has been proven to have mitigating qualities in cognitive processes and the potential to be used as a tool to lower risk in alliance building.

### **Cultural fit**

Whether you view culture as the very dangerous thing that is hard to understand and control, or you view culture as something that has to be taken seriously in order to understand *ICT* and organizations my research has showed culture to have far reaching influences for alliance work as well as relationships in general. I would argue that two central things have bearing on the cultural fit as well as on the entire framework. First and foremost I got validation that professional culture transcends all other cultures as was hypothesized by Sirmon and Lane (2004). The second thing that came to be was a thought that *ICT* as a tool could be, or at least help to be, what Cohen and Levinthal (1990) discuss as the interface for relationship governance and cultural fit. Studying the cultural fit as such, there has been critique that a lot of prior cultural studies have oversimplified the subtleties of cultural differences, which Avgerou (2010) takes further by advocating a point where neither *ICT* nor culture can be seen as uni-dimensional determinants, or factors, of values and behaviors.

What this means is that we might have to look at culture as one influencing factor on *ICT* and vice versa, but going back to the empirical material this means that culture as such is important to the different parts of the model and that we need to discuss them further.

Despite the expostulated absence of similar organizational cultures, where the two industries could be said to work within their own silos, there was still an awareness of a need to handle both the need to understand the other industry players and the need to eventually adopt products to work together. In essence there was agreement that an organizational culture that could accept change and foster learning was preferable even if the *Industrial* culture was focused on core values

within the silo. I would argue that what is needed is a more flexible organization that can connect its different organizational activities over disperse cultural norms whether they be industrial, organizational or professional.

In the end I would argue that the professional culture is most important, but there is also evidence to support alliance success where the professional culture has not been similar, which makes me reluctant to change much in the culture factors. I would have to suggest that we probably need to study culture specifically in relation to all other factors in order to say something more definite about which cultural aspect is more important at any given time. It suffices to say that culture as such is very important in alliance work.

### Conclusions

Over the last decades ICT has become a core technology within almost every industry e.g. the music, literature and media and many other industries. In becoming the axis that business hinge upon it has also reshaped the way we consume these services. For many incumbent firms, the infusion of ICT into their industries poses both threats and opportunities. It might drive significant shifts of financial wealth and make firm performance change drastically. It entails managerial challenges of a kind we might not have seen before, but where knowledge of what possibilities and limitations reside in ICT will be a key success factor.

There are several possible ways to approach this challenge from ICT: recruitment, education, training, socialization and M&A are but a few examples. Another way is for the incumbents to team up with ICT firms and seek to learn, or at least access, the knowledge required to utilize the inherent power of ICT. This means that having an alliance, or even an alliance capability that lets you develop an ICT capability will be important.

This paper is a shortened abstract of the findings from the doctoral thesis *Using Alliances to Increase ICT Capabilities* that deals precisely with the challenges that arise when incumbents ally with ICT firms. Based on a theoretical frame of reference, as well as empirical observations from four cases within the evolving, global security industry that validates and develop an alliance framework. This framework, which has been briefly presented in the previous pages, can be a great help to both practitioners as well as academia. The model includes Transfer Capacity, Relationship Governance and Cultural fit, and in essence it caters to attempts at accessing knowledge and alliances. It also highlights the sometimes serendipitous and unexpected results of alliances, where the main benefit in the end might differ from initial aspirations. This points to a realization that higher aspirations might have to be replaced by more modest ambitions. The fact of the matter is that that sometimes, grand visions of knowledge exchange and accumulation are simply not reachable. In fast-moving industries such as ICT, there might not be time and incentive enough to actually transfer knowledge, but instead ally to access finished products.



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