STRATEGIC ALLIANCES
- AMONG DANISH MEDIUM-SIZED MANAGEMENT CONSULTING COMPANIES

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Preface

This thesis concludes the ending of our master studies at University of Southern Denmark with Strategy & Organization as area of specialization. The work conducted explores and reveals insights into the key challenges for the Danish medium-sized (5-30 employees) management consulting companies, and how the use of strategic alliances may help the firms overcome their challenges.

The outcome of the research is a result of a theoretical approach combined with knowledge gained from a number of interviews with representatives from the consulting companies. The development of this thesis could not have been conducted without the following people’s help.

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It is important for us to point out that the development of method, general analysis, conducting interviews and coding of the collected data, are a result of equal effort and sparring with each other. While the guidelines for this thesis state that the thesis must indicate the individual authors’ contributions, the above segregation is due to our close cooperation partly an estimate.

In total, this thesis has a length of 109 normal pages if one calculates 2000 characters, no spaces accounted, per page.
Executive Summary

The purpose of this thesis is to analyze the Danish medium-sized (5-30 employees) management consulting companies’ current key challenges and to investigate within this context the opportunities of using strategic alliances to overcome these challenges. The use of strategic alliances is analyzed from the point of view that two or more firms within this medium-sized segment pool resources and capabilities in order to achieve prolonged competitive advantage.

The thesis is developed through two main stages that combined answer the overall research question;

“Under which conditions can strategic alliances help Danish medium-sized consulting firms overcome their key challenges?”

The first main stage comprises of a literature review that begins with an examination of the fundamental organizational mechanisms, namely division of labour and the problems of coordination and cooperation which emerge from this. Then a thorough look into what factors may influence firms’ choice of governance structure. This is considered from two theoretical perspectives, namely Transaction Cost Economics (TCE) and the Resource-Based View (RBV). These two theoretical lenses help provide an understanding of when and why hybrid forms of governance may be valuable. Finally the supplementary theory to the RBV, The Relational View of the Firm (RVF), is used to narrow down the focus specifically on strategic alliances as a hybrid form of governance structure and the conditions necessary to create sustained competitive advantage from this.

The second main stage contains a qualitative analysis based upon data from 13 in-depth semi-structured interviews and 10 follow-up interviews with high ranking representatives from 13 different Danish medium-sized management consulting firms. The analysis of the data was divided into three parts, where the two first being building blocks for the last part.

The first part of the analysis focuses on the situation of the target firms’ internal and external environment, intended to find the strengths, weaknesses, threats, opportunities. From this a number of key challenges are extracted. The external analysis illustrated high levels of competitive rivalry in a fragmented and polarized industry with high supplier and
buyer power, low entry barriers and heavy price competition. The internal evaluation showed that the target firms had difficulties in differentiating their services, that their network was extremely important to them and that the single most demanding factor was attracting and retaining key personnel. The situational analysis thus highlighted a number of key challenges for the target group of firms investigated.

From these challenges one was isolated as having great importance for the target firms’ competitiveness. This challenge concerns a growing client demand of having a limited number of consulting firms with the ability to deliver specialized services for large, complex projects. Due to the limited resources and reputation, the target firms often struggle to win and successfully solve such projects. Forming strategic alliances among specialized medium-sized consulting firms for this purpose could be an option and, if done successfully, several of the other identified key challenges are expected to be solved. This could represent an opportunity for the target firms to move upwards in the market place and win market share from their larger “one-stop-shopping” competitors.

The qualitative analysis’ second part is an analysis of how, why and when the target firms currently make use of alliances. This part indicates that while alliances are widely used among the firms, they are not strategic and they rarely provide any sustainable value.

In order to understand the immediate competitive consequences of trying to overcome the identified key challenge, the second part concludes with an analysis of how the competitive move upwards in the market place may result in increased rivalry. From this it becomes clear that the use of alliances must encompass a clear strategic intent that can create superior value for both alliance partners and their clients. Without this, the retaliation of larger competitors will quickly erode the value created within the alliances.

In order to understand how the target firms could form strategic alliances, further analysis was conducted. The third part showed that the firms currently use loosely coupled arm’s-lengths alliance relationships both for modular and simpler projects, but also for solving more complex and integral project. The result is that value is destroyed whenever an alliance among the target firm tries to deliver specialized services within more complex contexts. Through the application of theory, reviewed earlier, it was possible to offer guidance to the target firms. The result was that the alliance relationships must facilitate mutual adjustment and trust in order to become valuable for overcoming the selected key
challenge. To understand the condition of why mutual adjustment and trust is not fully present, the RVF was explained in more detail and then applied to the empirical data. This analysis illustrated that especially the creation of knowledge-sharing routines and identification of complementary resources and capabilities was difficult. Through five phases of a strategic alliance’s life cycle these results were further investigated. We found that primarily two factors limited the optimum conditions for strategic alliances in the current context.

The first barrier stems from the difficulties in defining the boundaries of each firm. The intangibility of the consultancy services makes it hard to outline the core competences to potential alliance partners. This inability to define single firms’ boundaries then also makes it difficult to collectively define the boundaries of an alliance. This in turn limits the opportunities to build trust between the parties and the result can be opportunistic behaviour.

The second major barrier is related to the organizational structure and the culture of the firms. Many of the firms have a rigid top-down management approach where the partners focus on extracting all profits. This limits the ability and readiness for forming a balanced relationship between two or more of the target firms. This in combination with incentive structures that promote individual performance create a culture that limits individuals’ and consequentially company-wide willingness to share knowledge with potential alliance partners.

In sum, this destroys the opportunities to create value from unique combinations of knowledge intensive resources and capabilities.

The general impression is that while openness is preached by this segment, the opposite is practiced with the widespread use of customer- and employee-clauses and an overly protection of know-how. Despite an external demand for change and the observation that some of the target firms see opportunities in finding new ways of organizing and thinking consultancy, the traditional way of structuring management consulting firms and incentivising management consultants seem to prevail. The analytical results from previous literature and qualitative data suggest that the costs of creating the prerequisite conditions for strategic alliances within this specific industry will exceed the benefits. The choice of using strategic alliances over the hierarchy depends on the target firms’ willingness and ability to deviate from the traditional way of conducting consultancy business.
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1 Introduction

Danish medium-sized management consulting companies are challenged by intensive competition and changes in client demands. While the large firms reap the major part of the industry profits and continue to grow stronger, the number of small entrants contributes to a fragmented and polarized industry. Squeezed in between, are the medium-sized consulting firms which fight a fierce battle in order to increase their reputation, market share and comply with changing client demands.

The purpose of this thesis is to provide an analysis of the Danish medium-sized management consulting companies’ current key challenges and investigate within this context the opportunities of using strategic alliances for overcoming these challenges. The use of strategic alliances is analyzed from the point of view that two or more firms within this medium-sized segment join forces in order to achieve prolonged competitive advantage.

The opportunities to use strategic alliances depend first of all on understanding theoretical aspects underlying the formation of these. This is provided through a review of previous literature regarding both fundamental theories of organization and theories regarding value creation from inter-firm collaboration. Secondly an investigation of the target group’s key challenges lays the foundation for identifying which of these may be solved by forming strategic alliances. Finally, an analysis of the conditions under which alliances are currently used is necessary. By analyzing empirical data from this medium-sized segment, their experience with and attitude towards this collaborative form of competition will help determine the barriers that may limit the opportunities to generate value from strategic alliances.

Motivation

In a highly turbulent economy where firms have been forced to concentrate on their perceived core competencies while staying flexible, strategic alliances have achieved much
attention in a vast amount of industries as a way to increase firm performance (Dyer and Singh, 1998, Park and Ungson, 2001, Todeva and Knoke, 2005, Reuer and Ariño, 2007). One would expect that the Danish management consulting industry also would commit to this. Through preliminary research comprising interviews with industry associations and several industry professionals, it became evident that the use of strategic alliances was limited or at least not well understood in this industry context. Additional data was collected in order to point out which segment in this industry would prove to be most relevant for the topic and especially one group of companies stood out.

Danish management consulting companies in the size 5-30 employees represent a distinct medium-sized segment within the consulting industry and are expected to face multiple challenges in terms of increasing their value creation.

**Characteristics of the Danish Management Consulting Industry**

The total turnover from management consulting\(^1\) was in 2012, 13.4 billion DKK, which represents a 5.5 percent growth from 2011\(^2\). The industry is expected to continue to grow in 2013 (Krogh, 2013).

The industry is not regulated and no formal certification standards are needed to provide the services. Furthermore the costs of entry are extremely low. As a result, a continuous flow of smaller firms both entering and exiting the industry without sacrificing any significant financial risk, makes it difficult for clients to sort between high and low quality service providers.

In total more than 16,000 companies in Denmark sell some kind of business consulting services (Ørholst, 2013). Around 6,500 of these are directly involved in management consulting, but only 230 of them have more than 5 employees and only 4 Danish founded companies and 10 international consulting firms have more than 50 employees\(^3\).

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\(^1\) Management consulting consists of the following main areas of business: Strategy, Organizational/Operational management, Change management, Project management and HR consulting.

\(^2\) Source: Danmarks Statistik

\(^3\) Source: NNMarkedsdata - www.nnmarkedsdata.dk – these numbers are prone to uncertainties as not all firms provide valid data for their number of employees. Furthermore the number of employees in these types of firms might not be the best indicator for their size, since many of them make intensive use of non-permanent employees.
This indicates a highly fragmented and polarized industry with a lot of very small players and a relatively small number of large and strong players.

There is a significant pressure on prices, and in 2012, 59 percent of the respondents in an industry survey (Videnrådgiverne, 2012)\(^4\) indicated that they either to some or high degree expected increased pressure on price from specifically national competition in the future. The survey did however also show that more than 60 percent of the firms in this industry which have not pursued any international expansion based their choice on the belief that there are vast amounts of growth potential nationally.

The Danish industry seems attractive in terms of growth rates, but high levels of competition make it a fierce environment.

Furthermore the demand from the clients is changing. The Danish private and public sector, and thus clients for consultancy services, are affected by the economic downturn starting in 2008. The consulting industry has in general been able to embrace the shift of customer demand from growth advisory towards cost saving advisory, and by such endured the financial crisis without significant losses (MGMT, 2013).

Our preliminary research indicated that larger clients have become more professional and selective when it comes to buying consultancy services. They have an increased focus on implementation rather than simply an analysis of their situation, which makes longer term commitment to projects essential. Clients also increasingly demand documentation of the value consultants bring to especially larger organizations. The nature of management consulting services is inherently intangible and often extremely difficult to explain and thus evaluate. In order for the clients to effectively choose between suppliers, they increasingly demand more tangible evidence of consultant’s work (Czerniawska, 2011).

Additionally, larger clients demand specialized knowledge within projects that grow larger and more complex. This is expected to pose considerable challenges especially for the medium-sized firms, due to their smaller size and thus narrower coverage.

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\(^4\) The respondents in this survey include a broad set of business advisory services, and not exclusively management consulting firms.
Research has shown that the largest firms currently make the majority of the turnover and they continue to grow (Tholstrup, 2012, Business, 2013). This thesis provides an inside out look of the Danish medium-sized management consulting firms and show if and how these general challenges affect them. The investigation of the situation for the target firms make up the focal point of this thesis and provide the context within which the phenomenon of strategic alliances is evaluated and analyzed.

**Theoretical Position**

Depending on the theoretical lens used to analyze strategic alliances different motives and opportunities are highlighted. Therefore, in order to fully understand the phenomenon, not one individual theoretical view will help analyzing the empirical findings within the context of this thesis. Different theoretical views will be used as complementary tools for both explaining when strategic alliances are useful and to illuminate the barriers for implementation given the specific context of the target firms.

The research objective necessitates both fundamental elements from organizational theories as well as theories focusing on strategic options in relation to competitive advantage that may be gained from such hybrid forms of governance.

The phenomenon of strategic alliances is often explained from an organizational behaviour perspective, where elements from Transaction Cost Economics (TCE) and the Resource-Based View of the firm (RBV) provide the fundamental building blocks of insights. More recent theories, such as the Relational View of the Firm (RVF), are used to further nuance the motives and opportunities for using strategic alliances in relation to the target group of firms. The RVF is shortly introduced and summarized in the literature review section. In the final part of the thesis, the RVF framework will be applied in more detail, and the content of this view is used when the formation of strategic alliances are split up into five key phases in the qualitative analysis. This part then scrutinizes the conditions necessary for

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5 *Business, 2013* refers to confidential research not yet published by the newspaper Berlingske Business on the time of this thesis' development. The data in this research has been verified by external impartial sources.
strategic alliances to become valuable and these are evaluated against the empirical findings derived from the target segment. This will give the research a theoretical anchor point while at the same time provide the opportunity to recommend if and how the target firms could strategically make use of inter-firm collaboration.

Methodology

Due to the exploratory nature of investigating a complex phenomenon like strategic alliances, in-depth interviews were deemed suitable as a tool for data collection. Through 13 semi-structured interviews with high ranking representatives from 13 different Danish medium-sized management consulting firms, it was possible to gain crucial insights to this industry segment. An interpretive epistemological position was taken throughout the analysis of the data. This approach is extremely suitable when research aims at discovering attitudes and experiences within a specific context, where little is known beforehand. The inherent risk when presenting and analyzing qualitative data is a biased approach, where the researcher may to an overly degree impose own preconceptions about the topic, and by such focus only on what makes sense in order to make a predefined argument. To avoid this, the coding tool Template Analysis (Crabtree and Miller, 1999, King, 2004) was used. While some general preconceptions are allowed within this technique, its primary intent is to foster an inductive approach to the qualitative data, where themes and categories are constantly reviewed for content and feed into a flexible coding template. The outcome of using this technique is the possibility to both capture obvious facts about the data sources, but also to interpret the underlying perceptions of the sources concerning themselves and their world around them. This methodological approach is deemed suitable for the overall aim of this thesis, because it digs deeper into the more behavioural and perceptive aspects of this target group of firms.

Aim of this Thesis

The theoretical underpinnings from previous research and the findings from the qualitative data provide a solid ground for a thorough analysis of the overall research question.

“Under which conditions can strategic alliances help Danish medium-sized consulting firms overcome their key challenges?”
In order to fully answer this research question two main elements need to be understood. First, the circumstances under which collaborative effort is currently used needs to be analyzed. Secondly, a critical review of the necessary conditions for strategic alliances to become a value creating choice for the target firms is essential.

Initially, a situational analysis consisting of internal and external factors that are collected into a SWOT-framework is provided to gain a thorough understanding of the research setting and the circumstances within which strategic alliances are to be analyzed for their potential.

Then, an analysis of how and to what extend the target firms are currently using inter-firm relationships is conducted, and this overview grants an understanding of barriers and opportunities to further exploit the use of strategic alliances.

Finally, the theories of firm behaviour and performance discussed in the literature review are refined and applied to the context of strategic alliances and then combined with the major findings from the qualitative analysis. Collectively, the insights from theory and research answer the research question and form the basis for recommending the extent to which strategic alliances between two or more medium-sized consulting firms may help these overcome their key challenges.
2 Overview

This thesis consists of two main stages, one being a literature review and the other a qualitative analysis. The reason for this structure is to combine the underlying theory from the literature review with the knowledge gained from practitioners. Hereby there will be reached a profound level of practical understanding of the Danish medium-sized management consulting firms’ current key challenges and their use of inter-firm relationships. What this means is that the first stage will focus on the established theory associated with the topic of choice and hereby generate areas of importance in relation to the target firms’ specific context, which are then analyzed in the second main section.

Stage One: Literature Review

This first stage begins with the fundamental organizational mechanisms of the firm concerning division of labour and coordination and cooperation. Understanding these mechanisms will help explaining not only some of the basic implications of using strategic alliances but also to impose possible solutions to these. Building further on the basic elements of organizations, the next section has the firms’ choice of governance structure in focus. This choice is reviewed through two complementary theoretical lenses; TCE and the RBV. TCE propose that the choice of governance structure is based upon the setup of transactions with the lowest possible cost. While this view may explain some aspects of the empirical data in this thesis, the whole notion of competitiveness needs further attention. RBV is therefore reviewed in this context, which advocates that differences in prolonged firm performance must stem from resource heterogeneity. RBV dictates that resources giving a sustained competitive advantage only can be developed through the hierarchy or a hybrid form of governance. Focusing in on the hybrid form of governance (strategic alliances) and the value that can be derived from this, the closely related theory to RBV, the RVF is introduced, and then later applied in more practical terms in the qualitative analysis.

Stage Two: Qualitative Analysis

The qualitative analysis is divided into three parts, where the two first are building blocks for the last part. The first part is an internal and external situational analysis containing the strengths, weaknesses, opportunities and threats of the target firms’ and through this data
their key challenges were identified. The second part is an analysis of the current use of strategic alliances among the target firms and a short evaluation of these. Finally the third part extends the theories from the literature review and combines it with the data from the two preceding parts in order to answer the research question.

**Delimitation**

This thesis analyzes the phenomenon of strategic alliances within the Danish management consulting industry and only focus on a segment which is denoted as *medium-sized*, i.e. having 5-30 employees. This choice of domestic industry and size of segment is based on a preliminary data collection process where the impression was that applying this topic within this specific setting would be a fruitful ground for research as it was not well understood and not widely used.
3 Stage One: Literature Review

This section starts out with a review of the fundamental aspects of coordination and cooperation mechanisms. This will help explaining not only some of the basic implications of using strategic alliances but also to impose possible solutions to these. The review continues with factors determining a firm’s choice of governance structure, through the lenses of TCE and RBV. These aspects are fundamental features of organizational behaviour, and they underpin the next main review section, which focuses specifically on opportunities to gain prolonged competitive advantage through the use of strategic alliance formations.

3.1 Governance of Organizations

In order to understand the choice of governance, a definition of what an organization is, is needed. Simon (1997: 18-19) defines an organization as: “…the pattern of communications and relations among a group of human beings, including the processes for making and implementing decisions.” It is thus the collection of individuals and their interactions that constitute an organization.

3.1.1 Division of Labour

The importance of organizations is relatively easy to comprehend, and as (Simon, 1997: 20) puts it: “…80 percent or more of people who work in an industrial society work inside the skins of organizations…” So organizations are everywhere in our society, both in the public and private sectors of industries. The next questions would be: Why do organizations exist? What do they do?

The short answer is that they pool resources together to make something collectively (Simon, 1997). The way this is done is through division of labour. Adam Smith (1776/1976) first described division of labour in his seminal book, with his example of pin-making. Each worker was given a distinct task that is a part of all the work going into a pin, and they were told to only perform this. Through division of labour, specialization of work is achieved, where each worker, through repetition, achieves specialized skills. But division of labour also creates needs for coordination, i.e. the alignment of actions to make sure that
everyone involved is doing the right thing. It also creates the need for cooperation, i.e. the alignment of incentives and making sure that everyone is working towards the same goal.

### 3.1.2 Coordination

To achieve coordination there are mechanisms that the organization can employ. Mintzberg (1979) describes three types: *Mutual adjustment, direct supervision* and *standardization*. *Mutual adjustment* is when people work closely together and continuously adapt to what the other ones do. This is often achieved through informal communication. *Direct supervision* is the direct management of what is being done step-by-step. *Standardization* can take the form of standardization of 1) work 2) outputs or 3) worker skills. The three types of standardization are 1) how the work is supposed to be done, or 2) what the output should be and letting the person carrying out the work, decide how to do it, and finally 3) through standardized training the workers know what to expect of each other.

Mintzberg (1979) described a rough continuum of complexity, where the different coordination mechanisms are suited to different complexity levels. Mutual adjustment is suited for low complexity, e.g. two people working together. Direct supervision is suited for a little more complex settings, and standardization for even more complex settings. Finally the circle is complete, where high degrees of complexity again necessitate mutual adjustment, because predictions for standardization are impossible and no manager can oversee such complex settings. Later Mintzberg (1980) added standardization of norms, were everyone works according to the same set of beliefs. The continuum is depicted in the following figure.

**Figure 1: Coordination Mechanisms**

![Diagram showing the coordination mechanisms](image)

Source: Mintzberg (1979: 7)
According to Perrow (1967) another important factor influencing the coordination of the organization is the technology employed. Technology as a term covers the actions or techniques performed in order to transform a raw material into a finished product. This raw material could be a physical object, symbols or people, as in the case of Danish management consulting industry. Technology has three important aspects: 1) complexity of the tasks measured as the number of parts performed simultaneously 2) uncertainty about the variability of parts that go into the tasks 3) interdependence between the parts of the task. Complexity affects the coordination choice as described above and a high level of uncertainty works against standardization as coordination mechanism.

Interdependence affects the coordination depending on which type of interdependence it is (Thompson, 1967). *Pooled Interdependence* is interdependence of the final outcome, i.e. financial performance of an entire firm is dependent on the performance of the different business units it consists of. When interdependence is pooled the coordination need is weak, so different forms of standardization can be used to achieve coordination. *Sequential Interdependence* is a direct one-way interdependence of tasks where one task is dependent on the previous, i.e. in the workings of a consulting firm, where an analysis of the strategic challenges precedes a strategic plan of action and the implementation of this. For this type of interdependence the need for coordination can be covered by plans or schedules. Lastly *Reciprocal Interdependence* is similar to Sequential Interdependence, where the output of one task becomes the input of the next, but with attribute of being cyclical, i.e. several management consulting firms having to coordinate their interdependent actions within a complex and large project.

Due to the cyclical interdependence, the complexity and uncertainty is high, and therefore a coordination mechanism in the form of mutual adjustment, with high degrees of interaction, is needed.

### 3.1.3 Cooperation

In order to make sure that all members of the organization work towards the same goal, motivation needs to be aligned to a common aim. Different problems can arise, when this alignment is not achieved; i.e. problems of free riding, moral hazard and agency problems. There are different governance mechanisms to counter these problems. The first is the role of authority in organizations (Coase, 1937, Cyert and March, 1963, Alchian and Demsetz, 1972, Demsetz, 1988, Simon, 1997), either through ownership or through the hierarchical
role as manager. Authority gives managers the possibility to dictate what is done how and when. It also grants the possibility of settling a dispute via fiat. This can then ensure that the members of the organization work towards the common goal.

A difficult issue to tackle is the moral hazard, which is "a post contractual opportunism that arises because actions that have efficiency consequences are not freely observable and so the person taking them may choose to pursue his or her private interest at other's expense." (Milgrom and Roberts, 1992: 167). Moral hazard can arise in the principal-agent problem, where there is a conflict of interests between the principal (the buyer or owner) and the agent (the supplier or employee). There is an information asymmetry, where the agent has more information than the principal, so it may not be clear for the principal what the agent is doing. Furthermore the agent has gains from trade and the agent can thus use the information asymmetry in his own private interest, instead of the principal's.

In order to mitigate this risk of opportunism, there are different governance mechanisms that can be utilized. One way of trying to align incentives is by pay-for-performance, where the agent is paid according to his performance. This can be done by such measures as commissions pay, piece-rate pay or profit sharing. The agent bears some of the risk, and gets rewarded for productive work. (Holmstrom and Milgrom, 1991, Prendergast, 1999). Since risk is being shared and agents are normally risk adverse (Holmstrom and Milgrom, 1991), organizations need to pay a higher price, than if a fixed wage was used. A problem can also be to determine the right measure to evaluate the quality of work, as Holmstrom and Milgrom (1991) describes with the multi-task environment. Some functions are easy to set up a measure for, e.g. a production worker that can be measured on quantity of produced goods. Other functions may have multiple tasks, and thus make it harder to evaluate through one measure, e.g. the performance of a management consultant. A measure could be billed hours, but this might not give an exact measure of the quality of the performance. In this case other factors or tasks influence the quality besides time spent, such as the consultant’s ability to engage with clients, work within a team and willingness to share knowledge with colleagues. In such cases it is important to find the right measure or measures, in order to achieve incentive alignment. Another path of aligning incentives is to use reputational mechanisms, where the wish for having and maintaining a good reputation keeps agents from acting opportunistically (Fama, 1980, Holmström, 1999). E.g. a management consulting firm needs a good image to sell their services, and therefore it
keeps them from behaving opportunistic towards clients in order to maintain a positive reputation.

To sum up this part of the review, when division of labour is utilized in order to reap benefits of specialization, problems of coordination and cooperation arise. In order to address coordination issues, firms can use mutual adjustment, direct supervision or standardization of work, output and skills. Cooperation issues can be addressed through incentive alignment, i.e. through pay for performance, multiple performance measures or reputational mechanisms.

### 3.1.4 Hierarchy, Markets and Hybrids

One form of coordination of work has been touched upon, namely the hierarchy. Another form is the market; the arm’s-length interaction of individuals or organizations. Makadok and Coff (2009) summarized three key dimensions of how the two differ. This is depicted in the following table:

**Table 1: Forms of Governance**

<table>
<thead>
<tr>
<th>Type/Dimension</th>
<th>Market (ex. supplier)</th>
<th>Hierarchy (ex. agent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authority</td>
<td>Can decide how to perform work</td>
<td>Gets told by hierarchy how to perform work</td>
</tr>
<tr>
<td>Ownership</td>
<td>Owns assets needed to perform work</td>
<td>Does not own the asset</td>
</tr>
<tr>
<td>Incentive</td>
<td>Is rewarded on performance, bears risk, short term, high power incentive</td>
<td>Is rewarded according to time spent, bears no risk and gets no reward for better performance, low power incentive</td>
</tr>
</tbody>
</table>

Source: Own creation from article content by Makadok and Coff (2009)

The biggest difference between the hierarchy and the market is the degree of control and incentive power (Williamson, 1991). Hierarchy has a high degree of control through authority and low power of incentives, where the market has low degree of control but
high power incentives, since the performance in the market dictates the monetary success. Between these two extremes lies a hybrid form of governance as shown in the figure below.

Figure 2: Governance Structures

- Low control
- High power incentive

Source: Own Creation from article content by Hill et al. (1990)

Therefore depending on the specific type of hybrid and hereby choice of the boundaries of the firm, more or less control and incentive power is achieved.

3.1.5 Choice of Governance Structure

In the paragraphs above, the organization, market and hybrid was described as possible governance structures. In the following part the motivations and mechanisms that influence the choice of governance structures will be reviewed. This will be done through two of the most dominant theoretical lenses used to explain the behaviour of organizations.

Transaction Cost Economics

TCE stems from work of Ronald Coase (1937) and later Oliver Williamson (1975). The unit of analysis is the transaction performed, and the overall logic in TCE is to arrange the transactions with as little cost as possible, by use of hierarchy, hybrid, or market as the governance structure. Kogut (1988: 320) describes transaction costs as referring to: “the expenses incurred for writing and enforcing contracts, for haggling over terms and contingent claims, for deviating from optimal kinds of investments in order to increase dependence on a party or to stabilize a relationship, and for administering a transaction”.
According to Williamson (1979) the following key assumptions make up TCE:

- People are bounded rational
  - They have limited cognitive resources
- People act opportunistically
  - Problem of self-interest
- Contracts are incomplete
  - A contract cannot be complete, since people are bounded rational, so all scenarios cannot be foreseen.
- There are ex ante and ex post costs of contracting
  - The costs of making contracts, monitoring that the counterpart fulfil it and of taking potential legal actions, if they don’t.

Contractual hazards impact the cost of transactions and thus forms the basis of choosing which governance structure to be the least costly (Williamson, 2000), moving from market to hierarchy as contractual hazards increase. The span of contractual hazard starts with low contractual hazards, where it is easy to create a clear cut contract, and continues up the scale with increased complexity and difficulty to form contracts.

Williamson (2000) illustrates the situation as depicted in Figure 3 with h=hazard and s=safeguard:

Figure 3: Simple Contracting Schema

For transactions with no contractual hazard it is suitable to use the market, since there is no risk. When contractual hazards increase safeguards should be applied to mitigate this, but at some point, due to opportunistic behaviour, bounded rationality and ex ante and ex post cost of contracting, the cost or risk of contracting is too high and the better choice is to integrate through hierarchy or hybrid forms of governance.

It is hard to determine the transaction setup with the lowest cost or risk according to these assumptions, so Williamson (1991) describes how the three governance structures each have their own conditions in which one is preferred over the two others. The distinguishing factors are 1) asset specificity, 2) uncertainty and 3) frequency (Williamson, 1985). Asset specificity is whether investment in an asset, that is needed in order to perform a certain transaction, is so specific for that one transaction, that the value of this asset in other uses is considerably lower (types would be specificity in site, physical assets, human assets or dedicated assets). An example would be for two management consulting firms working together and investing in a joint webpage to market their collaboration; this would obviously not have much value in any other use. Uncertainty is to what accuracy the future can be predicted, both in terms of the environment and the potential opportunism of partners/agents. Finally frequency covers how often this one transaction will be performed. Williamson (1991) shows the connection between cost of governance and asset specificity for the three different governance structures, and thus shows under what degrees of asset specificity the different forms are suitable.

Figure 4: Choice of Governance Structure and Asset Specificity

According to TCE low asset specificity suggests using the market, medium predicts the use of hybrid, and a high degrees of asset specificity dictates the use of a hierarchy as the ideal means for a transaction.

If uncertainty is high, then Williamson (1991) shows that the issue is adaptation. Since it is harder to coordinate between multiple partners the hybrid form becomes more costly than the market or hierarchy. Therefore the hybrid is not suitable under high degrees of uncertainty. Here the hierarchy or market is preferred. For lower degrees of uncertainty all three can be used.

Furthermore if the frequency of the transaction is high, or put in other words the volume is high, the benefits of governing externally may exceed the cost, and a hybrid or the hierarchy is preferred.

One important dimension described by Williamson (1979) is the fundamental transformation that happens if investment in a specific asset is made. When an investment with high asset specificity is made, the two parties become dependent on each other, since the asset has no or little second best use. The bargaining power also changes, since both parties are financially committed to something that has no or little value in another use. They both run the risk of a hold-up problem, where the counterpart exploits this change in bargaining power and may force the other to pay more.

To sum up TCE tells us to choose the governance structure with the lowest cost, based upon the aspects of, asset specificity, uncertainty and frequency

TCE can be one explanation of when and why a firm chooses a specific governance structure (Hennart, 1988), but it only focuses on the cost aspect. To complement TCE, the lens of the RBV can be used to further investigate when firms may choose different forms of governance.
The Resource-Based View

RBV advocates that performance differences do not stem from cost advantages gained from aligning transactions. Competitive advantage rather stem from firm heterogeneity. The origins of the RBV stems from Penrose (1959) who proposed the firm as being a pool of resources. The RBV looks at firms as bundles of heterogeneous resources (Wernerfelt, 1984, Barney, 1991, Peteraf, 1993) that give unique and different competitive capabilities. Firms do not have all the same resources, because resources are not acquired but rather accumulated over time (Dierickx and Cool, 1989), through the operations of each individual firm. Various proponents of the RBV have advocated different views on when a resource provides sustained competitive advantage (SCA). Dierickx and Cool (1989) sought to explain how resources, that may be a source of SCA, occur and they identified several factors. They argue that such resources accumulate due to, 1) time compression diseconomies, which means that even if competitors were able to replicate another firm’s resource, then they would never be able to catch up, due to the lag in time. 2) Asset mass efficiencies essentially means that “success breeds success”, or in other words, one firm having a strong platform for e.g. research and development (R&D) would be better at exploiting this platform for further product breakthroughs, while other firms trying to replicate them, would never be able to achieve the same benefits. 3) Interconnectedness of stocks depicts that different resources act as complements for each other, and due to this interdependency it might be difficult for other firms to copy/build the exact same network of resources. 3) Causal ambiguity means that it might not be possible to understand how exactly the combination of resources result in the success of one company over the other, despite being in the same industry offering similar products or services. Lastly, 4) asset erosion means that assets, such as brand, R&D, physical objects etc. erode over time if they are not maintained. If assets rapidly decay in an industry this may create high degrees of information asymmetry and thus creates a resource advantage for first movers in terms of introducing new products or services. This accumulated fashion of creating strategic resources, is what hedges against imitation by others.

Barney (1991) and (Peteraf, 1993) expanded on Dierickx and Cool (1989) thoughts on accumulation of resources and postulated, that it is only under specific conditions a resource will give a SCA. Resources needs to be heterogeneous, valuable, rare, immobile and non-substitutable, or else competitors could simply buy it, copy it or find a substitute.
Foss and Knudsen (2003) proposed an even simpler approach to how resources become a source of SCA. They advocated that only two factors determine this, namely uncertainty and immobility. Both are necessary prerequisites. Uncertainty means that other firms wanting to replicate a resource face risks, because it is not certain which resource to replicate. It is not possible to determine which resource actually provides the advantage of the other firm. Immobility means that even if a resource is replicated, the costs associated with this may be sunk because the resource may not be useable in another setting, i.e. there are opportunity costs associated with the replication of a resource. Not knowing which resource to replicate and not knowing if the costs could be spent in another opportunity that may provide more value, is sufficient to avoid competition in this view.

In relation to choice of governance structure the RBV gives an insight into the rationale of choosing among these. One argument for determining how to setup a transaction, is that firms internalize what they can do better than others (Poppo and Zenger, 1998, Madhok, 2002, Jacobides and Hitt, 2005, Jacobides and Winter, 2005). This can be one part of the explanation, but Barney (1999) and Argyres and Zenger (2012) expand this view by arguing that the RBV and TCE are intertwined. Since the strategic resources are accumulated inside firms, they are immobile and it is uncertain which gives the advantage, and they cannot simply be bought in the market. The choices left are between creating them internally, merge with or acquire firms and internalize these, or to form a hybrid structure. Creating them inside the firm can be very costly (Barney, 1999), because it takes time, certain asset stocks are needed and it is not always clear how it is achieved (causal ambiguity) (Dierickx and Cool, 1989).

RBV and TCE do not exclude each other, but rather enrich our understanding of governance choice, when the objective is to achieve a SCA. Combining the logics of RBV and TCE provides the prediction that the choice of governance structure, is based upon gaining access to the needed strategic resources at the lowest possible cost (Williamson, 1979, Barney, 1991, 1999, Argyres and Zenger, 2012). Since a resource giving a SCA is not obtainable in the market the choice left is either to use the hierarchy or a hybrid form.
Sum Up – Variables Impacting Choice of Governance Structure

In this paragraph the insights into governance choice provided by TCE and RBV will be collected into one table.

Table 1: Sum-up of Motivations Impacting Governance Structure

<table>
<thead>
<tr>
<th>Theoretical lens</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transaction Cost Economics</strong></td>
<td>Choosing the governance structure with the lowest transaction cost, measured on:</td>
</tr>
<tr>
<td></td>
<td>• Asset specificity</td>
</tr>
<tr>
<td></td>
<td>• Uncertainty</td>
</tr>
<tr>
<td></td>
<td>• Frequency</td>
</tr>
<tr>
<td><strong>The Resource-Based View</strong></td>
<td>Creating or gaining access to needed resources, using the governance structure with the lowest cost of either a hybrid or a hierarchy.</td>
</tr>
</tbody>
</table>

Source: Own creation

The factors that influence the choice of governance and thus create the potential for sustained competitive advantage have been viewed through the theoretical lenses of TCE and RBV. Both of these lenses provide valuable insights but are quite normative in their approach. They aim at prescribing the optimum variables that constitute the choice of when a governance structure is preferred over the other. In order to better help with the conceptual understanding of the topic of this thesis, the Relational View of the Firm is reviewed in the final part of this stage. This theory is built upon the same foundation as the RBV and in some aspects TCE, but it is much more informative in its approach to describing how and why firms may pursue strategic alliances for the purpose of achieving prolonged value creation.
3.2 Strategic Alliances

This final part of the literature review narrows down the focus and specifically looks at theories that underpin the notion of strategic alliances. First a definition of strategic alliances is provided, and secondly the RVF is introduced.

3.2.1 Definition of Strategic Alliances

Hybrids are in their simplest form a decision of two or more firms to collaborate and carry our certain tasks collectively. This phenomenon is not a recent trend as it has been used since the origins of the firm (Todeva and Knoke, 2005) and one could argue that all firms make use of some kind of hybrid form of governance, i.e. supplier- and buyer relationships and network connections with other organizations. However up until the 1980's, hybrids were not a seen as a strategic option which could potentially help firms achieve competitive advantages.

While there is an almost endless list that describe differences in the specific forms of alliances (e.g. Joint Ventures, Franchising, Licensing, Cartels, Consortia, Networks etc.) the main concern of this literature review is not how they operationally vary, but what the overall common features are in order to make the choice strategic and valuable.
A collection of some of the most influential authors in this field and their definitions are collected in the following table.

**Table 2: Definitions of Strategic Alliances**

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Porter (1990: 34)</td>
<td>Strategic alliances are long-term agreements between firms that go beyond normal market transactions but fall short of merger. Forms include joint ventures, licenses, long-term supply agreements, and other kinds of inter-firm relationships.</td>
</tr>
<tr>
<td>Bronder and Pritzl (1992: 412)</td>
<td>We speak of a strategic alliance when value chain activities between at least two companies with compatible goal structures are combined for sustaining and/or achieving significant competitive advantages.</td>
</tr>
<tr>
<td>Parkhe (1993: 794)</td>
<td>Relatively enduring interfirm cooperative arrangements, 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.</td>
</tr>
<tr>
<td>Mohr and Spekman (1994: 135)</td>
<td>Partnerships are defined as purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence. They join efforts to achieve goals that each firm, acting alone, could not attain easily.</td>
</tr>
<tr>
<td>Gulati (1995: 621)</td>
<td>Voluntarily initiated interfirm cooperative agreement that involves exchange sharing, or co-development, and it can include contributions by partners of capital, technology, or firm-specific assets.</td>
</tr>
<tr>
<td>Varadarajan and Cunningham (1995: 282)</td>
<td>The pooling of specific resources and skills by the cooperating organizations in order to achieve common goals, as well as goals specific to the individual partners.</td>
</tr>
<tr>
<td>Vyas and Shelburn (1995: 47)</td>
<td>A strategic alliance is an agreement between two or more partners to share knowledge or resources which could be beneficial to all parties involved.</td>
</tr>
<tr>
<td>Das and Teng (1998: 491)</td>
<td>Strategic alliances are inter-firm cooperative arrangements aimed at achieving the strategic objectives of the partners.</td>
</tr>
<tr>
<td>Phan (2000: 201)</td>
<td>Alliances are long-term, trust-based relationships that entail highly relationship-specific investments in ventures that cannot be fully specified in advance of their execution.</td>
</tr>
<tr>
<td>Agarwal et al. (2010: 414)</td>
<td>Strategic alliances are an interorganizational form where multiple exchange partners agree to invest resources, share knowledge, and engage in economic value-creating activities that build on synergies between the resources and capabilities that each of the exchange partner firms bring to the alliance.</td>
</tr>
<tr>
<td>Gulati et al. (2012: 533)</td>
<td>We define inter-organizational cooperation as joint pursuit of agreed-on goal(s) in a manner corresponding to a shared understanding about contributions and payoffs.</td>
</tr>
</tbody>
</table>

Source: Own creation
From the above definitions a number of core building blocks can be seen, such as; synergies, trust, access to resources, pooling of resources, co-creation of services/products.

What is especially noteworthy is that early definitions included the notion of sustained competitive advantage, while the more recent ones frame strategic alliances in much more vague terms. A reason for this might simply be that the term “synergy” has replaced competitive advantage when research is focused on value created between several firms and not inside the individual firms.

Nonetheless, in order for an alliance to become valuable for the companies involved, the main feature suggested by literature is a deliberate strategic choice of mutual collaboration between two or more companies that enhances all participants performance (Todeva and Knoke, 2005). The definition this thesis will adhere to is the definition by Bronder and Pritzl (1992: 412); “We speak of a strategic alliance when value chain activities between at least two companies with compatible goal structures are combined for sustaining and/or achieving significant competitive advantages.”

This definition is expected to provide the best and most comprehensible understanding of the complex phenomenon of strategic alliances. The definition is also closely related to the RVF framework reviewed in the next section.

3.2.2 The Relational View of the Firm

The RBV (Dierickx and Cool, 1989, Barney, 1991, Peteraf, 1993, Foss and Knudsen, 2003) provide valuable insights into the origins of SCA. However knowing that no firms acts in isolation but is a part of a larger network, the RVF argue that the combination of resources between two or more firms may prove to be the single best opportunity to achieve a SCA.

Dyer and Singh (1998: 661) put forward the notion of the RVF and stated that,

“Firms who combine resources in unique ways may realize an advantage over competing firms who are unable or unwilling to do so.”
In highly uncertain environments, no firm wishes to make long-term commitments in terms of their strategic options, and instead of vertically integrating the resources, a flexible way to overcome this is by engaging in more hybrid forms of governance, e.g. strategic alliances.

The relational rents (as opposite to individual rents) are unique synergistic effects created between firms, which mean that these effects could not be generated in isolation. Dyer and Singh (1998: 662) explains this as, “Supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners.”

Sources of Relational Rents

According to the RVF (Dyer and Singh, 1998), relational rents stem from four interdependent factors, namely; 1) Relation specific assets, i.e. purpose-built assets for a specific relationship that have little or no value outside this relationship, 2) knowledge sharing routines, i.e. value is created through recombination of different partners’ knowledge, 3) complementary resources/capabilities, i.e. to achieve value through recombination, the resources need to be different but complementary, and 4) effective governance, i.e. partners need to be able to solve conflicts and use informal contracting for effective governance. These determinants of interorganizational competitive advantage are shown in figure 5.
Each of the sources and the sub-processes that facilitate the creation of SCA will be explained in more detail when the framework is applied in the qualitative analysis. The framework will then function as a tool against which the specific context of the target firms is evaluated. The application of this theory is used to determine which conditions might be missing in the research context of this thesis.
4 Stage Two: Qualitative Analysis

This stage begins by highlighting the methodological steps taken in the thesis to adequately answer the research question. The qualitative analysis itself consists of three main parts: 1) A situational analysis of the internal and external environment of the target firms. 2) An analysis of the current use of strategic alliances among the firms. 3) A final section that will combine the result of the two preceding parts with the reviewed literature. This combination will enable us to adequately answer the overall research question.

4.1 Methodology

As a starting point this methodology section presents a data section that will show which kinds of data have been collected and why these data are important. Next, the overall methodological approach is presented and evaluated for its fit with the type of data needed.

Third, the actual data collection tool is described in terms of the main construct and content which leads directly into which, how and why the sources of information has been selected.

Fourth, two data collection processes are shortly outlined for its content and main purpose. Then, before going into more specifics elements related to making sense of the data and the description of the analytic tool used, a step back from the practical considerations is taken in order to explain the epistemological position that permeate the coding process.

Lastly, the quality of the research is discussed in terms of validity and reliability.

4.1.1 Data

As stated in the introduction, the overall aim of this thesis is to analyze under which conditions strategic alliances can help the target firms overcome their key challenges. The data requirements for answering this are three-fold. The first core element was to find data that will shed light on the target firms’ key challenges. The second core
element was to find and select the literature appropriate for assessing what underlying mechanisms drives the behaviour of firms. These findings lead into how and when strategic alliances may be useful in relation to the target companies. The last core element consists of data that can tell how the target firms currently utilize strategic alliances in order to identify the experiences with and perceptions towards this mode of governance. The two empirical elements are inherently exploratory. The goal is not to confirm or reject theoretical hypotheses. The goal is to explore the factors that drive the behaviour of the target group and thereby achieve an in-depth understanding of the context in which the topic of strategic alliances is applied. By drawing on previous research and relating it to our empirical findings, we will be able to provide useful guidance on the potential for this group to make use of strategic alliances, and the possible implications of making this choice.

4.1.2 Choice of Method

Cooper and Schindler (2008) propose that different approaches are adaptable for explorative research, where qualitative methods such as multiple in-depth interviews are the most appropriate. The focus of qualitative methods is to understand, interpret and build theory, whereas quantitative methods are focused on describing, explaining, predicting and testing theory.

The qualitative method chosen for this thesis allows a design which can be adapted for the purpose of capturing new insights as the work progresses. This suits well within the parameters of this thesis where much of the factors are either not known or verified beforehand. Furthermore, in depth interviews are suitable for investigating complex phenomena, which strategic alliances unarguably are (Boyce et al., 2006).

One weakness of using multiple in-depth interviews is that the amount of data collected is large and may, if care is not taken, provide an overly complex result (Eisenhardt, 1989). A conclusion which tries to capture everything is of very limited use, and therefore not having a quantifiable data set, may result in research where focus on the important relationship between data is clearly missing.
A second weakness of using multiple in-depth interviews, is that the predictions are quite narrow in their applicable coverage, and therefore are idiosyncratic for the specific area of research (Eisenhardt, 1989). The primary intent is to uncover the most important variables for a medium-sized segment in a service industry which is heavily dependent on knowledge and the application of knowledge from highly skilled business professionals. While this is a limiting factor on overall generalizability it does however provide analytic results that are more practically useful, capture real life experiences and also allows for further empirical research using more deductive methods.

The aim is to uncover essential perceptions from different sources within the target segment but by treating this segment as one group, differences such as size, areas of expertise and financial performance are neglected. By doing so, there is a risk that some of the interviewee’s perceptions are not fully captured, and this may even offset within group generalizations in some areas. To limit this, care has been taken in terms of designing the data collection tools and the coding process.

The use of an appropriate tool and techniques to mitigate the above risks is described throughout the following sections.

4.1.3 Data Collection Tool

The primary data collection tool is an interview guide which is shown in appendix A. The interview guide consists of two key parts both primarily containing open questions. The first part contains questions that will collect data on internal and external factors within the context of the target group. The second part asks questions relating to interorganizational networks and the use of and attitude towards alliances. All questions are constructed in a factual fashion that will not bias the answers given significantly.

The interview guide was tested in a pilot interview and adjusted accordingly to the feedback. However after having conducted half of the interviews a further revision was made, which primarily meant removing some questions that did not provide any value due to overlapping content. See appendix B for the revised edition.

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6 All appendices can be found at the end of the report.
The basic construct of the interview tool is based upon technical guidelines provided by Kvale (1996, 2007), which will be outlined in the section, Data Collection Process.

Criteria for Selecting Sources of Information

Data collection was realized through interviews, with a length of approximately one hour, primarily with CEOs or partners from different Danish management consulting firms.

The selection of sources was based on the following criteria:

- The firm is classified under the industry code 70.22.00
- The firms has between 5-30 employees
- The interviewee should either be CEOs/Partners or a person directly appointed by the CEO/Partner to provide answers

The respondent group is made up of firms that:

- are geographically spread across Denmark
- covers different functions within the selected industry code

The choice of this target group is based on a preliminary research process. This process comprised a collection of data from both primary and secondary sources, namely search in appropriate literature, search in other related documents and newspaper articles, two semi-structured interviews with industry experts from Dansk Industri (DI) and Dansk Erhverv and a semi-structured interview with an incumbent firm.

The impression from this preliminary research process was that this target group represents a segment under significant pressure in this industry. Furthermore both a

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7 Refers to: Business and other management consultancy activities – see definition here (in Danish): [http://www.branchezode.dk/](http://www.branchezode.dk/)

8 This will be denoted as “mediums-sized” companies due to the specific industry characteristics described in the introduction.

9 The functions covered are: Strategy, Organizational/operational management, Change management, Project management and HR consulting

10 Due to confidential considerations, the company name is not stated.
number of firms and industry associations indicated a sincere interest in having the opportunities for strategic alliance formations analysed.

The results of this preliminary stage not only identified this segment as being the most appropriate target for our analysis, but it also granted access to possible interview candidates through the contacts made with industry associations.

Additional appropriate candidates were identified by utilizing a so called “snowball sampling method” (Noy, 2008), which meant that whenever a company participated in an interview, they were prompted to refer to other relevant sources. This resulted in at least three additional interviewees who were suitable for an inclusion in the data collection process.

**Data Collection Process**

The interview guide was sent to each interviewee beforehand, including a short briefing about the purpose and the context, in order to prepare the interviewee and thus increase the quality of the answers given (Kvale, 2007). The interviewees were promised complete anonymity, in order to create an interview environment of openness and confidentiality, ensuring that as little as possible information was held back (King and Horrocks, 2010).

The interviews were carried out in a convergent manner which means that the follow up questions used for each interviews were continuously fine-tuned and by such helped enrich the analytic process (Andreas, 2003).

First, seven face to face interviews were conducted, recorded and then reviewed for content. This iterative process showed the necessity of expanding the number of interviews in order to make sure that no radical new information was provided (Boyce et al., 2006, Kvale, 2007). In total the process ended up with 13 interviews from 13 different companies.

The interviews were semi-structured and conversational in their style. The strength of this design is that the interviewer can explain or elaborate questions and follow up, in
order to create a richer and more in-depth knowledge while at the same time letting the interviewee freely contribute within the broad boundaries of the topics (Kvale, 2007).

A risk when conducting face to face interviews is the use of leading questions. Such questions may prompt the interviewee to provide biased answers that suit the interviewer rather than reflecting the actual perception of the interviewee. In an aim to mitigate this risk, factual questions from the interview guide were used intensively before making any follow up questions. This however required some rehearsed skills and through the transcripts it became visible that the risk did materialize in some situations, but in general the trustworthiness of the answers is considered to be high.

**Transcription**

The first step in the data analysis was to transcribe the recorded interviews. According to Gibbs (2007) two aspects of transcribing are important, namely that it is time consuming and an interpretive process.

In order to address the time aspect, the transcriptions were done as soon as possible after the interviews were carried out, in order to have them fresh in mind and not to fall behind schedule.

Gibbs (2007: 95) describes transcription “as a form of translation from one medium to another and inevitably involves some interpretation. What you are trying to do in transcription is to capture faithfully the interviewee’s view of the world.” To prevent inaccuracies in this transformation of mediums, we transcribed all content of interviews, except recordings of conversations that had no connection to the thesis. The transcription was done by the person who performed the interview, in order to make it as correct as possible, especially regarding paragraphs where the interviewer showed graphs, schematics or drew illustrations.

Furthermore, a short summary of each interview was created. These served as reflection memos of the interview setting and participant behaviour critical for the analysis
(Creswell and Miller, 2000). Conventions\textsuperscript{11} on transcription were followed (Kvale, 2007: 96) and template for transcription was used, in order to keep them as similar as possible.

**Epistemological Position**

Having collected the data, next step was to codify it, or in other words, make sense of the data. The exploratory approach towards answering the research question needs to be aligned with how coding of the data is conducted.

The epistemological position most suitable for the aim of this thesis is an interpretive position. The interpretive approach means that there are multiple interpretations available to any phenomenon. The interpretations are always depending on the position of the researcher and the context of the research and this guide the overall codification process.

**Coding with Template Analysis**

Coding in alignment with this epistemological position meant finding a coding approach that would ensure an open attitude towards the data and thus allowing the themes to emerge from the text. To structure the coding process, Nvivo 10© software was used. The actual coding of the data utilized the guidelines derived from Template Analysis first introduced by Crabtree and Miller (1999) and later endorsed by King (2004, 2012). Template Analysis is a relatively recent development and has emerged from more structured approaches such as Grounded Theory and Interpretative Phenomenological Analysis. King (2012) argues that Template Analysis is not a single method, but rather a cluster of techniques that can be used by the researcher for the purpose of making sense of data. Interview transcripts are the most common source of data utilized with this method of analysis.

Using both inductive and deductive measures, this method let themes arise primarily from the data but also from pre-existing knowledge such as literature or previous

\textsuperscript{11} Such as proper methods of annotations of transcripts.
research which is put into a small set of so called “a priori themes”. Template Analysis serves as a balanced hybrid, especially useful for research aims which are relatively complex and carried out within a narrow timeframe (King, 2004).

By using this approach it is believed that a thorough approach to analysis of large amounts of textual data12 has been achieved.

In order to make the coding as reliable as possible the following steps were taken:

- A priori codes were established based upon pre-existing knowledge which was primarily derived from existing literature and preconceptions from both authors.
- Categorizing and coding was done in collaboration, in order to get stronger interpretations (Saldaña, 2009: 27).
- A coding template with definitions of all categories was used during coding, in order to avoid definitional drift (Gibbs, 2007: 98).

Using these guidelines a coding template was created and formed the basis for the analysis. The final coding template is shown in appendix C.

A key feature of coding within Template Analysis is hierarchical coding. Related themes are grouped together to create both broad higher order themes and more specific, lower order themes (King, 2004). This allows the researcher to analyse the data at varying levels of specificity and detail. Furthermore, parallel coding is permitted when using Template Analysis. This allows the same part of text to be connected to more than one theme at more than one level. This is particularly useful when multiple interpretations of the data are sought for.

A drawback of using Template Analysis is that the coding template may be refined indefinitely. King (2012) suggest using the law of diminishing returns in order to decide when to stop the development of the template.

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12 In total, the data collected amount to more than 250 normal pages if one calculates 2000 characters, no spaces accounted, per page.
The drawback of coding qualitative data in general is the risk of fragmentation, i.e. grouping of data into related themes. This approach is criticised for being prone to decontextualization (Coffey and Atkinson, 1996). Through the subsequent reassembly of smaller parts of data, the context may be lost. In this thesis it is believed that the risk of defragmentation and decontextualization is low, due to the applied techniques outlined above and due to a very narrow area in which the research takes place. Furthermore the data base is relatively small and the danger of fragmentation is considered low.

4.1.4 Supplementary Data Collection

Having carried out, transcribed and coded the 13 interviews, the next step was to go deeper into the topic in question. This was realized by preparing and conducting a second round of follow-up interviews. See appendix D for the interview guide used. In this second round of data collection, all 13 companies from the first interview round were given the choice to respond either in writing or by telephone. These options were chosen due to limited resources, time constraints and in order to get as high a response rate as possible. In sum, 10 responded positively.

The content and wording of the questions were based on the knowledge gained from the first data collection process and by such provided a much more narrow focus on variables of particular interest in regard to the firms and the topic of strategic alliances. Some questions carried similarities with questions from the first round of interviews. This was done in order to verify consistency in the answers given in the first round. Another aim of this second round of interviews was to gain a deeper understanding of details that had not fully been provided in the first round of interviews.

Two different interview guides were used. One for interviewees that previously indicated that the firms either have used or currently use alliances and a second for companies that indicated very little or no experience with the use of alliances. This split was made in order to adjust the wording of the questions to accommodate each interviewee’s specific situation. The collected data was transcribed and coded according to the same procedures as presented in the earlier sections and ended up being included in the total set of data.
4.1.5 Quality of Research

Taking an interpretive approach to the data analysis, literature advocates researchers to apply *epoché* in order to increase the quality of the research. Epoché is a process where the researcher set aside all pre-conceptions about the topic under investigation (Rossman and Rallis, 2007). This was not perceived as being fully possible. This is in line with the propositions made by Phillips (1990), who stated that individuals are too engaged and entwined with the world for the epoché to be fully achievable. To avoid biased perceptions of the data, a process of critically examining our own views was widely applied and a natural result of being two authors discussing the emerging topics.

Reliability and Validity

Reliability and validity are notions most often used in connection with quantitative research. However qualitative research must also demonstrate the quality of its process and findings.

Andreas (2003) advocates, that the criteria for evaluating the quality should be compatible with the epistemological position taken in the data analysis. This research took an interpretive approach to the data, and it is therefore important to demonstrate that the analysis is grounded in the data, i.e. in the perceptions of the interviewees.

King (2004) proposes the use of participant feedback and audit trails as modes of ensuring quality in the research. The coding template was sent to two of the participants in order to get critical feedback on the themes and categories. This feedback was not used to verify the content but to critically reflect on the codes. The drawback of using this method is that the participant might be reluctant to criticise the work of the researcher due to power imbalance, but this was not perceived as being of any significance in this case. The use of only two sources for feedback instead of a larger sounding board might also limit the ability to evaluate the emerging themes. This limitation is however considered low due to the limited total number of interviewees participating in this research setting.

Furthermore an audit trail based on the guidelines provided by Carcary (2009) has been built during the analytic process. Both an intellectual and a physical audit trail have been
made. The aim is that this will provide an overview of how the final analysis was reached from the raw data and what choices were made during the process. This and the elaborate methodology section of the thesis increase the replicability and trustworthiness of the research (Kvale, 2007, Carcary, 2009). The audit trail can be found in appendix E.

In terms of validity or trustworthiness of the thesis, mainly two categories are important. Firstly, internal validity was achieved by not only having a focus on differences and similarities between interviewees’ beliefs/experiences, but also trying to identify the factors actually forming these (Andreas, 2003). Secondly, external validity was realized by tying the results of the analysis together with existing literature in an aim to increase its generalizability. Also, by applying existing theory, possible conflicting results from the qualitative data analysis were used to enrich and further the understanding of the area of research (Eisenhardt, 1989). Furthermore, the methodological choices made in this thesis are argued to be well suited for the research question and thoroughly documented in the previous sections.

**Triangulation**

Triangulation means verifying data from different sources in order to increase credibility and validity of the results. When based on different sources a more elaborate and hence accurate understanding of the result can be obtained. In order to achieve triangulation in this master thesis, the chosen interviewees cover Denmark geographically and they cover different functions within management consulting (Gibbs, 2007: 94).

The collection and application of both qualitative and quantitative secondary data from different written sources (company specific documents, general media) were used, if such data could be obtained. Recognizing that there are very limited sources of secondary information the triangulation is primarily sought through multiple primary sources of information and previous research within the area of strategic alliances.

Each interview was performed by one of the two authors, to get two “takes” on how it could be done and later discussed in order to increase the quality of the interpretive approach to the process and to mitigate possible biased conceptions.
The key analytic part of the thesis was created within an interpretive approach, where reality was constructed as a result of human interaction in the given context of the research and thus resulting in relatively low generalizability (Kirk and Miller, 1989). The results are up to interpretation, but the construct and documentation of the research design and process is considered strong and trustworthy. However the limited access to company-specific documents poses a challenge to the validity of the empirical data. By using multiple interviewees and two rounds of interviews, it is suggested that the answers obtained are trustworthy but further research is advocated in order to fully verify the findings from this thesis.

In sum, this thesis is considered to be reliable and of high quality in terms of construct, choice of method and research design and hence its ability to answer the research question.
4.2 Qualitative Analysis Part 1: Situational Analysis

In order to gain an understanding of the medium-sized management consulting companies, this section will analyse the external and internal factors from the target firms’ point of view and by such provide an overview of this segment’s current situation.

Firstly, the external factors will be structured and presented by using the well known framework for industry analysis, Porter’s Five Forces (Porter, 1980). The factors will be shortly summarized and divided into opportunities and threats respectively.

Secondly, the internal factors will be depicted and from this a number of key strengths and weaknesses will be pointed out.

The third section contains a full overview of the industry and the firms by gathering the data into a SWOT framework. This provides a clear picture of the current situation as seen by the medium-sized management consulting companies.

Lastly, the above factors are converted into a list of key challenges. This section forms the basis for an analysis of the target firms’ opportunities to use strategic alliances and a critical evaluation of how this may be achieved.

4.2.1 The Industry

As mentioned in the introduction there approximately 16,000 companies in Denmark concerned with some kind of business consulting services (Ørholst, 2013). Approximately 6,500 of these are directly involved in management consulting, but only 230 of these have more than 5 employees and only 4 Danish-founded companies and 10 international consulting firms have more than 50 employees. The industry is thus fragmented with many very small players, a quite limited amount of medium-sized players and a few large ones. This industry structure is expected to have major ramifications for the target segment.

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13 Source: NNMærkedssdata - www.nnmærkedssdata.dk
By looking more specifically into the forces which affect the level of competition, a thorough understanding of the external conditions can be provided.

**Threat of Entry**

**Capital Requirement and Product Differentiation**

One interviewee stated that,

“...this is a business, where there are no entry costs, there are no entry barriers, it's a free title.“

(ToI\(^{14}\): 313)

The capital requirements needed to enter this industry are extremely low. There is no need for large sunk cost investments and the only resources needed are essentially one person, a phone and a laptop. The title “management consultant” carries no classification or certification, which means that anyone can use this to denote their service offering.

An interviewee described the result of such low entry barriers,

“...you think that because you have a good web site with a lot of services, then customers will just queue up in front of your business. It is a bit like taking a trip down to the post office, where you can now buy coffee, mobile subscriptions and everything else, and we certainly find this unserious…” (ToI: 103)

The low entry barriers means that a large amount of micro firms enter the industry and the result is low transparency. Potential buyers suffer from high search costs when trying to select the “right” supplier. In 2011 the Vice President of the Danish Tax office (SKAT) Bente Kristensen expressed heavy support for these facts when she stated that,

“There are so many providers in the market, and it's hard to figure out the actual level of quality. All say they are great for everything” (Birkmann, 2011: 32)

\(^{14}\) ToI is an abbreviation for “Transcripts of Interviews”. The number refers to the page the quote is taken from. A CD accompanying this report contains a PDF document with all interview transcripts.
One of the interviewees expressed frustration about the micro firms when browsing through the web, searching for management consultancy services,

“…you become quite dizzy when you look at what they (smaller firms) can do. When you meet them you see that it is just a one man show, running a consulting company and one who is great at making a website.... So it's confusion, confusion, confusion. How do you find a profile that is special?”

(ToI: 136)

The level of quality is hard to assess and differentiation seem to be critical but made difficult by the extremely low barriers to entry.

**Incumbents’ Defence of Market Share**

Even though this industry is made up of a few large firms with substantial resources, these are not heavily affected by the free flow of very small firms. The micro firms may be blamed for destroying the trustworthiness of the industry (Birkmann, 2011) but they do not pose any direct threat to the largest players because these firms most often concentrate on small scale projects with smaller clients. However, when it comes to the target group of Danish medium-sized consulting firms, they express concerns about how the large incumbent firms try to defend their market shares. Not only does the target group sometimes compete with the micro firms and firms with their own size, but they often find themselves competing against larger players. Two firms that were often mentioned as being of particular concern are Valcon A/S and Implement P/S. These two companies have each more than 200 employees\(^\text{15}\).

One interviewee told about their experiences with how larger companies try to defend their position,

"Recently we lost a job to Implement, which I was so sure we would win. We had home advantage, good relationship and good chemistry with the customer. What Implement just did was that they had spent quite a lot of time on pre-defining the solution, even though this was part of the actual delivery.” (ToI: 250)

\(^{15}\) Valcon A/S has 80 employees in their Danish office, but in total within their international offices 200+ employees – Sources: NNMarkedsdata - [www.nnmarkedsdata.dk](http://www.nnmarkedsdata.dk) and [www.valcon.dk](http://www.valcon.dk).
While there might be low entry barriers in the industry, the pressure from larger firms put up barriers for growth, and the risk of retaliation is present for the target group.

**Industry Growth Rate**

The industry growth rate also affects the entry barriers. The turnover of management consulting services grew 6 percent from 2011-2012 after a few years of decline, primarily as an effect of the financial crisis (Videnrådgiverne, 2012)\(^{16}\). The expectations for continuous growth is outlined in both media articles (Business, 2013) and by an industry report from 2013, and provides a positive view on future industry potential (Krogh, 2013, MGMT, 2013). Several interviewees expressed that from 2009 until now they have either had “stagnated turnover” (ToI: 253) or “smaller growth rates” (ToI: 417) despite the financial crisis, and the outlook is positive as long as they are able to adapt to the industry changes. This growth prospective will facilitate lowering the barriers to entry, due to the increased size of the market for these services.

**Legal Barriers**

Some legal barriers pose threats to the target group. The barriers stem from the public sector where Staternes og Kommunernes Indkøbsservice (SKI) has made explicit rules for which types of companies might be allowed to bid on public projects. This puts pressure on especially the smaller consulting firms because the evaluation criteria are based on financial viability, turnover, types of services and number of employees\(^{17}\). The smaller firms are at an obvious disadvantage when compared to the larger firms on these criteria. A news article claims that SKI favours large firms (Meister, 2012) and one of the interviewees explained:

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\(^{16}\) The industry report (Branchestatistik - Udviklingen i videnrådgiverbranchen 2011/2012) from Videnrådgiverne covers more than just management consultants. Included are; IT, Engineering, Marketing & Communication, Accounting, Legal aid, Technological advisory, IPR, Design and Market analysis.

\(^{17}\) Taken from the contract notice about prequalification’s for management consultants for SKI https://www.ethics.dk/asp3/qualify/ski_1710_20120327.nsf/dspleafs/datendernotice?OpenDocument
…” the company behind SKI was reorganized, and as a part of this they ended up with a model that discriminated the smaller consulting firms so much that it was almost not possible to get in.” (ToI: 207)

These governmental policies do to some extend increase entry barriers, but again it is the medium-sized segment that is most severely affected. The smallest firms in the industry do often not have the prerequisites for solving public sector projects, while the medium-sized segment, could prove great potential for growth, if they had increased access to this client segment.

In sum, the threat of entry is large, due to very low capital requirements, continuous industry growth. While the largest competitors might put pressure on the medium-sized segment, a steady flow of new players is a reality. Governmental policies set up barriers to entry into the public sector especially for the target group of firms.

Supplier Power

The suppliers for the management consulting firms investigated are the individual management consultants and the knowledge they bring into the firm. The competition for the most talented individuals is fierce and the ability to attract and retain highly skilled consultants is costly and difficult for firms with relatively low degrees of brand awareness.

“Our biggest (weakness) is recruiting, because if we do not get the right people, then the whole thing crumbles. So we are especially challenged when it comes to attracting senior personnel.” (ToI: 502)

The supplier power in this research context is considered high. The implications of this are further highlighted in the internal part of the situational analysis.

Buyer Power

The factors determining the buyer power in this industry are quite unique. A range of the original determinants within the Five Forces framework will not be able to fully cover and explain the level of buyer power in this industry. The primary drivers are actually a combination of having intangible services with low degrees of differentiation
and a large number of suppliers. The details and effects of these factors will be described in the following sub sections.

**Type of Buyer**

The interviewees’ customer segments are comprised of both private and public companies. Some focus explicitly on large private firms, some cover both large and medium-sized firms and again others focus exclusively on the medium-sized. There are certain characteristics which affect buyer power, and these are quite different whether the focus is on large clients or medium-sized clients.

**Professional Buyers**

The impression gained from the interviewees is that especially the larger firms have professionalized in terms of buying management consulting services. Some indicate that the threat of backwards integration by clients actually already has materialized with firms internalizing the service by hiring in-house consultants on a more permanent basis. The large clients take people from the consulting industry, who then function as gate keepers whenever the firm needs additional consultancy services. This increased buyer power is critical and as one interviewee stated,

“The market is more mature now and… there are now consultants inside the companies (client firms) who are placed there in order to put pressure on us (the consultants). Third party people have come in and are now giving us our own medicine.” (ToI: 248)

**Immature Buyers**

For the medium-sized clients, normally owner-run, there is still a degree of immaturity in their sourcing of consultants, due to their lack of experience with this. One interviewee also gives this as the reason to explain why some firms have consolidated in order to move up from medium-sized clients to work with larger clients:

“I understand why they moved up, because it is at damn difficult segment. It is not a segment that is used to buy management consulting. They are a little, and this is not negative, but immature. This means that they expect a lot and measure everything in hours and not value, where I think top-50 or
top-20 companies think consultants in another way, and know that it is value that needs to be made”
(ToI: 444)

Another interviewee calls this “consultant allergies” (ToI: 17). While these clients might be less experienced when it comes to buying consultancy services, they still exert relatively high bargaining power due to the low service differentiation and relatively low switching costs.

Cost Conscious Buyers

An indicator of the high levels of buyer power is the price development. According to an industry report (Videnrådgiverne, 2012) 60 per cent of firms in the industry expects an increased pressure on price. Interviewees widely agreed with this trend and one stated that,

”The customers are extremely cost-conscious in terms of how much they expect for their money. Some of the work previously done by two consultants to ensure quality...is now performed by only one, due to customer demand. In principle, customers want the same, but with half the crew. That is a challenge. It is of course positive that they are cost conscious, but sometimes it can affect the quality of the work.”
(ToI: 370)

Several interviewees indicated that during the financial crisis a general overcapacity in the management consulting industry emerged, and especially larger firms, lowered their prices in order to win market share. The longer term effects of this are that, while a stabilization of demand and supply is under way (growth industry), it is extremely difficult to increase prices. In many aspects this situation indicates the strengths of the buyers in the industry.

One interviewee’s experience was that despite a growing market, the high buyer power made it attractive for several competitors to lower their prices in order to win a project.

“They (competitors) lower their prices, and it is so easy to dump prices. It is just like the stock market, where it plummets so fast, but takes extremely long time to build up again. A lot of firms are fighting. We can conclude that sometimes firms are making bids with a price level where we just go, what the hell is happening here?” (ToI: 138)
Some expressed concerns that especially larger firms are very aggressive in terms of pricing as an integral part of their growth strategy.

“There are a couple of management consulting departments within advisory engineering companies who have a clear strategy of just dumping prices until they are at cost levels.” *(ToI: 413)*

The focus on price is helping the clients (buyers) to gain even more power, as they let the consulting companies fight for their projects and achieve lower prices. However the question is whether this situation actually will provide better services for the clients, or whether the consultant firms make sacrifices on the quality?

Several interviewees made it clear that they would rather not win a project than having to make compromises on their quality. This is of course impossible to verify within the boundaries of this research but one could argue that the firms’ reputation is one of their primary differentiating factors and that they would be reluctant to put that in danger over opportunities to enjoy short term benefits.

**Demand for Experts**

While the quality of services might be at risk in this price war, general trends regarding what type of consulting service clients ask for become clear. During the last 5-10 years a shift in client demand has happened towards increased expert services. This is primarily a result of the previously stated impression of clients growing more professional in terms of buying consultancy services. With this professionalization come new levels of demand, and having asked for more generalist services in the past, many clients now demand much more specialized services. This puts pressure on the consulting companies for creating a unique position in a hardly definable field of management consulting.

“There is not much demand for the broad general management consulting anymore. They (clients) always seek to find very specialized services. They (the services) have typically gotten narrower and narrower.” *(ToI: 214)*

The high level of buyer power is not explicitly reflected in this change in demand. However, when the buying process of consultancy services is included, it becomes
evident how much power the client exerts. Especially larger clients have adopted some of the purchasing methods of the public sector, and are establishing a limited number of suppliers with whom they make longer term contracts. This is done in order to decrease costs of searching for suppliers. While this seem beneficial for the consulting firms that are able to secure such longer term agreements it may prove difficult for especially the target segment, where brand and reputation is limited compared to the larger consulting firms.

“…it's a trend we see that many companies cut down on their number of suppliers. They try to professionalize their sourcing processes and therefore make framework agreements with maybe 4-6 suppliers. We see a lot of this, and it is clearly an expression that they want one-stop-shopping.”

(ToI: 81)

While the above exemplifies the buyer power in the sales process, another component is worth mentioning. Due to the low transparency in the industry, the clients have few elements to base their selection of suppliers on. Two factors are extremely important for this selection process, namely as earlier mentioned reputation and the brand.

Supplier Selection – Reputation and Brand

A couple of interviewees describe how clients might use the larger more heavily branded firms in order to create an atmosphere of perceived protection.

“You can always buy KPMG or Deloitte, because if they make mistakes, then everyone will look at the person who bought the service and say, well you couldn’t know that.” (ToI: 370)

Another interviewee has a different theory of the psychological aspects of buying brand name consulting firms.

“It is the psychology in when you pay the very most, then you think you get the very best. There are actually quite a few people like this.” (ToI: 174)

Consequently clients use a combination of reputation and brand value as criteria for selecting their suppliers. Due to the low transparency and low degrees of service differentiation, the buyers are forced to use these criteria. As a result of this and as an additional example of high buyer power, the clients have an increased focus on the level
of value actually achieved when having bought the consultancy services. They are no longer satisfied with ‘only’ an analysis. They demand high levels of implementation of this analysis as well. Sometimes the clients might already have made their own high quality analysis and therefore only buys implementation, but nonetheless, the analysis in terms of value from a client's point of view has decreased in favour of the actual implementation.

Focus on Value - ROC

To extent the previous section, then according to some of the interviewees there has been a shift in client demand over the last few years with an increased interest in accurate measurement of the results of consulting services. Exemplifying this increased focus on execution and value for money, one of the interviewees described how their sales process is becoming more equivalent to the process known from other advisory/consultancy professions.

“A general shift is that we are now more like architects, where you need to use a hell of a lot of time on describing the solution, before you can actually make the sale. You almost finish the project before you sell, and that is crazy. More and more customers have gotten interested in the model of no-cure-co-pay than they were 10 years ago.” (ToI: 248)

Another interviewee explained this as having major ramifications on how profit is created.

"The level (of quality) has improved enormously in this industry since I started. What you could get away with back in the 80’s and 90’s in contrast to what needs to be in place for even being considered for at project now, bears no comparison. I sometimes say that you could get away with selling the first 100-200 hours as a kind of pre-analysis, where you get paid for just getting to know the company. All this is now just a part of the sales process.” (ToI: 412)

This increased focus of value creation is captured in a newspaper article from 2012 (Knudsen, 2012) where the mantra of today’s consulting industry is described as being Return On Consulting (ROC). Being able to measure ROC would enable consultants to accurately document the value of their services. An interviewee also describes, that if
they “crack the code of how to document their return on investment”, then the revenue potential would be enormous (ToI: 444).

In sum, all the described factors in the above sections provide an impression of an industry made up of number of clients who are able to exert substantial amounts of bargaining power.

Before any final comments can be made on the main opportunities and threats one last element comprising this industry’s competitive environment is essential, namely how consolidation has affected the level of rivalry.

**Consolidation**

Consolidation has played a major part in the last few years, where, for example, medium-sized firms such as Flensby & Partners A/S have been acquired by KPMG (Breil-Hansen, 2011), Attractor A/S was bought by Ramboll Management (Iversen, 2007) and Quartz A/S and Copenhagen Consulting Company A/S merged (Tholstrup, 2010). The interviewees’ impression was that over the last 4-5 years some of the poorest performers have been removed from the industry, but the core competitors have simply grown stronger.

“*There has absolutely been a consolidation in the market, and that is absolutely good, because it was getting a bit unserious at times. There were a lot of services that were nice-to-have instead of need-to-have for the individual clients, and it was just pure excessive use. But between those companies, that now have consolidated and the ones being known in the market through a number of years, there is and always has been tough competition. We meet them again and again.*” (ToI: 370)

Another stated that,

“*Yes, we have seen an elimination race. The large (consulting firms), as soon as they have endured the crisis they will be in an even stronger position. This will create greater congestion among the smaller, more unorganized firms. The medium-sized companies are always the ones to be in trouble.*”

(ToI: 207)
These expressions are fully supported up by an industry report (Videnrådgiverne, 2012), which stated that 46 percent of the firms to either some or to a high degree expect an increase in consolidation. Thus, in the last few years a concentration of competitors has taken place and the market has become even more polarized.

**Complementors**

One aspect of the industry structure which seems obvious to include in this research setting of strategic alliances, is the notion of “Complementors”.

The term, Complementors, originates from Nalebuff and Brandenburger (1997) and was further developed and advocated by Yoffie and Kwak (2006). This is sometimes denoted as the “Sixths Force” in relation to Porter’s Five Forces Framework. Yoffie and Kwak (2006: 89-90) defined Complementors as:

“Companies that independently provide complementary products or services directly to mutual customers – those that increase the value of each other’s offerings in customers’ eyes and the size of the total pie–can play an equally important role.”

The target firms being investigated are expected to have rather narrow value proposition due to their size, which mean that they in some aspects only partly cover the total needs of the client projects. The various consulting firms may have mutual clients in this segment, where a combination of the individual offerings potentially could increase the value of all parties.

One of the interviewees showed and explained the following image, depicting three areas of management consulting services
While this firm concentrates their business on training of leaders, they could see great potential in moving up into strategy formation and implementation. This however lies outside their core competences, and it could therefore be done through collaboration with other firms (ToI: 93). There could then be an opportunity for the target firms to focus on this “sixths force” in order to increase the size of the total pie in collaboration with others.

The notion of Complementors stem from game theory. This theoretical approach will not be pursued further in this thesis. The focus is on strategic alliances and the theories that can best analyse this complex phenomenon within the specific research context. Some of the basic ideas of Complementors are however valid and further analysis later in the thesis will show that most of the target firms have acknowledged the potential in some form of “coopetitive” behaviour.

**Competitive Rivalry**

Due to the low entry barriers and the high degrees of power from both buyer and suppliers, this industry has high levels of rivalry. The industry is growing, there are low levels of product differentiation, there are many competitors and the industry is fragmented and polarized.
**Sum up – Opportunities & Threats**

The industry analysis can be translated into a number of threats and opportunities, which have been collected in Table 3 below:

Table 3: Opportunities and Threats

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growth industry</td>
<td>• High risk of new entrants</td>
</tr>
<tr>
<td>• Clients demand experts companies</td>
<td>• High supplier power</td>
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<tr>
<td>• Clients focus on documentation of</td>
<td>• High buyer power</td>
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<tr>
<td>value</td>
<td>• High competitive rivalry in a fragmented and polarized industry</td>
</tr>
<tr>
<td>• Complementors</td>
<td>• High risk of retaliation of large competitors (price competition)</td>
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<tr>
<td></td>
<td>• Larger clients demand few suppliers</td>
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<tr>
<td></td>
<td>• Legal and structural barriers that stem from professionalization of</td>
</tr>
<tr>
<td></td>
<td>larger clients</td>
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</tbody>
</table>

Source: Own creation
4.2.2 The Consulting Firms

In this section the internal factors will be analysed and from this a number of key strengths and weaknesses will be pointed out. The purpose is to provide a thorough understanding of how the firms are currently reacting to the external factors presented in the previous section.

Type of Service

Management consulting firms are selling an intangible product, where the application of knowledge is sold as an advisory service to their clients. The services are often difficult to explain and measure the value of, and clearly differentiate themselves from most other businesses. Like one interviewee stated,

"(management consulting) …is the most diffuse. If you are a production manager you can quite easily explain what it is about. It is about making the production flow more efficient, but with strategy it quickly becomes hot air… What can we really offer?" (ToI: 444)

The diffuseness of these services makes it difficult to point out how the services sold are going to affect the overall performance of a client. Even after having bought the service it may still be very hard to evaluate its quality and effectiveness. Because of this inability to assess the quality after taking it into use, the services of management consulting can be described as being “credence goods”, following the definition by Darby and Karni (1973: 68-69): “credence qualities are those which, although worthwhile, cannot be evaluated in normal use”.

This has implications for how the target firms differentiate from their competitors, which will be covered in more detail later.
Primary Customer Segments

The primary client-focus varies among the target firms. They are either primarily focused on the public or the private sector and within the private sector the firms either target large clients or medium-sized clients or some mix between this. No matter which size segment these firms primarily operate in, they are always prone to some extent of relative size disadvantage, by having only 5-30 employees.

Several interviewees emphasize a number of more general and behavioural traits they look for in potential clients.

- “We have a motto: Grow with successful clients” (ToI: 100)
- “It is someone who is impatient, it is someone who is ambitious…” (ToI: 287)
- ”One of our business goals is that, we want to work with ambitious, brave and strong-willed leaders. They must be this, cause we do not want ”joggers”. If they are just that, then we have nothing to offer them” (ToI: 436)

Not only do the above statements contain a number of wishes for clients in order to make the consultant’s expertise valued and acknowledged, it also links back what was described about the importance of reputation when a client selects a consulting company. No firm wants bad cases, but this whole industry and especially this target group is extremely dependent on positive references from every single project they are involved in. Therefore the values of the consulting firms are sought in the clients they choose to work for.

Strategies

Business Strategy

The interviewee firms have different18 but in many cases overlapping areas of competences. One common characteristic of most of their business strategies is that

18 Different services in terms of areas of expertise, i.e. HR, Strategy, Organizational change, Project management etc.
they focus on one or a few specialized skills. While these competences may be found elsewhere in the industry, the real differentiating factor is how they position themselves in terms of having experienced senior consultants and unique human resources. One interviewee described this focus.

“We have no juniors, we hardly ever have what we call regular consultants. We only have consultants who have a lot of experience and enough knowledge, so they can stand on their own.” (ToI: 252)

The basic business strategy for many of the medium-sized firms is to employ experienced and highly skilled senior consultants and utilize these as key part of their brand. The importance of having the ‘right’ people is further emphasized by one of the interviewees, because they are “too small to train the next consultant” and that it has “to function well from the outset”. (ToI: 142).

As a contrast to the target segment, the larger firms are often characterized by having a business model based on a set of partners who hires young people to the team and trains them. The partner sells ‘himself’ to the clients and the younger people perform most of the actual work.

“...those who have these geared business models where it is about getting an awful lot of young people in, and the larger bundles you can sell, the more money you can earn when sitting up here (as a partner)...”

(ToI: 172)

The target segment’s strategic focus on experienced consultants fits with their selling process, where a major part of their selling point is that experienced consultants are a sign of quality. One interviewee describes that what they sell is essentially “hot air” or a “gut feeling that they can deliver” (ToI: 111).

Their business model is very dependent on the individuals the organization consists of. Furthermore the service offerings made by the target group are most often specifically tailored to the client. This is frequently mentioned as both a key weakness and strength of the firms. When they compare themselves to larger competitors, who often have a range of more standardized products they can apply to a broader range of clients, the target firms are disadvantaged in terms of cost of “production” of the services. However, the clear advantage is that by creating bespoke solutions they might end up
providing more value to both the client and potentially the firm in terms of experience/learning and increased positive reputation.

“Our firm is not that big and we want to redevelop every single time. This is not sensible business, but we can’t help it. The consequence might be that because we spend a lot of time developing, some firms may not want us. However, whenever we make long term contracts we often have a better success rate (compared to the larger consulting firms).” (ToI: 370)

**Growth Strategy**

Most interviewees have a clear growth strategy. They want to grow organically, and not through more aggressive measures such as mergers or acquisitions. Also the focus is not on growth itself, as the focus lies to a higher degree upon profitability.

“There is no pressure on us to grow. We grow slowly. We have done a lot to keep the growth down.”

(ToI: 494)

“We follow a strategy, where we put profit over growth” (ToI: 54)

One factor that could influence the choice of slower growth is an indication of a law of diminishing returns in relation to the number of employees. An interviewee explains that with the span between 20-50 employees profitability goes down, “...those with fewer than 20 they usually earn good money and if you have more than 50, you start to earn good money again”. The interviewee continued by explaining that the span of 20-50 employees is something the firms should get through as quickly as possible, but that is hard to do (ToI: 58). Having between 20-50 employees means that each individual consultant is a profit centre on their own. This creates a need for managing these individuals. When you get above 50 no one single consultant is responsible for the majority of the turnover (ToI: 59). Thus the management of the individuals in firms between 20-50 employees is very important, in order to provide firms profitability.

Another argument for staying smaller is the wish to stay agile,

“...I'd much rather have a very profitable business and great agility at least as long as the markets are what they are now, and they are so in the next 3,4,5 years to come, I think.” (ToI: 284)
Another interviewee describes that the current culture might suffer from firms growing larger, and thus resulting in lower profitability,

"We have been more people, but every time the result is shit. The foundation for the culture in this company disappears, and then it becomes systems and structures. There is a graph like this:

![Graph](image)

where the consultants pay increases like this but the turnover/consultant looks like this, every fu…. time.” (ToI: 133)

This falls in line with how other interviewees describe their prior experience from working in larger consulting companies with more than 50 employees. The larger size necessitates an overly focus on internal operations and this takes focus away from what the consultants are more keen on, namely “being with the customers” (ToI: 285).

**Marketing & Branding Strategy**

A challenge many of the interviewees emphasize is related to recognition or reputation in the market. An extreme example of this is described in the following statement,

“We have never spent a DKK on marketing and we have a 5 year old web page, which is completely useless. We are extremely bad (at marketing/branding) and we fight a lot over how to tell who we are.”

(ToI: 142)

Others indicate that they devote quite large amounts of resources into increased brand awareness. This is however a difficult task due to the intangibility of their offerings which makes product/service differentiation extremely hard to attain. The only way clients can tell one company from the other is either from direct experience or by the track record and reputation in the market.
“The way we often sell our services is through references from prior cases. But if they are not currently a customer, then it takes a long time.” (ToI: 111)

The network relationships are a vital part of how the firms market themselves and get access to new sales channels, which will be covered further down.

Organization

Structure

Most of the interviewed firms use a partner structure, where 2-6 partners own the firm on equal or differentiated basis. Only two firms in this research are owned by a single person.

A weakness of having a partner structure is the large amount of profit that gets pulled out by the partners. This profit could have been used to invest and strengthen the firm’s competitive position in e.g. marketing or recruitment. One interviewee describes this:

"If we were a fund or alike, then we might go out and make some larger investments than we have done so far. Even though we earn good money here, we have to be extremely focused on costs.” (ToI: 101)

Cost Base

Several interviewees indicated that structuring with low amount of fixed costs is important, especially in light of the post-financial crisis economic situation. Some mentioned that excess capacity in terms of human resources is a reason for some firms to have had difficulties during the financial crisis (ToI: 207). There seems to be some consensus about that a low cost base is preferable among the interviewees:

“Having a large fixed cost base leads to death, and people become anxious and irrational.” (ToI: 449)

However a few firms due to a wish to ensure high quality and to be in full control, did not make any or much use of e.g. loosely coupled staff in order to lower the fixed cost base. A higher cost base makes these firms much more vulnerable to fluctuations in the flow of projects.
“We are under much more pressure in terms generating sales, than a loosely coupled organization is. You know, cash is king, (i.e.) we are challenged on our cash flow, because we need continuous sales. We cannot endure excess capacity.” (ToI: 494)

Staffing

Staffing in the various firms is done in different ways. A few exclusively use permanently employed staff, whereas others mainly use freelancers to fill their needs, but most use a mix. The term ‘freelancer’ might not be as covering for how some of the firms use free agents. The consulting firms normally have a selected group of freelancers they can draw upon. Some are former employees and others are simply drawn from the immediate network. One firm denote these “associate consultants” (ToI: 365).

The target group all have a trait in common that pose some challenges for them, namely their relatively smaller size. This size and their focus on senior consultants make them dependent on a few central people in the organization.

“Risk factor number one is to make this company less dependent of the key people here. If I wasn’t here tomorrow, then there would be a company, but it wouldn’t be as it should.” (ToI: 177)

This dependency makes the recruitment process difficult due to the limitations in reputation, track record and overall strength of their brands. As one interviewee explained, “Recruitment is the most critical process in a consulting firm.” due to the fact that, “one failure in recruitment and we might loose half a year’s turnover.” (ToI: 52).

Incentivising

Incentive schemes are widely used and often primarily based on pay-for-performance, both for the freelance staff and the permanently employed:

“We run a performance based pay system. They get a pure monetary bonus. That is, their pay depends on their performance.” (ToI: 53)

Several interviewees also describe the opportunity to get ownership or partnership of the firms as an incentive scheme.
Only one firm made it clear that they entirely make use of fixed salary. This is according to the interviewee done in order to limit the risk that, “you get a culture where people are saving tasks for themselves and save tasks for the next year, and taking the wrong tasks”. (ToI: 127)

A few interviewees indicated that they make use of more personal and subjective key performance indicators as a part of ensuring the ‘right’ culture, but the general impression was that high powered incentives\(^\text{19}\) were at the core of most of the interviewees’ payment schemes.

**Culture**

All interviewees indicate that their internal business culture is highly valued. The strategic importance of the individual employees is partly why the culture is so important for these target firms. The only way they can hold on to the members of the organization is through a desirable culture. One interviewee has the following considerations of what a firm can do to retain its members compared to what other firms might provide:

“What can you get other places? You can get a really good salary, but most consultants get this in the industry. You can get some really cool projects, you can get highly intelligent colleges, but what can’t you get? It is not certain that you get some good and friendly colleges. You might find someone who sets their own interests first that have their own business to take care of…I can keep going with the softer elements, that comprise a cool culture” (ToI: 502-503)

The content of the above statement is however rare among the interviewees and the cultural aspects are often based on each individual consultant’s freedom to build his/her own network of external business relationships.

Culture is also used as a coordinating mechanism, where it guides how things are performed with and for the client. How things are done is, “driven by our culture, values and beliefs.” (ToI: 488). The same interviewee continued by stating that,

\(^{19}\) Compensation is based on measures of employee output rather than input.
“This is one of the reasons that it is difficult to recruit for us. Pure professional competencies, qualification wise, will get you through the first gate, and through to some interviews and so on, but to get a person that fits in, is hard. It is hard to get through this cultural eye of the needle.” (ToI: 488)

Culture is by others described as a means of attracting the right people. One respondent describes the culture in the firm:

“…we have a culture that fits best to a smaller company and employees that, for the most part, prefer to work in a smaller company with influence, dialog, short distances to decisions, rather than a larger consulting firm.” (ToI: 402)

The culture has important impacts on retaining employees and attracting new ones while it also functions as a coordination mechanism.

The general industry culture of the consulting firms in focus can be described as one of high performance, seen by widely used incentive schemes of pay for performance. The widespread use of partner structures also gives an indication of firms with great focus on internal performance, with relative high degrees of internal competition. As one interviewee describes it,

“In return, they must also be aware that no arms no cookies, so if you do not perform then you are not here for so damn long.” (ToI: 289)

Another interviewee describes the performance focus of other consulting firms, as one where either you rise through the ranks or you leave the firm, what he calls “up or out” (ToI: 502).

Networks

12 out of 13 interviewees stated that their network is very important. Statements such as without networks “there is no business” (ToI: 184) are very common. One interviewee summed up networks as giving “new contacts, new inspiration and new possible business, so it is the only way forward” (ToI: 459)

What seems to be the most important recurring use of networks is in relation to the sales process. Even though some projects are in a request for tender, the sales process is
generally characterized as being canvassing. The network is used to figure out where potential projects are and create a lead into the potential client. Network relationships are an integral way of increasing the chance of actually being chosen over competitors.

“Ultimately it is the personal relationship that counts. There has been a great development of pretenders (pre-qualification) where you can be a part of those who will be allowed to bid, but it is still not certain that you get the job even if you have done a great job in this process. In this process others can actually sneak in, due to personal relationships, even if they have not been involved in process of pre-qualification.” (ToI: 248)

The track-record and network play a central role in creating additional sales, and this importance is highlighted by an interviewee who describes that, they have only few “new sales but a lot of additional sales” (ToI: 378).

Sum up – Strengths & Weaknesses

In the previous sections a thorough analysis of the target firms has been provided. These are now transformed into a number of key strengths and weaknesses and shown in Table 4.

Table 4: Strengths and Weaknesses

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Highly skilled senior consultants</td>
<td>• Dependence on very limited number of people</td>
</tr>
<tr>
<td>• Flexible and agile</td>
<td>• Low brand awareness</td>
</tr>
<tr>
<td>• Most have low cost base</td>
<td>• Relative small size</td>
</tr>
<tr>
<td>• Well established network</td>
<td>• Partner structure</td>
</tr>
<tr>
<td>relationships</td>
<td>• Low levels of standardized services</td>
</tr>
</tbody>
</table>

Source: Own creation
4.2.3 SWOT

The conclusion for this part is the collection of the entire SWOT in Table 5, and the key challenges that can be drawn from this will follow:

Table 5: SWOT-framework

<table>
<thead>
<tr>
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<td>• Partner structure</td>
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<td></td>
<td>• Low levels of standardized services</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Growth industry</td>
<td>• High risk of new entrants</td>
</tr>
<tr>
<td>• Clients demand experts companies</td>
<td>• High supplier power</td>
</tr>
<tr>
<td>• Clients focus on documentation of value</td>
<td>• High buyer power</td>
</tr>
<tr>
<td>• Complementors</td>
<td>• High competitive rivalry in a fragmented and polarized industry</td>
</tr>
<tr>
<td></td>
<td>• High risk of retaliation of large competitors (price competition)</td>
</tr>
<tr>
<td></td>
<td>• Larger clients demand few suppliers</td>
</tr>
<tr>
<td></td>
<td>• Legal and structural barriers that stem from professionalization of larger clients</td>
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</tbody>
</table>

Source: Own creation
4.2.4 Identification of the Key Challenges

From the SWOT-framework a number of key challenges can be drawn up for the target firms in focus.

The overall impression is that the target firms face a fierce competitive environment, with high risk of new entrants, high buyer power and high supplier power within a polarized and fragmented industry where larger competitors continue to grow stronger.

Key Challenge 1.

Clients demand a few but specialized consultancy service suppliers, and their projects are becoming larger and more complex.
If the target firms want to become a preferred supplier for these larger clients, the firms need to find a solution to how they can deliver specialized knowledge within larger and more complex projects.

Key Challenge 2.

No effective solutions for the measurement of return on consulting that document added value for clients has been found, but the demand for this is growing.

Key Challenge 3.

The target firms need to establish a good reputation for high quality as this help differentiate themselves from smaller competitors and make them more attractive for larger and more professional clients.
This is currently sought achieved by:
- a good track record
- using the network to gain access to the ‘right’ clients and employees
- provide tailored/innovative solutions to clients.

From both the target firms’ point of view and a strategic point of view, one of the above challenges seems especially fruitful to further investigate. The firms face a major challenge in terms of being able to deliver specialized knowledge within larger and more complex projects.
The larger clients have limited opportunities other than using larger consulting firms that can deliver the breadth the client demands. The large consulting firms are able to draw on a large and sometimes international collection of individuals in order to establish a somewhat tailor-made team of human resources. The trade-off from a client perspective is that despite the larger consulting firms’ ability to create these teams, often the services provided are generic and contain more standardized solutions than actually sought for by the clients.

This trade-off is also supported by Dr. Fiona Czerniawska, director of Source for Consulting, a leading resource within the European management consulting industry. According to her, the clients do not just want one-stop shopping, rather they want “multi-disciplinary-consulting”, as she states (Czerniawska, 2012):

”Most clients dislike the idea of buying a range of different specialist services from a single source on the time-honoured grounds that a consulting firm which is a jack of all trades is inevitably a master of none. On the other hand, they’re also aware that breaking up a project into separate streams of specialist work, each of which will be done by a different, albeit expert, supplier, creates management migraines.”

As an alternative to this and in relation to this thesis’ choice of topic, the medium-sized consulting firms could create strategic alliances, enabling them to both preserve their specialized knowledge and provide a broader set of competencies. This however needs further analysis.

The above section established a thorough understanding of the conditions under which the target group operates and hereby spelled out their main challenges. The next section is concerned with to what extent, how, why and when the target firms actually make use of alliances. The purpose is to gain insights into the experiences with and perceptions of using such cooperative arrangements. This information is critical, as it allows for the identification of possible barriers that limit the benefits of using strategic alliances for overcoming the identified challenge.
4.3 Qualitative Analysis Part 2: The Current use of Strategic Alliances

4.3.1 Revisiting the Definition of Strategic Alliances

Having a strategic alliance means that the alliance is an important part of how the individual participating companies are directed towards a set of specified common goals that do not favour one part over the other. Strategic alliances must create more value collectively than could have been achieved individually and the aim is to provide prolonged competitive advantage. As a reminder of this, the definition of strategic alliances from Bronder and Pritzl (1992: 412) is revisited,

“We speak of a strategic alliance when value chain activities between at least two companies with compatible goal structures are combined for sustaining and/or achieving significant competitive advantages.”

The broad term “alliances” was used throughout the interviews in order to avoid a definitional lock in on strategic alliances. The aim was to get answers that encapsulated all forms of formal and informal agreements without having the interviewees subjectively evaluate the strategic content of each. During the conversation, follow up questions were used to encourage the interviewees to explain in more detail the actual content of these arrangements. Through this, combined with additional data, it is possible to evaluate the extent to which the arrangements fall under the definitions of a strategic alliance or the opportunities for them to become strategic.

4.3.2 The Prevalence of Alliances

11 out of 13 companies clearly indicated that they have established one or more alliances with firms that operate within the wide-ranging field of management consulting. One interviewee indicated that their firm had little experience with alliances but consider the opportunities for using them in the future. Only one interviewee explicitly stated that they had made a strategic decision not to be involved in alliances. The interviewee stated that,

”We do not have any delivery alliances. We are self-sufficient and our biggest enemy is the mediocre and average.” (ToI: 511)
4.3.3 Motives for using Alliances

In order to allow for a later discussion of the degree of strategic content of the alliances and their value, a look into why the firms are currently using alliances is essential.

The use of alliances in this segment can be divided into two groups. Alliances are either used to increase brand awareness or to increase capacity flexibility to circumvent legal or structural barriers.

Brand Awareness

The empirical data showed that the firms frequently make use of alliances with the purpose of referring clients to each other and by such increase brand awareness. This is most often a non-contractual and informal agreement whereby the firms promote each other whenever a client requires a service not held by the firm engaged in the project. This implies referring to other companies that have either complementary skills or simply an area of expertise demanded by the client.

Several interviewees indicated this use.

“If one of our strategic partners is able to solve it, we may refer to them and maybe even sell them to the customer.” (ToI: 56)

“Sometimes we meet issues where we do not have the prerequisites to solve it, despite the fact that our customer wants us to solve it, because they trust us. But then we have a network of functional partners who we can recommend to our customers.” (ToI: 173)

This kind of mutual endorsement arrangement makes each partner an agent for others and through this all firms may increase their reach into either existing markets or related markets. Furthermore, they function as generators of brand awareness where firms through their current client relationships are able to increase the trustworthiness of their partners by approving them as valid suppliers. This ‘co-branding’ strategy is used and sought for by firms both focusing on large and medium-sized clients, and the goal appears to be the opportunity to differentiate the firms from others. The large firms are becoming more professional in buying consultancy services and hence are more selective. Less experienced medium-sized clients are confused about which consulting
firm to use when the offer is so diverse. In both situations, these network referrals may facilitate increased visibility in the market and thus give access to additional projects.

**Capacity Flexibility**

The second category concerns firms that join forces in order to increase their current capacity. This is achieved by joining forces with individuals or other companies with identical or very similar competences.

**Freelance Staff**

The motive is to be able to increase or decrease capacity in a flexible way. Firms are able to lower the financial risk of running their business by having access to resources from related partners. The use of freelance staff is either based on loosely coupled agreements or a hybrid between permanent staff and freelancers, where they exclusively work for the company but are only rewarded based on their performance. This utilization of individual freelancers creates a grey area in relation to alliances. The focus is on two or more firms that join forces in order to solve a specific goal. The use of freelance staff (loosely or permanently coupled) is more single firm orientated and thus do not fall under the broad classification of an alliance.

**Capacity Partners**

Several firms either currently use or are planning to use capacity partnerships. The firms which use this kind of arrangement made it clear that they did not plan to fully integrate the individual businesses to form a single entity. The benefits of flexibility would be lost in a full merger and the barriers in terms of full integration of two cultures are a reason for having separate accounts.

“*We might as well integrate, but we can’t because of the relationships, and then what would happen? How would the hierarchy look like? No we simply do not want that, it makes no sense. It is an unnecessary risk to take. It is much better to talk to each other and accept the difference in cultures.*”

(ToI: 154)
The ability to scale the business in a flexible manner is pointed out as being a very large concern for many of the companies. The ability to meet differences in client demand in terms of project size and how urgent their need for advice is, is key. This flexibility is more than just a way to decrease financial risk, it is also actively used as a selling point where a smaller firm is able to collect a number of the most skilled specialists, coordinate the task, and hereby provide a tailored solution for the client.

“…we want to be able to provide action in terms of scaling up and down. If the customer asks us if we can manage an even larger task, we answer that we have the network and partners to manage the flexibility in relation to the task.” (ToI: 443)

There is often a blurry line between when firms are increasing current capacity and when they are including complementary competences, due to an overlap of skills each firm bring into such joint arrangement. The motive however is often quite different, especially when looking at the next category.

Circumvention of Barriers

The third main category implies a combination of resources due to legal or structural barriers. Here complementary competences are sold collectively and each firm supplement each other by having distinct but related areas of expertise.

Public Sector

Most of the firms have an interest in the public sector, but as described in the situational analysis, major changes in how firms may qualify for public projects, create high barriers for especially smaller consulting companies.

“Alliances are initiated by a customer demand which means using framework agreements. In the public sector the customer wants to use us, but due to an overall demand for one-stop-shopping, as few suppliers as possible are required. If we went in alone we would not be able to secure these framework agreements, we are not covering enough skills and we would exclude a lot of potential business. This is why we use a lot of these consortia with other consulting companies.” (ToI: 84)
This situation highlights some key aspects. In order to provide the necessary depth of expertise and hereby become valued service providers, the firms concentrate on quite narrow competencies. However when the public sector demands one-stop-shopping the firms cannot pre-qualify and are forced to team up with other companies.

"There is an elimination race in this industry, which means that SKI\textsuperscript{20} wants you to be large. Well I don’t care, cause then we simply have to make a structure out here that match up with what they want, in order not to let the large firms win all the projects." (ToI: 135)

Some firms have refused to get involved with such forced alliances and some have either opted out on public projects or tried to circumvent these legal barriers by setting up direct arrangements with sub-departments within the sector.

**Private Sector**

Apart from the public sector and these legal barriers, some of the firms use alliances to overcome more structural barriers that are based on some of the same thoughts as the previous sub-section described.

As explicated earlier in the situational analysis, many larger clients have matured in terms of buying consultancy services. The professionalization of the clients also means a critical selection of service suppliers. Often large consulting companies are chosen in favour of smaller ones due to their strong brand and the fact that they can cover a broad range of related issues in one package. These one-stop-shopping firms can lower the client’s costs of searching for several individual consulting companies needed to fulfil each sub-project.

In order to accommodate for this client behaviour, the medium-sized consulting companies may set up a joint relationship where they collectively create more strengths and enable them to cover more areas of expertise. One interviewee illuminates this in the following when asked for the reasoning behind using an alliance.

---

\textsuperscript{20} Abbreviation for the firm that manages Danish public sector suppliers, Statens og Kommunernes Indkøbs Service A/S
“The primary (motive) for us is to become visible in projects, where we would lose to competitors that can provide one-stop-shopping.” (ToI: 270)

Another interviewee made a similar statement about the motive, but here the focus is not on competitors per se, but on the project,

“It is to create business. It is access to resources and knowledge we do not have in-house and exploit this commercially, and by such enable us to bid for projects you would not be able to win on your own.”

(ToI: 230)

The firms are too small to be able to get access to larger and potentially more profitable projects and in order to sell their specialized competencies they need to join forces with complementary competencies from another company. The major challenge is to collectively deliver high value services. The client will expect even higher levels of service if they were to choose a group of individual consulting firms with less brand awareness over a large well established consulting firm.

One interviewee explained this,

“It is all about whether the customer wants real experts… or if they can use a package solution covering all areas, but where quality might not always be the highest. Some people make all their purchases in Bilka, others choose specialized stores.” (ToI: 271)

The challenge seems to be to mediate this choice by providing depth of service while at the same time being able to cover different areas.

No matter which main category the use of alliances is carried out in, it will require some kind of interplay between two or more firms that creates value. This is a complex mode of service delivery and the success heavily depends on a number of factors. One of the key factors evident from the data collection is how and why the firms select their partners.

**Partner Search**

A number of converging statements about whom to partner up with and what attributes the firms value in each other became visible.
While some firms use alliances almost exclusively to scale their current business, many indicated that when setting up such arrangements, the choice of partner is primarily based on complementary and not similar competences.

“Alliances are only valid for companies that have a very explicit and clear competence strategy, which are not overlapping. In addition to this, you need to trust that the partner is not going to build up your own competence.” (ToI: 269)

While the impression is that the firms clearly see opportunities in being able to get access to and solve larger projects through the combination of complementary competencies, a second key factor is expressed in the above quote, namely trust. The impression was that trust is a prerequisite for engaging in any form of alliances for these companies. Trust often seems to be the contract that holds the partners together.

Trust is generated through the way partners are selected. The use of current networks and existing partner’s network gives access to potential candidates for an alliance. The projects determine the composition and often only when an actual need for complementary competences emerge, begin the firms to use their network to find suitable partners. This indicates that some of the firms use these arrangements in a very flexible way, where each firm tries to stay in top of the mind of other companies in order to become ‘selected’ for new collaborative projects. These arrangements are by such formed based on the specific task and are therefore rarely a product of any overall previous agreement with distinct mutual aims and goals.

It may happen that the firms do not have any suitable partners in their immediate network, and in that case a search process begins. This might involve asking people in the network for referrals on firms outside their immediate surroundings, or it can simply be a research through websites, newspaper articles and project reports. One interviewee describes this process in more detail,

“What can people tell, and what can we read about them? We do research in all material available to us. I don’t know if we have any parameters, but it is often quite easy to spot the most skilled firms, because so many write about them and they are very visible in the market. Other times it might simply be a newspaper article describing a firm and what they are doing, and we think, wow that seems exciting, would that be something we could use?” (ToI: 356)
When the firms were asked directly about what key attributes they are looking for in potential partners a number of reoccurring terms were used. The potential partners must have strong and matching values with the firm. They need to have a good reputation or track record and have both complementary competences and complementary client portfolio. Also often equal size was used as criteria. The firms are looking for partners that will fit their own key attributes. This is of course a logic approach to selecting the ‘right’ firms and the aim is clearly to limit major conflicts of interest.

While the mutual attributes help the firms overcome some of the conflicts inherent in the formation of alliances, the interviewees clearly indicated that trust is primarily built when putting the joint forces into action. One essential word that encapsulates this is ‘relationship’. A relationship is built over time and through both formal and informal interaction of joint project solving, this may lead to the emergence of trust. The strength of a relationship is determined in an incremental process of mutual evaluation where loyalty and ethics are put to the test.

“I have deep confidence in my business partners that they are loyal and behave properly. But at the end of the day it is a matter of trust.” (ToI: 317)

The notion of trust seems important for the firms, but one should not neglect the perceptions of when trust is enough and when stronger mechanisms such as contracts may be used. In order to understand the complex mix of trust and contracts a description of the varying degrees of formalization in the alliances is important.

Degree of Formalization

One interviewee stated that,

“When you talk about alliances, it has to be more than a handshake. It has to contain specific agreements” (ToI: 114)

The degree of formalization was a reoccurring theme among the interviewees. Several stated that most often their current alliances did not contain any legal binding contracts.
Some used written agreements containing the outline of the collaboration, while others were based purely on gentleman’s agreements. The impression was that the degree of and attitudes towards formalization differed substantially. What did clearly appear was the consistently use of high degrees of formalization whenever the partners embark on a joint project.

One interviewee stated that,

“…as soon as there is money involved, as soon as it becomes an actual assignment, we always take great care to have agreed ahead, what it is one delivers, what is the price and what are the conditions for this, before embarking on the task.” (ToI: 229)

It is of course a necessity to define the boundaries of each individual task both from a client point of view. Furthermore it is of paramount importance to define the boundaries between alliances partners output in order to mitigate conflicts.

There also seemed to be a connection between the perceived importance of a relationship and the degree of formalization. One interviewee stated that among the alliances they have, “three of them are strategic and in writing” (ToI: 389).

Not only does this company have several alliances, but they differ in strategic intent and this turns into written agreements. Other firms did in fact express quite the opposite and maybe more expected perceptions of when high degrees of formalization are used. Having a very close partner does not require any formal contracts due to high degrees of common interests built up over time.

In addition to this, the use of contracts may be a result of the specific partner you find.

“People you have worked with for years and where it just works, you do not suddenly begin making formal agreements, or at least I don’t. But it has very much to do with culture of whom you want to partner up with. Some want everything on paper, and that’s fine, but we believe that if you behave well, then it is just as good as having written contracts.” (ToI: 29)

While there is no definite answer to when the firms make use of high degrees of formalization, some firms did consider it a limiting factor.
“...we are at a crossroad. On our next board meeting we actually have on the agenda whether or not we want to use formalized agreements...they create disqualification.” (ToI: 463)

On the one hand then, more formalized agreements might exclude potential competitors and may help strengthen the relationship and the perception of unity, but on the other hand, the flexibility in choice of future partners and clients may suffer.

4.3.4 Experiences with Alliances

As a short sum up of the knowledge gained so far from the interviewees, is that there seems to be a lot of good intentions, when it comes to the formation of alliances. There are several motives which seem logic in terms of what they want to achieve and many of the firms make use of several types of these coopetitive arrangements depending on their current need. On the surface the process of selecting a suitable partner seem to be well considered and the attributes they search for are carefully evaluated in order to provide a mutual fit. Trust is essential to make the arrangements work and this is expected to be built through time when the relationship evolves. The degree of formalization is influenced by a range of factors, but in general, written and more legal binding agreements are not used until the alliance is put into action.

The impression gained from the interviewees is that the target firms make widespread use of interfirm relationships. One could ask the question: “What is the problem?”

Having described the more factual elements of how, why and when alliances are used by this segment there is an urgent need to dive below the surface of all these good intentions. What are the key barriers and what experiences do firms have with the use of alliances? Do the alliances actually provide any value?

As a starting point the following statement clearly indicates the demanding nature of establishing the relationships.

“I think it is difficult with these arrangements. We do not want too many as they cost blood, sweat and tears.” (ToI: 391)
Two Good Cases

Three firms in particular stood out from the rest, and their perceptions may shed light on some of the barriers for making alliances work within the context of the management consulting industry.

Case 1

The first case concerns a firm where the utilization of alliances is a key part of their business strategy and as expressed by the interviewee,

“We have a turnover that goes far beyond what we generate through our own hours. In concrete projects we team up with various specialists, if that is what it takes to win and solve the task.” (ToI: 407)

The firm has been able to build up a competence of project management, where very large firms either become part of consortia or function as subcontractors within specific projects. The firm functions as a central hub in this network of participating firms and is able to coordinate complex projects where several areas of expertise are needed, and where each individual firm’s resources and competences are insufficient. It is also the first point of contact with the client and being the project owner, the firm is able to charge for hours not actually performed by its employees. They solve large projects by having built a reputation for being extremely effective in project management, and through various relationships with especially large firms they compensate for their smallness and can win projects otherwise not accessible. The composition of this network is determined by the task, but the alliance is comprised by a number of firms from other industries and not from the management consulting industry. There are no overall contracts and written agreements are only used whenever the alliance/consortia is formed based on the specific project. The interviewee explicates why such arrangements create value for all participants,

“It is based very much on personal relationships. We trust each other and we’ve learned that they (alliance partners) have no ambitions to become a management consulting company, and we have no ambition to become a data factory. This is why it works so well.” (ToI: 429)
The firm clearly indicates that the success of their alliances is based on the ability to clearly classify each firm’s area of expertise and that no direct competition follows. Furthermore this interviewee made an interesting point when further details on alliances were discussed,

"We rarely get invited where another firm is the main contract owner. In this situation our competencies are in fact hard to spot… We know what an accountant can do, and we know what a lawyer and an engineer can do.” (ToI: 427)

The clear descriptive boundaries of firms increase chances of success from this interviewee’s point of view. While this particular firm has a strategic focus on alliances, value is only created whenever they are not challenged on their own profession. This is an important point for later discussion.

Case 2

In the second case, two firms within the same industry and even with very similar overall competencies actually have been able to establish a strong and value creating partnership/alliance. The two companies have worked together for several years and during this period of time, trust and confidence have been built up to a point where the relationship would benefit from daily direct interaction. This materialized into a co-location of work spaces. One of the firms described the underlying reasons for how two, on the surface, competitors were able to effectively join forces.

"We had a pedagogical approach that was very similar. We had different customer groups, which meant that we did not compete for the same customers. Today I think we solve 10-15 % of all projects jointly and 30-40 % of our turnover stems from this and 50 % of theirs. This means that you really want to behave well.” (ToI: 82)

When the firms joined forces, they had similar values but different client groups. This indicates that trust was easier to establish when they did not consider each other as direct competitors, despite overlapping services and competencies. Furthermore, when the alliance developed, they became mutual financially dependent, and both have a strong incentive for making the relationship work.
A second important point these firms made was the importance of chemistry between not only management but also lower in the hierarchy. While the management may drive the ambitions for an alliance, the actual work carried out collectively must be facilitated by positive relationships between the people that comprise the team.

“We had a few projects where a few of their consultants, along with a few of our consultants worked together, but there was simply bad chemistry between them. Nothing good came out of that and the alliance dissolved. After some years, both groups of consultant were no longer present in each company, and now we have actually found each other again. Furthermore, there is now a more equal flow of projects between us.” (ToI: 84)

The above exemplifies the importance of having a shared understanding and respect for each other, and this can result in mutual interests of creating shared business. Shared professionalism is often easy to establish, but the sharing of revenue and profit is a product of mutual dependence and a process of learning about each other.

The way this is often achieved, according to another of the interviewees, is not by making master plans of strategic intent, rather it is all about actual experiences.

“You know, we are very good at producing slides and four-by-four matrixes, but we do not want that. It is all about joint projects and through these we test each other. One thing is to agree on paper, but if you are serious, then let’s jointly embark on a project.” (ToI: 83)

The above example with two firms having joined forces seems to be closely related to the definition of a strategic alliance. Over time they have learned to manage their relationship and developed it for the benefits of both. What is noteworthy however is that while quite some value has been created, whenever additional relationships were mentioned by each firm during the interviews, none of these seem to be included in this stronger alliance between the two. This indicates that it might be very difficult to include new participants in already strong and established relationships.

The two cases are quite unique and different from each other in terms of the actual realized composition of alliances. However they share a number of common elements of interest, namely the need for a clear definition of areas of expertise, and when that is
difficult to outline up front, a very long process of learning about each other’s methods and values is necessary in order to create a mutual beneficial context.

Looking further into some of the other interviewees’ experiences with using alliances, might shed light on additional barriers, not contained in the above two case examples.

**Illusion of Trust**

The interviewees are very focused on the creation of a relationship as a way to decrease the risk in an alliance. Despite this focus, some indicated that while trust itself might be strong felt, often the fear when realizing that everything is built on trust is enough to put pressure on the partnership.

“Disadvantages (in alliances) may arise, when the fear is larger than the actual danger” (ToI: 153)

The whole perception of trust is thus based on the acknowledgement of the risks associated with it. An interviewee expressed how fear of exploitation might limit the effectiveness of the initial stages in forming an alliance.

“When you enter an alliance, then you have to open up too much of your own know-how. Knowledge is a major part of our business, it is our raw material. You might be quite afraid that the other firms just steal your ideas before any agreement has been signed.” (ToI: 357)

This situation must either stem from previous negative experience with such process or an underlying perception of the industry as being made up of companies primarily looking out for their individual short term benefit. This perception is further nuanced in the next section.

**Openness vs. Self-sufficiency**

While openness is stated as a prerequisite for establishing a relationship based on trust, there are quite differentiating views on how open or closed the industry is. All of the companies stated that they practice full openness in terms of knowledge that is not client specific. The common expression used was,

“I believe in complete openness.” (ToI: 153)
On the other hand, the firms did not perceive the management consulting industry as a whole to be open. One stated that an overly protection of proprietary knowledge creates a barrier for establishing alliances.

“It is much easier to create alliances with firms that are not management consulting companies. The management consulting industry is characterized by customer clauses, contract clauses and protection of methodical approach. This to an exaggerated degree in my opinion.” (ToI: 401)

Others furthermore clearly indicated that while some knowledge might flow freely from one firm to the other, the real barrier for alliances becomes visible when one wants to translate the combined knowledge into action. The term “self sufficient” (ToI: 511) was used to describe how firms may be open to share knowledge but only for their own benefits. One interviewee even stated that they had no idea whether the industry was open and transparent and the argument was that,

"We must admit, we do not know it (the industry) that well. It is not the industry's fault, but our focus on our own life.” (ToI: 164)

The impression was that this firm did not consider themselves as a part of what makes up the industry. The industry is not affected by their behaviour and their actions are done independently of the industry.

These statements support some of the elements described in the situation analysis of how the firms make use of their networks as sales channels. A lot of networking activity seem not to be based on “give-and-take” but rather driven by individual interests of extracting useful information for their own private benefits (ToI: 26: 186: 381)

**Opportunism**

The alliances most often described by the firms, are a collection of individual firms where the goal is individual benefits rather than a focus on synergistic opportunities. As a result, several firms indicate that the benefits derived from more formal agreements have not been able to provide any significant value.

“I think almost hundreds of consultants want to create a strategic alliance with us, but their only goal is to get easy access to revenues.” (ToI: 81)
This self-interested approach to alliances appears to be a key issue for the establishment of value creation. There needs to be mutual interests and while trust is important, trust is just the output of having the right attitude towards what the purpose of an alliance is. An interviewee described this barrier.

“It is always the money ahead of you that motivates you. The motive is to create a community of interest where each partner realizes that the sum of the community is larger than one's own business. This can be difficult. Consultants are by definition personalities with a large ego, otherwise they would not become consultants. They require quite large amounts of freedom and independence. But it can be done, if just a reconciliation of attitudes are made early in the process.” (ToI: 228)

The above statement sum up quite nicely some of the key challenges for the formation of alliances in this industry and within this segment.

4.3.5 Value derived from Alliances

Having described the general motives behind the formation of alliances and some of the barriers inherent in doing so, this section will look into the value the target firms derive from alliances.

Our empirical data indicate that only two out of thirteen investigated firms, have formed alliances with other medium-sized firms that are equivalent to a strategic alliance (see Case 2). Even in this case, one could argue that the collaboration is more comparable to a strategic partnership as no additional firms seem to be able to become included in this relationship.

The use of informal and more unstructured arrangements are widespread however. While these may create temporary value it is debatable how much strategic advantage can be derived from them. Mutual referrals do create increased brand awareness but it is extremely difficult to control and it essentially comes down to the strengths of personal relationships. The forced consortia that try to overcome both legal and structural barriers also seem to be very ad-hoc and often short-term arrangements. Despite that these informal and forced cooperative agreements may be prerequisites in terms of forming more formal alliances in the future, they are not considered to be strategic alliances in their current form.
The definition of what strategic alliances are, is important when looking at the statements made by the interviewees. Several mention that their current alliances are providing value but all their previous alliances did not (ToI: 89: 267: 345). The simple explanation is that previous alliances no longer exist, due to the lack of value they created, but the underlying reasons for this, should be further investigated. Either the firms have learned from previous mistakes and by such enhanced their ability to manage alliances or they have unconsciously moved towards a more myopic view of what an alliance is and what it is able to do within their given context. While some elements of the first explanation might be true as seen in Case 2, the second explanation proves more likely when looking at the data of how alliances are perceived by the firms and with which purpose and in which situations they are used.

Alliances are either a forced relationship where a consortium is sold as one entity to overcome high degrees of buyer power or they are short-term ad-hoc network connections. In both cases alliances seem to be primarily used in simpler projects where the requirement for frequent and close interaction is low. This form of alliances may give access to some new projects, but the opportunities to create any prolonged periods of competitive advantage from these seem very limited. The impression is that while, “the idea is to create a better solution for the customer than we are able to provide individually.” (ToI: 355) a number of barriers for actually achieving this in relation to the identified key challenge are present. The flexible loosely coupled inter-firm relationships are widely used among the target segment but alliances with a long term strategic intent seem to be absent. One interviewee reflected on this and stated that,

“Well we have made alliances, but the funny thing is that when I was reading this in preparation for our conversation, I realized that it is incredibly little this has led to. Our informal networks... without written agreements have been much more beneficial. Looking retrospective on our activities and revenue, it is so little that came from alliances.” (ToI: 29)

By combining existing literature and the empirical data gathered in this research, the aim of the final part of the qualitative analysis is to provide the firms with insights that could clarify the above concerns.

Before an analysis of these limiting factors is conducted we find it useful to illustrate, through an assessment of the immediate consequences of focusing on larger clients, the
importance of creating alliances with a strategic intent. There are a number of inherent implications of pursuing this opportunity and it may give rise to additional threats that needs careful attention.

4.3.6 Making the Strategic Alliances Strategic

A move upward in the industry could give rise to some competitive implications for the target firms. The Industry Structure View, originally put forward by Porter (1980), can help us identify these as it claims that a firm’s strategic choices are influenced by their external environment. Taking this perspective, a number of key implications for our target group emerge.

Having high buyer power, high supplier power, low entry barriers and thus high rivalry, it makes sense for our target firms to either pursue a broad differentiation or a focused differentiation strategy. Client loyalty is essential both for increasing entry barriers, and lowering the buyer power from clients by providing a service that is hard to find elsewhere. Brand loyalty is a key differentiating factor in the consulting industry. It provides the firms with a chance to build strong client relationships, and thus making them less prone to competition. This access however might create increased pressure from competitors.

As our interviewees clearly indicated, there is significant pressure on price, and in order to avoid participating in a price war, the target group must find a way to circumvent this threat. By being able to provide above average quality they may be able to hedge against the competition from especially smaller consulting firms. By concentrating on their core competences and developing tailored service offerings to their current and potential new clients, they will be in a better position to strengthen their brand and image.

However, the key implication in relation to the above is that the opportunity that needs to be analyzed is how the target firms become able to win and solve larger and more complex client projects. This may either require increased capacity for the individual firm (growth), or as we already have argued may be sought for through the use of strategic alliances.
A central issue with this strategic option is that while the firms may raise entry barriers and focus on differentiating their individual services, and deliver them collectively in an alliance, they may well be prone to retaliation from larger competitors. A collection of single firms that pursue either a differentiation or focused differentiation strategy to target large clients, and have success in doing so, will be seen as dangerous competitors. Even if the medium-sized firms are able to establish alliance relationships that allow them to rapidly adjust their offerings according to environmental changes and shift in client demands, the larger competitors may simply imitate their services and by such put increased pressure on the target firms.

Therefore, the motive for forming an alliance should not only be for the purpose of positioning the firms within the industry, but it must offer more value for the client than the larger firms are able to provide. The way this value is created should not be easily imitated. If the alliance was simply a combination of several competencies, their offerings would not become more than a temporary competitive advantage, especially given their strategic position of direct competition with larger consulting companies.

Thus only looking at strategic positioning is not enough to understand when the target firms may reap the benefits of prolonged periods of competitive advantage within their context. Consequently it is necessary to look further into theories that may help explaining the underlying conditions that must be in place before strategic alliances can become valuable for the target segment in relation to their specific challenge.
4.4 Qualitative Analysis Part 3: Conditions, Barriers, Recommendations

The overall aim of this third part of the qualitative analysis is to present under which conditions strategic alliances can help the target companies overcome the key challenges and how this might be achieved.

4.4.1 Achieving Coordination and Cooperation

The fundamental challenge is to make two or more firms collaborate in order to provide the clients with a combination of specialized knowledge and a broader set of services. The issue is then, to achieve coordination and cooperation across firms in this situation and get specialists to work together.

To begin with the need for coordination will be covered, then attention will be aimed at cooperation, and lastly all this is related to strategic alliances.

Coordination Across Firm Boundaries

Since the governance form is a hybrid, the coordination by direct supervision can be eliminated at the outset, because this mechanism requires a degree of control, which is lost in a hybrid. So what is left is the choice between standardization and mutual adjustment. In order to determine the proper coordination mechanism in this context of consulting firms working together, the degree of the complexity of the joint tasks needs to be determined. It is measured as the type of interdependency of the tasks at hand.

As described earlier the service provided is of an intangible nature, and it can be hard for the consultants to exactly define their services and boundaries of these. If we look at this in terms of how they can divide a client project between their respective competencies, the framework of modular or integral products (Ulrich, 1995, Takeishi, 2002) is useful. A modular product/service can be broken down into subsystems, where the interdependencies can be described upfront, dealt with as an interface between the subsystems, and be assembled to a whole. An integral product/service on the contrary is interdependent across many components, and thus it cannot be broken down in subsystems, but needs to be dealt with as a whole.
The overall logic of choosing collaboration across firms is that there needs to be synergies, so the value of the collaboration is greater than the sum of the components. (Dyer and Singh, 1998, Dyer et al., 2001). The value for the client of the strategic alliance must be greater than, what the client can find from other suppliers. This is both from similar sized competitors providing the single component services, but also larger consulting firms. The higher value of services from a strategic alliances should stem from a higher degree of specialization and better exploitation of the specific competencies, otherwise noted as relational rents (Dyer and Singh, 1998).

Following this logic the firms should be working towards making an integral product through the collaboration between firms, and thus create interconnectedness between their competencies. This intent also aligns with the fact that the projects are large and complex. In the literature review of interdependence (Thompson, 1967) three types of interdependence is described; pooled, sequential and reciprocal. The joint services proposed here would then be characterized as being reciprocal, because of the interconnectedness of tasks, i.e. two or more firms collectively analysing the project and executing the implementation according to a defined project plan.

As described in the literature review, this type of interdependence gives a high complexity and therefore necessitates the use of mutual adjustment. Mutual adjustment is rich in informal communication enabling complex tasks to be solved collectively. This we know requires intense face-to-face interaction.

**Cooperation Across Firm Boundaries**

We have now covered the needed coordination for consulting firms performing joint tasks, but in order to make a collaborative arrangement able to function there needs to be agreement upon the common goals, to avoid opportunistic behaviour between partners. In this section the needed cooperation mechanisms will be covered by using the clan framework (Ouchi, 1980) and networks thoughts of arm’s-length and embedded ties (Uzzi, 1997). This will give insights into the type of incentive alignment that can be utilized in relation to the target firms’ key challenge.
One way to frame the incentive alignment is using the notion “clans” proposed by Ouchi (1980). Clans are a form of hybrid governance structure in a setting where the ambiguity of performance renders the option of complete contracts impossible. This is more or less the case of consulting firms’ collaboration across firms, where the interconnectedness and intangible products gives high degrees of ambiguity in measuring the partners’ performance.

Ouchi (1980) advocates the approach of aligning goals of hybrids through recruitment and socialization. Recruitment should be based upon the right people that fit in and socialization should create incentive alignment on long-term goals. The target firms already have a clear focus on the ‘right’ people and socialization within their own firms, but these elements are not widely observed within their current alliance formations. Reuer and Ariño (2007) supports a similar view of incentive alignment through self-enforcing arrangements of trust and routines. These are built through the collaboration, giving an understanding of the counterpart and thus lowering the risk of opportunistic behaviour.

Furthering this social aspect of cooperation across firms, Uzzi (1997) defines the market as being arm’s length ties and the hybrid and networks as being socially embedded. The arm’s length ties are the connections of buying and selling in the market, where the price and self-interest motivates actions. On the other end of the scale we have socially embedded ties found in hybrids and networks, which are the close relationships between individuals in the firms or “business-friends” (Uzzi, 1997: 42), where the best interests of the business-friends govern the actions.

Socially embedded ties have three underlying components: trust, fine grained information transfer and joint problem-solving arrangements. Trust is created over time through interactions and is based upon good experiences. Because of this belief of the partners not behaving opportunistic the collaboration becomes more efficient, since there is no need to form contracts and agreements for every transaction. Fine-grained information covers the fact that embedded ties share more detailed and tacit knowledge allowing for an integral rather than modular approach to collaboration. Lastly the joint problem-solving is at the heart of what should be performed in the case of cooperation across consulting firms here and the factors of trust and fine-grained information sharing facilitate this.
Combining the notion of embedded ties and the view of clans in creating alignment of goals, the importance of recruitment, socialization and their connection to the social embeddedness becomes apparent. The target firms already use their network to search for potential alliance partners, but they also need to facilitate socialization and mutual understanding. This will help to achieve the necessary incentive alignment through social embedded ties.

The Current use of Coordination and Cooperation

From our empirical data we have already described how firms currently make use of their networks and inter-firm relationships. Most of the firms use what could be categorized as arm’s-length market relationships in joint tasks, which means that no significant mutual investment of resources has been made. Due to this lack of substantial investment, there is minimal information sharing, they act relatively independent, and they should enjoy low transaction costs due to the loose setup of the relationship. This set-up has on the surface a number of obvious advantages as it enable the firms to deliver one service based on several areas of expertises in a flexible manner. It is however noteworthy that despite this, and as expressed by many of the interviewees, the costs of engaging in these relationships seem to sometimes exceed the benefits. Whenever a task becomes more complex, it gives rise to challenges in terms of ensuring coordination and cooperation. The current use of cooperative arrangements among the target firms might create flexibility in the relationship due to the fact that each “partner” can easily be replaced by another, but they are not suited to cope with more complex tasks. One could argue that the positive experiences some interviewees have with collaborative arrangements are derived from tasks which could be solved in a modular fashion, i.e. where subtasks were divided between two or more firms with little effort (costs). The interviewees that expressed negative experiences with cooperative arrangements may well stem from the fact that they did not realize the level of reciprocal interdependencies within the tasks and therefore no or very little value could be created with the use of arm’s-length relationships.

Socially embedded ties are also widely incorporated among the respondents in the form of their widespread use of networks to generate sales, to find people and inspiration. However the firms do not seem to have taken this approach with them into working
with alliances. For some reason they still use arm’s length ties for joint tasks. So for the
target firms this social aspect is an imperative factor to apply when trying to collaborate
across firms, in order to create trust and thereby mitigate opportunistic behaviour.

In order to focus in on how the target firms may create the conditions for more social
embedded ties and thus increase their chance of successfully using strategic alliances to
overcome the chosen key challenge, it is fruitful to look further into the theories
reviewed earlier in the thesis. Theories which claim that under certain prerequisite
conditions, sustainable competitive advantage (SCA) can be achieved from collaboration
across firm boundaries.

4.4.2 Applying the Relational View of the Firm

Having refined the fundamental literature used in the review, the foundation for which
coordination and cooperation mechanisms should be in place in order to solve a
complex task while retaining specialized knowledge in each participant has been
provided. We have argued that the underlying barrier in association with solving a task is
determined by whether it can be made a modular process or if it requires more
profound integration of systems. The target firms might be aware of the potential of
using alliances for overcoming the key challenge, but the impression is that, they have
not been aware of how to structure their collaborative work, whenever a task carries
reciprocal interdependencies.

While the coordination and cooperation mechanisms need careful attention in relation
to alliances, they do not in themselves provide any prolonged competitive advantage.
The mechanisms are prerequisites for making the collaboration work, but given the fact
that the aim is to analyze how the target firms may be able to successfully outperform
larger players in the industry, the alliance needs to be made strategic.

The notion of the RVF was shortly outlined in the literature review, and is basically built
on the same thoughts as the RBV and to some extent TCE, but with an important
variation, namely that no firm acts in isolation and taking advantage of this may prove
to create substantial value. In order to provide a better understanding of how the target
firms may achieve SCA collectively, a more detailed application of this theory is deemed essential.

**Sources of Relational Rents**

As outlined in the literature review, the RVF advocates that four essential factors determine the opportunity to create competitive advantage and within these several factors help sustain the relational rents.

**Relational Specific Assets**

Relational specific assets are closely related to the fundamental ideas found in TCE (Williamson, 1979), fully described in the literature review.

The sub processes that facilitates the creation and existence of asset specificity are duration of safeguards, i.e. how long is the relation specific asset protected, and volume of inter-firm transaction. By implementing lengthy safeguards each partner will have a stronger incentive to invest resources into the relationship, making the firms interact more often, and hereby facilitate the process of generating relational rents.

In relation to the target group of firms, where human assets are the only source of value creation, each firm participating in an alliance must invest resources (time and in some aspects money) into creating human assets unique for the relationship. This may be facilitated by making sure that each participant agrees on mutual goals and defines the span of the relationship. Furthermore safeguards, e.g. how many client meetings each partner must be invited to by the others over an agreed upon period of time, create incentives for collaboration and will facilitate increased interaction (socialization).

**Knowledge Sharing Routines**

Knowledge sharing routines are built upon the notion that value is created by combining existing knowledge in novel ways (Teece et al., 1997). The alliance partners must ensure that their different knowledge bases can be shared and essentially combined. Such knowledge sharing routines are affected by two key factors.
Firstly the ability for each firm to absorb the knowledge from other firms, denoted absorptive capacity. In other words, the firms must have some level of overlapping knowledge that increase mutual understanding, and enable the firms to communicate. The quicker each firm is able to absorb knowledge from other firms, the larger the potential for creating relational rents is. The absorptive capacity should be rather easy to identify and build, knowing that each partner within our research context in many cases will have medium to high degrees of overlapping competences and share some areas of knowledge.

Secondly, there needs to be incentives for sharing knowledge, meaning that there must be transparency in the relationship and elements which discourage each partner for taking advantage of others. Sharing of knowledge implies that our target firms do not hold back information because they fear that partners may steal their ideas. Two things may be used to mitigate these risks. One is formal financial incentives where firms share economic risk and the second is informal norms of reciprocity. On the outset, formal mechanisms that force the firms to collaborate are thought of as being associated with the most benefits. Shared financial risk may increase the incentive to increase interaction and this leads to the second factor. This factor is based on the fundamental ideas of trust in relationships. Trust, as mentioned earlier, is built over time through intensive social interaction, and this social exchange tends to create a feeling of mutual gratitude and personal obligation.

In our research context some formal equity arrangements could be thought of. One could be that firms pool resources together in order to make collaborative arrangements, shared education of staff or shared investments in co-branding. This may increase the perceived interdependency of the partners and thus facilitate that knowledge flow more freely, and over time this forced collaborative effort could develop into stronger social embedded relationships.

Complementary Resources and Capabilities

The next main category that provides relational rents is concerned with having complementary resources and capabilities among partners. This is at the core of this theory and the idea is that resources and capabilities combined provide more value than
when used separately. This requires that the firms are able to identify and evaluate potential complementarities. This is a complex task as many of such potential synergies might be extremely difficult to observe. Trial and error is often the only way forward, and many combinations fail. But over time, with high levels of commitment and maybe influenced by luck, unique combination of resources could provide synergistic value.

In direct relation to our target firms, what this means is that while it is often not the tool used to deliver the knowledge that creates the value, it is how knowledge is delivered (know-how) that matters. An interviewee stated that,

"We put everything out. We will send all our power point slides to our clients. We write books and articles. We could take our collective knowledge and put it out to everyone, because we do not believe that the sum of information we get from our projects equals to the sum of our knowledge. The sum of our knowledge is only 10 percent of our projects. The magic is us. It is the know-how which makes us who we are." (ToI: 511)

By constantly searching for new ways of combining resources the firms could potentially offer extremely valuable ways of delivering the service. This has not yet materialized in any of our data, and one key issue might well be that some incongruence in organizational structures are present. According to the RVF, there needs to be organizational complementarities in order to create relational rents. What this essentially means is that the partners must work extremely hard to tap into the complementarities and create a “fit” between corporate cultures, information systems and decision-making structures. This we shall come back to, when looking into the steps of strategic alliance formation.

**Governance Effectiveness**

The final source of relational rents is governance effectiveness. One sub process that facilitates this is making sure that the partners are able to solve conflicts without the use of third party involvement (legal system). Secondly, the ability to use informal contracting rather than more rigid formal contracting forms is seen as a prerequisite for building strong relationships. Formal contracts try to foresee all kinds of rather unforeseeable future hazards, and just by the use of such complex contracts it may
create mistrust and lower the incentives for collaboration. In relation to our target group, we know that reputation is one of the key valuable intangible assets the firms strive to build, and the sheer risk of damaging the reputation could be argued as a strong incentive to generate relational rents.

So far we have used the RVF framework to understand where supernormal profits stem from in e.g. a strategic alliance. The next logic question is, how is this value protected and retained?

As described in the literature review, rents may be preserved by, causal ambiguity, time compression diseconomies and asset stock interconnectedness (Dierickx and Cool, 1989), and building further on these notions, the RVF adds a factor that help protect rents, but which also result in possible limitations, namely resource indivisibility. Two or more firms that join forces will co-evolve over time, and as a result create combined resources and capabilities, which are unique to the relationship. These linkages are hard to imitate due to the fact that outside firms cannot simply divide resources up into smaller pieces and recombine them. Resources are part of a larger system, and this preserves rents gained from the relationship. The implication of this, is the risk of losing flexibility when engaging in such close relationships. When two or more firms co-evolve, the shared resources and capabilities will essentially restrict the future choices of each firm as they will not be able to easily redeploy the resources outside the relationship.

This issue should be considered thoroughly before engaging in long-term relationships, and the choice should be based upon a profound strategic motive and not on a short term wish to reach benefits. In the latter situation, more flexible arm’s-lengths network relationships are much more valuable, as they do not to a similar degree restrict future opportunities. They will on the other hand not be able to solve tasks with high levels of complexity.

**Sum up**

We now know that strategic alliances, at least on the surface, are useful in terms of realizing the target firm’s goal of being able to solve larger and more complex projects
while being able to deepen their specific area of expertise. We also know that a prerequisite is that the target group makes sure that appropriate coordination and cooperation mechanisms are implemented. Up to this point it should be fairly visible that whenever tasks do not require high levels of reciprocal interdependencies, arm’s-lengths market relationships will be the best option. Whenever complexity increases, the costs of managing the relationship goes up and necessitates use of stronger relationship specific mechanisms. Furthermore we know that in order to create competitive advantage in a relationship, RVF is a useful tool for analysis.

The argument is that by strategically taking advantage of collaborative arrangements, relational profits may be generated, and by combining resources and capabilities from several firms, the opportunities to create and preserve competitive advantage are present.

The next section will go fully in depth when the life cycle of strategic alliances is divided into five key phases and previous research on strategic alliances is applied. The aim is to in greater detail specify the conditions that need to be ensured before strategic alliances are useful in the context of our target group. As we will see, a number of factors both have a positive and negative impact on the opportunities for using strategic alliances.

4.4.3 Needed Conditions: A Five Phased Approach

Phase One: Making the Decision to Cooperate

Several authors have underlined the importance of pre-alliance formation analysis as a starting point when considering strategic alliances as a tool for increased performance (Bronder and Pritzl, 1992, Chung et al., 2006, Rutledge, 2011, Vaidya, 2011).

Internal analysis of strengths and weaknesses combined with external analysis of threats and opportunities will give the firm an indication of the options available to them in their specific case. This will help specifying the conditions under which the strategic alliance is going to function. We have through the data collection process been able to sort out some of the general both internal and external factors that should be considered in relation to forming a strategic alliance. The purpose was first of all to
determine where strategic alliances might help the target firms to overcome their key challenges.

From the external analysis of the firms, we know that the competitive environment is fierce and that shifts in client demands and the emergence of legal barriers increase the necessity of being and staying flexible in terms of strategic options. Thus in terms of providing strategic flexibility for the firms, strategic alliances seem to fit well with this industry setting and the key challenge sought a solution for. It would however require that firms are very selective in terms of what core competences they want to build further on, in a relationship with other firms.

Having said that, each firm must be clear about its own boundaries and its existence in terms of vision, mission, values and limits, before considering strategic alliances (Bronder and Pritzl, 1992, Parkhe, 1993, Sarasvathy, 2001, Inkpen and Tsang, 2005). The key reason for this is to avoid a biased reasoning for alliance formation in terms of overly reliance on synergies and instead focus on the “real world” within which the specific firm operates.

Many of the target firms, despite having a relatively short history21 and the fact that they navigate in a turbulent environment, still give the impression that they have a somewhat clear idea of their business strategy, their vision and in many instances have only one or a few limited areas of expertise. Most of the services provided by the target group however are hard to explain and difficult to understand, even for insiders. We would argue that, strategic alliances between two or more firms in this industry will be made difficult just by looking at the intangibility of the product they sell. This could be a barrier for forming strategic alliances.

A second group of barriers for strategic alliance formation is the firm’s attitude towards control and focus on profits. In relation to this, hybrid forms of governance means shared control, and this fact should be well considered before trying to find suitable partners.

21 The years of operation are difficult to establish. The companies’ history of operation vary from 3 to 15 years but are on average 8 years old according to the Danish company register Navne & Numre. However but due to possible changes in company names and status some firms have a longer history.
In terms of focus on profit, as outlined earlier, many of the target firm’s make use of a partner structure. This entails profit sharing among the partners and the result is that this structure leads to a strong focus upon economic performance. The partner structure used in this type of firm is deemed necessary for a number of reasons. Firstly, without a strong set of partners the whole foundation of the consulting firm would be missing, due to their close relationship with e.g. top management teams in client organizations. Secondly, the partner structure often function as a signalling mechanisms, where integrity, independence and professionalism is flagged towards clients and employees by having this internal senior ownership structure (Richter and Schröder, 2008). Thirdly, the management consulting business is characterized by having intangible products and close, confidential relationships with clients. This makes the monitoring of a consulting firm problematic for external owners, and would increase transaction costs. By having a partner structure all parties involved would economize on transactions costs and are more efficient in limiting opportunism.

In relation to alliance formation, this ownership structure could be a barrier, since there is a strong incentive in trying to make individual firm benefits rather than collective value. Hoffmann and Schlosser (2001: 362) stated that: “alliances are particularly successful when alliance partners spend less time arguing over the distribution of the joint “pie” and more time trying to make the joint “pie” as big as possible.”

Strategic alliances are long term commitments, and as shown in the previous section, a lot of resources over long periods of time are necessary in order to create any substantial value from inter-firm relationships. The firms must be willing to devote time, money and effort into an alliance. If not, the potential is lost even before the formation has happened.

In sum, the decision to cooperate should be based on a process which scrutinizes both external and internal factors. The external environment of these target firms fits well with the advantages inherent in strategic alliances, but some internal factors such as clearly delimited areas of expertise, the partner structure and commitment towards a close relationship do influence the opportunity for value creation in regard to our target group.
Phase Two: Partner Selection

The previous section analyzed the conditions under which a decision to engage in strategic alliances should be based. This section builds further on these notions in regards to what factors influence the selection of partners for alliances formations.

Elmuti et al. (2012), Gulati et al. (2012) both collect and specify the key important aspects of partner selection found in previous research on alliances. What they point out is that a firm should look at three compatibility factors when evaluating potential partners, namely, fundamental fit, strategic fit and cultural fit.

Fundamental fit is concerned with finding a partner which has common motives for entering an alliance and compatible views in terms of the vision of such arrangement. Having a similar overall approach to strategic alliance formation is a prerequisite for success further in the design and development phases (Bronder and Pritzl, 1992). The motives are of course negotiable, but as a starting point each firm should have similar overall intentions for forming an alliance in terms of duration, output and value.

In relation to the previous section, the consulting firms should be focused on defining their boundaries, and select only a very limited set of areas of expertise that would be used in an alliance. As a starting point, no consensus will be reached, if each firm is not able to explicitly inform other firms about their services and boundaries of these. Again a barrier to this is inherent in the nature of their service. The intangibility and hardly definable content would make it difficult, to determine exactly what core competences could be enhanced by engaging in a strategic alliance. Despite this obstacle, the target group should aim at reaching a fundamental fit, as this is a prerequisite for further development in the alliance relationship.

Strategic fit looks at partners where harmony can be found in terms of business plans and planning horizons. What are the long-term goals of the potential partner and which primary areas of business is the firm focusing on? It is essential to assess whether there is a complementary fit between the strategies of the firms, because this will affect the synergistic potential of the alliance and possibly mitigate some of the risks inherent in further development stages (Inkpen and Tsang, 2005, Elmuti et al., 2012). Once again, this comes down to whether the target group is able to explicate their primary strategic
focus and evaluate other partners in relation to this. Strategic alliances are as noted earlier inherently long-term arrangements and having partners looking for short-term benefits would for obvious reasons not provide a platform for alliance success.

Not only is there the need for a complementary fit between the services provided by each firm, but also for a fit between the level of service quality provided. It is therefore often essential to perform a quality check through informal evaluation methods, like asking for opinions within the firm’s existing network of business professionals (Gulati, 1995, 1998).

This is widely applied within our target group. Several interviewees expressed that they took extreme care when approaching potential business partners in relation to their reputation for quality and their attitude towards their clients.

The third notion concerns the ‘softer’ aspects of mutual fit, namely the cultural fit. Corporate culture is a rather diffuse concept but nonetheless important to strategic alliances. Schein (1991: 9) defined corporate culture as: “A pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.” Culture clashes are often pointed out as a key determinant of failure in mergers and acquisitions, where the assimilation of different values, beliefs, ways of communicating etc. are obstacles to the realization of synergistic value (Maurer, 2001).

In strategic alliances however there is less time pressure of aligning differences in culture, and research on strategic alliances do not propose that alliance partners should search for partners with similar cultures. Rather they should be aware of the dissimilarities, and make sure that the alliance is geared to essentially form a joint philosophy and “view of the world” between the partners (Stuart, 1998, Hoffmann and Schlosser, 2001, Inkpen and Tsang, 2005, Gulati et al., 2012).

Our empirical data show support for the above in regard to inter-firm culture differences. The target firms express that their internal culture is of paramount importance to the firm, and that when searching for potential partners, attitudes, perceptions and values similar to the organizational culture is a selection criteria. This increase effectiveness of an alliance, and should lower transaction costs due to lower
levels of conflicts. We would however argue that there is a risk when partner selection is primarily based on finding homogeneity in organizational cultures. Possibilities to learn new ways of conducting business would be limited and hereby maybe destroy potential value. There needs to be a balance between selecting a partner where the fundamental values are similar but where differences in know-how are allowed.

By being extremely careful and thorough in the partner selection phase, the basis for a strong and beneficial alliance is present, but the target group might find it difficult to locate a suitable partner.

**Where to Search?**

While the above section provides general guidance on what to look for in terms of partner attributes, this section gives an indication of what influences the ability to search and where companies should search for potential alliance partners.

Dyer and Singh (1998) argued that three different factors are determining firms' ability to identify potential partners. First, the level of prior experience (positive/negative) with alliances, second the internal search and evaluation capabilities and last their ability to acquire information about potential partners due to the firm's position within the social/economic network. Companies scoring low on these factors will find it very difficult to find and evaluate alliance partners. The factors are interdependent.

In other words, a consulting firm having a central position within a network will often have prior experience with some level of inter-firm collaboration, and therefore have knowledge about the formation of these (Gulati, 1998). The medium-sized consulting firms could strive to become central players within their existing network and by such increase their access and later their ability to select the right partner. Additionally, in particular relation to the consulting industry, traits like track record, past behaviour (trustworthiness) and status in the industry network are highly valued and may increase the chance of successful alliance output (Gulati et al., 2012).

The logics of TCE (Williamson, 1979) can be applied to understand the firms' search process. Firms are often choosing partners with whom they already have some relation in order to decrease transaction costs and by such trying to avoid some of the risks
associated with alliance formation. The size and quality of a firm’s existing network are thus valuable factors in partner selection (Podolny, 1994, Gulati, 1995). Our empirical data support this view, as many interviewees indicate that search for potential partners, is carried out within their immediate surrounding network relationships.

“We are looking for alliance partners through our network and familiarity with other consulting firms. It is essential to have a thorough understanding of the alliance partner before the partnership can be built.” (ToI: 88)

Another interviewee explained their search process both from a transaction cost perspective and with the softer aspects associated with finding the “right” partner.

“We search in current network and through personal references. We are a small company with limited resources - and we believe more in the personal touch and "chemistry" - than the labour-intensive analysis. It must "feel" right - and we work from a gut feeling”. (ToI: 400)

We would argue that there are some potential value destroying consequences for this local search mode. Following March (1991) and his view of organizational exploitation versus exploration, firms that constantly look for opportunities only within existing boundaries (e.g. existing networks) may miss valuable opportunities to deepen existing knowledge and/or learn and build new capabilities. We do acknowledge the risks associated with searching for and working with organizations where no prior ties have been built. By forming alliances with familiar partners, firms can rely on previous experiences and a fundamental level of interfirm trust and hereby lower transaction costs from the outset of the alliance (Lavie and Rosenkopf, 2006). Thus for the target group, a tendency to decrease risk and costs by searching locally may be the safest option, but the opportunities lying outside this myopic view of partner selection should not be fully neglected when some routine in alliance formation has been built up over time (Zollo et al., 2002).

In addition to this, past choices of alliance partners will affect future partner choices (Penrose, 1959, Gulati, 1995, Lavie and Rosenkopf, 2006) which was also advocated by the RVF (Dyer and Singh, 1998). The opportunities of forming alliances with firms outside the existing network are limited and hereby may result in barriers for learning new capabilities and/or getting access to new customer segments in new market
domains. These are important dynamics when evaluating the opportunities for future alliances. The target firms must be aware of these tradeoffs when making such long-term commitments.

Now that the criteria to search for in potential alliance partners are established and where it may be beneficial to search for such firms has been clarified, the next section is concerned with different ways of designing a strategic alliance. This is an essential part, because the design phase of an alliance often proves to be a very demanding process.

**Phase Three: Designing the Strategic Alliance**

The design or set-up of an alliance frequently contains elements of both formal and informal arrangements. Formal elements such as written contracts are often the starting point of two or more firms deciding to work together. Such contractual agreements specify how, by whom and where the agreed upon tasks are going to be carried out and hereby agreements of the boundaries of the alliance are drawn up. However further details on the formalization may actually not be specified before actual tasks are about to be carried out (Argyres and Mayer, 2007).

As described in the section, *Degree of Formalization*, the target firms currently make use of both informal and formal elements when setting up alliances. From Case 2, where two firms were able to create substantial collective value, we know that this was done without any use of formal contracts. They outlined the relationship in a written agreement, but only used contracts for each individual project they collectively engaged in. Other interviewees stated that while they have not used contracts earlier, they now expect to focus on doing so in the future, because in their view, a serious relationship requires a written contract.

“It is not the DNA in this business (to use contracts), it has been more like: Now we try it, and if it gets serious then let’s look at the terms. I think however that we should turn this around, and then say: Well, in order to make it (an alliance) serious then we damn have to have it written down. It may well be that it is some totally unimportant doodles on a piece of paper, but then at least it is done.” (ToI: 116)
As earlier stated, it is not possible to write complete contracts due to the uncertainty about future events (Williamson, 1979, Reuer and Ariño, 2007). Furthermore, trying to foresee all events that may trigger positive and/or negative effects on the alliance could actually become a limiting factor, as it may diminish flexibility and future opportunities for building trust if there is a high degree of formalization (Ariño and de la Torre, 1998, Gulati et al., 2012). More detailed agreements of profit-sharing, authority and task responsibilities are more suitable for each sub-task the alliance is about to engage in (Hoffmann and Schlosser, 2001). The RVF advocates shared equity arrangements rather than contracts, due to the fact that high formalization at the outset of an alliance can potentially erode the accumulation of trust. Rigid and complex contracts can be perceived as a lack of confidence in each partner’s reliability and trustworthiness (Gulati, 1995, Das and Teng, 1998) and thus destroy alliance potential.

In relation to the challenge of solving more complex tasks in a joint fashion, it means that the consulting firms must move from low frequency transactions (arm’s-length ties) towards developing stronger socially embedded relationships. While this will initially increase the costs of managing the alliance, over time these costs will decrease due to learned patterns of governing the relationship gained from higher degrees of interaction. The intensity of collaboration in terms of communication, social interaction and joint assignment work will strengthen the social structure of the alliance and hereby increase efficiency (Rahman and Korn, 2010). Rigid contracts would be made redundant and thus costs of negotiating an additional transaction will decrease as long as the intensity of collaboration is facilitated. Again the earlier phases of the alliance formation have huge effects on the opportunities to reach this point. If alliances are used as a temporary platform for increased capacity, and if the partners are not thoroughly evaluated in terms of the three factors of “fit”, then transaction costs would not be positively affected by increased interaction. One interviewee expressed concerns that too often great plans about what an alliance is able to provide ends up being destroyed due to some of the factors already described.

“I have seen numerous alliances in the industry over the years and every time they (alliance partners) agree that it should be large and effective. It all ends up with that no one will give away projects to each other, and the individual firms end up taking projects they rather should have passed on to the others. If you give something, then you also get something back, but no one in the alliances believes in that. I have
seen too many consultant alliances marketed as one united community, and not even a year after, it all ends in shit.” (ToI: 148)

Literature claims that, if the foundations for an alliance is in place, then repeated interactions will facilitate the building up of interorganizational routines which essentially means that otherwise complex tasks are made relatively straight forward and less time consuming (Eisenhardt and Martin, 2000). This effect is what Dyer and Singh (1998) named as relational rents. The key issue with the target firms might be that they will never reach a sustainable relationship that could provide these capabilities or rents. The interviewees seem to be aware of the benefits an alliance is capable of delivering, and that it requires close attention to whom you choose as alliance partners. Still in most cases, the alliances turn out to be nothing more than a somewhat loose ad-hoc relationship aimed at overcoming modular tasks. Our impression is that some underlying factors limit the further development of alliances into a strategic opportunity. To identify these factors in more detail, we need to look into the actual development phase of strategic alliances.

**Phase Four: Development of the Strategic Alliance**

Literature suggest that no matter the effort, time and resources put into the design phase of an alliance, the actual experience when putting collaboration into work is where the realization of risk and benefits really are, i.e. it is the management of the alliance over time which is important (Bronder and Pritzl, 1992, Dyer and Singh, 1998, Das and Teng, 2000, Dyer et al., 2001).

Gulati et al. (2012) developed the idea of “post-formation dynamics” of alliances. Inherent in this view is that the strengths of an alliance and the potential benefits cannot be fully specified up front, but rather they become apparent in the actual implementation and use of the alliance.

From this perspective, over the course of an alliance, partners learn about each other and about the task they are about to perform (Reuer and Ariño, 2007). At the beginning, they might well have incomplete or wrong suppositions about their partners’ resources, capabilities, structural and cultural idiosyncrasies, and about the coordination
requirements of the joint task. Prior experience with alliance partners will of course limit the errors, but it is during the use and development of the alliance that the partners experience the actual behaviour of each other.

This is exactly the impression we get from the interviewees. Once the barriers of initial mistrust have been overcome between two or more potential alliance partners, then despite a rigorous search process for partners, good intentions and frequent interaction, something negative happens as soon as the cooperative arrangement is put into action.

One interviewee expressed that conflicts will emerge at some point, and it is most often about the equality in the partnership.

“*Your-customer-my-customer discussions is something that occurs here (in alliances), but it’s bullshit, because it’s not a problem. This you just have to handle when it occurs, and there are so many customers compared to what we are going to fight over. Our imagination can make us shut up about those things. I believe in complete openness about what customers we have. We must communicate about the things, and then resolve any conflicts along the way.*” (ToI: 153)

As stated earlier, the whole foundation of a strategic alliance is that the firms are able to create more value collectively than could be done separately. The above interviewee points towards something very interesting, when including the notion of “imagination”. The impression is that the reported alliance formations are often unstable due to conflicts emerging from having a short term perception in what should be a long-term relationship.

In knowledge intensive service industries such as the management consulting business, often no economic hostages are built in order to inhibit the risk of opportunism. In these industries, it is more often the sheer doings in day-to-day activities that increases the partner’s perception of interdependence and thus lowers the motivation for taking advantage of other alliance participants (Gulati et al., 2012). This evolutionary approach is well suited for a highly dynamic and uncertain external environment due to its flexible adjustment construct. The major disadvantage is that the alliance will not prove its worth until actual assignments are undertaken, thus increasing the risk of damaging the track record of the companies involved. Just acknowledging this risk may however actually help strengthen the alliance and help fostering mutual understanding which
accumulates in higher gains of efficiency than formal contracts will ever be able to foresee and deliver (Bronder and Pritzl, 1992, Day, 1995, Vyas and Shelburn, 1995).

This is however far from supported in our empirical data. The firms acknowledge the risk of opening up towards their partners but it all comes down to securing private benefits rather than creating collective gains.

“It is about having the right mindset. We need to understand that the market is much bigger than what our little fantasies tell us. People still perform tasks that they should not. Tasks which other people would be better at solving. This relates directly to the internal competition. (E.g.) I’ve got in contact with a customer; I might think that it is great because I get 70% of the revenue. However when I begin to think about it, it is XX, who is better at it, but I still choose to take it, and this is when things go wrong. No one will find out, but I know it, and here we need to talk about values and attitudes. It is the fear that another will take away the project that makes them (alliances) unsuccessful.” (ToI: 153)

Another major issue that needs careful attention is the target firm’s tendency to focus on how to share profits and this negotiation process will often lead to increased transaction costs which heavily influence the value creation and the perception of collaborative efforts.

“There is just so much greed. People are very afraid that if you let, some you thought was friends, into the party and you find out that they were not your friends after all, then who ends up with the customer relation? I think that is what hold many people back. The core issue is how to split up the long-term value.” (ToI: 269)

Learning Opportunities

In the development phase of alliances there are opportunities to learn from each other. Firms need to strike a fine balance between excessive drain of proprietary knowledge from one company and the sharing knowledge in order to increase alliance performance. One option would be to restrict information exchange but this may limit the degree to which interorganizational learning can take place. A more productive solution is to have clearly defined areas of expertise where each partner can focus on their own core competences. Secondly, by facilitating high degrees of communication between participants, coordination and cooperation is enhanced without the risk of
“outlearning” (Hamel, 1991). This has huge consequences for which partners to choose. Partners with close but complementary capabilities will often be a better choice than firms with similar capabilities as one interviewee is very clear about:

“You need to respect what the other partners are really really good at. The problems emerge, when you sit down and discuss about, “this we will do, and this you will do, but wow there is a huge overlap”. But this is not a problem, it is a necessity. If there was no overlap then you would never make it work. However whenever there is an overlap, you really have to be extremely clear about how to handle it. You really have to be able to communicate. It is all about the mutual respect and understanding each other that means everything. Otherwise, just forget it, just forget it.” (ToI: 188)

Resource Commitment

Dyer et al. (2001) proposed that firms set up a so called dedicated alliance function as part of the overall design of an alliance. The basic intent is to ensure top management commitment to an alliance, as this will heavily influence the level of time and financial resources put into the alliance (Vyas and Shelburn, 1995, Ireland et al., 2002).

An interviewee supported the necessity to facilitate top management support by stating that,

“There must be someone sitting at the top of the organizations who really get along well with each other. It is not just about stating that they want to monetize on the relationship. No, they must get along well. They have to be committed to each other. The partners really need to understand what each other are able to do. This is not done by creating a web page. It is done by having a sincere interest in working together.” (ToI: 188)

While our impression is that the firms know about this necessity of commitment, the realization of this is once again blocked by selfish concerns. As one interviewee explained,

“What exactly are some basic principles or considerations, i.e. unwritten rules that underlie whether one chooses cooperation? I have so often experienced that there is one person in the firm who is very concerned with being in control. He would say that the most important thing that it is I, the partner, who is in charge.” (ToI: 296)
Continuous review of the performance and deliverables will make weaknesses visible and enable the partners to act upon potential risks rather than having to re-act and rely on formal third-party dispute resolutions (Mohr and Spekman, 1994, Dyer and Singh, 1998). Over time despite high levels of trust, even more advanced forms of contracts may be observed. The reason for this is that each partner learns over time how to define their own boundaries in more details and they learn collectively about the potential for solving even more complex tasks. Contracts are then not a limiting factor and are not used merely as safeguards. They are simply a result of increased collaboration and mutual recognition of the potential value that lies within the pooling of resources (Argyres and Mayer, 2007).

Issues in direct relation to this was explicated by an interviewee,

“...The drawback is that it is extremely difficult to maintain the relationship, if there are no concrete projects you work on together and if there is no money involved. There is a tendency to forget each other. It takes time, resources and attention when wanting to maintain the relationships. Therefore, one must be careful not to have too many (alliances). I have seen companies that have made portfolios where they were able to do everything the world could ask for, due to their cooperative arrangements. E.g. IT, Finance, HR and so on, but it just ended up in a big mess. It really necessitates a lot of preliminary work and maintenance to make such arrangements work.” (ToI: 391)

In this respect, strategic alliances ought to become more than just transactions between two or more firms. Alliances have the potential to become platforms for learning for all participants while at the same time increasing the depth of expertise within each individual firm (Argyres and Zenger, 2012). This potential is only reachable as long as the “fit” between partners are congruent and the strategic intent is adjusted according to the collaborative opportunities. Furthermore, high frequency of interaction may either stem from a continuous flow of joint projects and where this is not the case, the alliance partners should create opportunities for socializing and sharing knowledge, as this would strengthen the perception of coherence and function as a constant review of the alliance.
Strategic Alliances as a Non-deliberate Choice

From the literature the logics applied is predominantly that alliances are always a product of rational choices made by management. While this might be wishful, it contrasts often with reality. Rutledge (2011: 23) showed the development of an alliance in terms of level of integration and formalization. In her continuum, alliances often begin with low formalization and low interdependence and are simply an ad-hoc collaborative activity between autonomous groups of different firms that share information and in some way support each other.

We would argue that this may well be the stage most of our target firms have reached so far. A few have managed to move further into more strong relationships, but when it comes to cooperative efforts between the midsized consulting firms, no real strategic alliances have been observed. This stage however could easily be seen as a stepping stone for further developments in terms of strategic alliance formations.

The essential idea here is to understand that alliances may not always evolve by intent, but that some alliance opportunities can be slowly emerging within more informal network ties already present between two or more organizations. It is then up to the management to discover these ties, evaluate the opportunities and take advantage of these.

Phase Five: Termination of the Alliance

At some point all alliances will dissolve, either because of unfair actions by one or more partners, because the alliance is no longer needed in order to overcome pre-defined challenges or due to a full merger of two or more firms.

No matter the reason, it may be beneficial to set up agreements of termination already in the early design phase of an alliance. This will limit the risk of losing reputation and actually may help strengthen the perception of mutual dependence when rules for exit are agreed upon (Hoffmann and Schlosser, 2001, Cui et al., 2011).

Here some degree of formalization is necessary in order to make the alliance participants aware of the consequences. Eight of a total of twelve firms in this research
that make use of cooperative arrangements expressed that no formal exit plans has been made. There might be at least two explanations for this. Either the firms are so loosely coupled that exit would be easy and without any risk of damage. The other could be that if the firms have difficulties in defining the boundaries of a cooperative arrangement, then it most probably also will be difficult to draw up formal exit agreements.

Through the five phases of a strategic alliance’s life cycle the necessary conditions for forming strategic alliances were outlined. From this, context specific barriers were identified and possible remedies for overcoming these were put forward. The following section will provide the conclusions and thus the main findings from this thesis.
5 Conclusion

Through the combination of empirical data and theory this thesis provides a thorough answer to the question: “Under which conditions can strategic alliances help the Danish medium-sized management consulting companies overcome their key challenges”?

The Key Challenges

Through an analysis of the external and internal factors that affect the Danish medium-sized management consulting companies it was possible to extract a number of key challenges. Despite that the market for consultancy services is growing, there is a high level of competitive rivalry due to high buyer power, low entry barriers and a high supplier power. The only two real differentiating factors for the firms are the establishment of a reputation for quality through a track-record of previous projects and the attraction and retention of key individuals. Furthermore, due to the very low barriers to entry there is a large amount of micro consulting firms, which make it extremely hard for the clients to screen for high quality suppliers of consultancy services. As a result especially larger clients have become increasingly selective and through the use of pre-qualification rounds they are able to exert significant power over the various firms competing for larger and more profitable projects. In order to compensate for their limited brand awareness and relative smaller size, the medium-sized firms must find a way to navigate in this fierce competitive environment.

The key-challenge is that in order for the medium-sized firms to become valued suppliers they must on the one hand maintain and further extend their depth of expertise, while on the other hand find a way to solve larger and more complex client projects. The target group of firms under investigation almost unanimously express that they have tried to overcome this challenge from client demand, by setting up collaborative arrangements either with firms from different industries or with other management consulting companies. The overall impression derived from the empirical data analysis is however that most of the target firms have not been able to create any sustained value from these collaborative efforts.
The Lack of Value Creation

The first part of the analysis shows that the negative experiences stem from the target firms not being fully aware of the content of and the prerequisites needed to establish strong socially embedded ties. We found that the target firms entirely use *arm’s-length market relationship* to solve collaborative tasks, not only for simpler modular projects but also for *more complex integral projects with high reciprocal interdependencies*. Integral tasks demand using mutual adjustment and trust, rather than simple means of coordination through plans or interfaces. While this use of arm’s-length relationships is a major limiting factor when it comes to value creation in complex projects, the underlying reasons for why the firms have not made use of more embedded relationships needed further analysis.

Before any context specific barriers for this could be identified, it was essential to first of all assess the strategic implications that emerge when the target firms pursue this competitive opportunity. Without this it is not possible to explicate the actual content in these relationships and the conditions necessary for them to become valuable.

Strategic Implications

From an industry perspective the firms will most likely meet *resistance in terms of increased competition*, when the target group position themselves with a differentiated service directly in the turf of the larger consulting companies. This retaliation could result in a price war or that the large consulting companies simply imitate the individual inputs each participant bring into the strategic alliance. The only feasible way for a collaborative arrangement to compete for larger and more complex projects, is to focus on how their collaborative efforts may result in *added value for the clients*, and this means focusing on how to establish and develop *strategic alliances*.

The Necessary Conditions

The added value from a theoretical stance stems from so called *relational rents*, which according to the Relational View of the Firm necessitate that alliance partners make a substantial effort in terms of making sure that strong *relational specific assets* are built, that *knowledge can be shared and absorbed*, that *complementary resources and capabilities are sought for*
and exploited, and that the alliance can be governed by self-enforcement rather than through third-party involvement in order to ensure low costs.

In order to make these rather complex and diffuse theoretical elements more comprehensible, the final part of the qualitative analysis, applied both some of the general logics of this theoretical framework and other closely related theories and identified five separate but interdependent steps of a strategic alliance’s life cycle.

The target companies are aware of the importance of selecting a partner whereby fundamental and strategic fit can be achieved. However, despite this and the fact that they have overlapping knowledge domains, the target firms’ ability to share and absorb knowledge, seem to be limited. One explanation for this could be that the intangibility of each firm’s service offerings makes it difficult to depict exactly what the individual firm will bring into an alliance.

This give rise to a number of implications. While it is advisable to put an alliance to the test as soon as possible in order to actively build further on its potential, if however the fundamental inputs are not understood by all partners, conflicts will emerge, and either the costs of managing the alliance exceeds the benefits, or the alliance simply fade away. Several interviewees told that one of the key conflicts that often arose when alliances were formed, was the division of profits. This is clearly a product of not being able to figure out what the fundamental contributions that each firm bring into the alliance are and how these may be combined into a unique service that the client is willing to pay a price premium for.

Despite the fact that it might be possible to roughly categorize the different firms into the various areas of expertise, their value is created from how they apply their knowledge/skills, and not solely by the set of tools they use.

Looking for complementary resources and capabilities as advocated by theory, is made extremely difficult by having to share tacit knowledge (know-how) that must be understood and absorbed for making the intangible services valuable. In order to overcome this barrier, it is advocated that the firms acknowledge this difficulty and spend the necessary resources on defining the boundaries of their own firm before considering alliance formations as a strategic option. Without this, the conditions for creating synergistic value is clearly missing, due to a constant conflict of division of profit, division of
responsibilities and hence no respect for each participant’s core competence will be built. This is also a very valid argument for that the target firms should not engage in numerous alliances at the same time as the management of this would most probably exceed the benefits.

The analysis further showed that even if the obstacles from defining the boundaries of the alliances are overcome, the underlying motives for strategic alliance formation might significantly lower the opportunities for the creation of relational rents. Too often the firms may agree on the overall goals for the alliance, but the realization of these goals is never reached because of *a hunt for individual benefits*. By looking into the target firms’ perceptions of themselves and their surroundings it became clear that while they *claim to practice openness*, in many cases they do not view the industry as a whole to be open. The firms protect their intangible know-how by using client clauses, employee clauses and rigid contracts. Their network relationships rarely include more than possible leads on clients, or an inspiration to what the next hot framework that could be sold is. Furthermore, the corporate culture in this industry *honours individuals*, and the highest ranking employees are used as signalling mechanisms for quality and trustworthiness and they as a result enjoy increased bargaining power derived through their reputation. While several of the target firms are trying to incorporate more soft measures when evaluating employees, pay for performance is still the main factor. This focus may easily give rise to *internal competition* and combined with having a business that most often is dependent on a very narrow top of powerful internal partners, is a significant barrier for strategic alliance formations. The barrier for alliance formation is then not a lack of resources, but rather a consequence of having *focus on being in control* and hence *low incentives to share know-how* with others.

Openness in relation to strategic alliances must be more than the sharing information. If tacit knowledge shall be effectively transferred between two or more firms, high frequency of interaction must be facilitated. While shared equity stakes may be used to create a sense of belonging, trust is the fundamental psychological contract that should be holding the alliance together. The use of rigid and complex physical contracts may not only limit trust, they might well lower the flexibility of the alliance, which after all will be put into action in a constant changing external environment. Finally, the firms must be aware that despite long term commitments, alliances are dynamic, and the value
each firm are able to provide in combination with others may change over time, as they
grow, change their management, grow larger or simply exit the business. The
termination phase of an alliance necessitates much higher degrees of formalization than
the formation phase. When every partner has agreed on the terms and thus the
consequences of exiting a strategic alliance, it will help strengthen the incentives to
devote an effort the collective value, rather than a hunt for individual firm benefits.

The Main Barriers

The conditions under which strategic alliances will help the Danish medium-sized
management consulting companies overcome their key challenges have been analysed.
While some of the prerequisites seem to be in place in order to create and sustain value
from strategic alliances, the following major barriers have been identified:

1) The intangibility of the services increase costs of establishing strategic alliances and may limit the
incentive to commit to this form of collaborative behaviour.

2) The opportunity to form strategic alliances is conditioned by the ability for the firms to adjust their
organizational structure and to nurture a culture where the willingness to share and transfer tacit
knowledge is present.

However trying to ensure more optimal conditions will give rise to a number of
implications for the target firms. These will be discussed in the following section.

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6 Discussion of the Analytical Results and their Implications

The analytical results show that there are two factors that seem to limit the opportunities to create the conditions under which strategic alliances can help the medium-sized management consulting firms overcome their key challenges.

The first barrier is the difficulty to defining the boundaries of the partnering firm. The consultancy services can be categorized into some generic fields of expertise, but the diffuseness regarding what a management consulting firm actually does obscures the possibilities to accurately express what unique contributions each potential alliance partner will bring to the collective table of resources and capabilities. Defining these boundaries will help identify areas where synergies can be created. This difficulty can help explain findings of our qualitative analysis, which showed that firms engaging in alliances spent more energy on debating the individual firms’ contribution and benefits rather than discussing how the strategic alliance could provide value collectively. Ten years after the seminal work by Dyer and Singh (1998) where the RVF was put forward, the authors have recognized the difficulties in understanding how to balance “private” and what they call “common benefits” Dyer et al. (2008). In their journal article “Splitting the Pie: Rent Distribution in Alliances and Networks” from 2008, they put forward the following proposition;

“Contexts of high common and high private benefits would yield the most stable alliances, while contexts of low common and high private benefits would yield the least stable alliances. Situations of low common and low private benefits and high common and low private benefits would have intermediate levels of stability.” (Dyer et al., 2008: 146)

In other words, whenever possible alliance partners discuss their separate contributions to the alliance, each must be well aware of which individual resources and capabilities are valuable, rare, inimitable and non-substitutable (Barney, 1991). If there are asymmetries in what the firms bring into an alliance, the private benefits may exceed the jointly created benefits, thus making the alliance more favourable for some firms over others. This is likely to result in an imbalanced and unstable relationship. While it might require substantial effort, time and resources to indentify each firm’s possible
contributions to an alliance, this “intangibility-issue” is, as we would argue, not unique to the management consulting industry. Many knowledge-intensive industries encounter the same issues with regards to articulating and sharing knowledge. This knowledge often encompasses situation-specific behaviour and an approach how to complete a task rather than the tools that are used to solve a task. A denoted earlier, this type of knowledge is frequently called tacit knowledge and is defined by Simonin (1999: 469) as knowledge,

“which cannot be easily communicated and shared, is highly personal and deeply rooted in action and in an individual’s involvement with a specific context”

Rather than viewing the intangibility as a barrier for alliance formation in our research context, we would argue that it is an important milestone on the way to forming an alliance. Tacit knowledge increases the necessity to make sure that the conditions for mutual adjustment and trust are facilitated effectively, as these mechanisms are core building blocks of strategic alliances.

The second main issue that emerged from the analysis was how the culture of the firms may limit the opportunities to form strategic alliances among the target firms. This barrier is directly related to the difficulty of defining the boundaries of the firms’ contribution. We argue that the single most important condition that requires careful attention in this research context is both related to corporate culture and an overall industry culture, which essentially limits sharing and absorbing knowledge between the alliance partners.

Linking back to the RVF, we argue that the knowledge sharing routines are made difficult to build due to the cultural setting they are to function within. This determinant of relational rents relates to the Knowledge Based Theory of the firm (Grant, 1996) which essentially considers knowledge as the strategically most important resource of an organization. Knowledge-based resources are difficult to imitate due to their inherent social complexity. Such resources, are according to the proponents of this theoretical view, major determinants of sustained competitive advantage. In relation to strategic alliance formation within our research context, knowledge and the sharing of it, is argued as being a core determinant of how value should be created. Therefore the ability
and willingness to share knowledge is the key condition that seems to be missing in terms of making strategic alliances successful.

We would argue that it would be very beneficial to form a dedicated alliance team. Members of the team are representatives from each firm and they function as both linking partners within the alliance, but also and even more importantly as so called boundary spanners (Tushman, 1977). As boundary spanners they are able to detect, collect and deliver knowledge from the alliance back in to the organization. This will increase the chance of effectively sharing knowledge, while it at the same time enables each firm to concentrate on its core competences. The skills of a boundary spanner are according to McKenzie and Van Winkelken (2006) individual traits such as project management skills, communication and listening skills as well as networking skills. These traits should be relatively easy to find among management consultants and thus make it quite uncomplicated to make sure that the ability to share knowledge is present.

However another key element is the willingness to share knowledge.

The values of a management consultant are heavily affected by the culture within which this individual person acts. Although no comprehensive cultural analyses of the target firms have been conducted, several areas that may limit the incentives and thus willingness to share knowledge can be identified.

The organizational structure of the consulting firms with a partner structure where a top-down approach to management may have a negative impact on the willingness to share knowledge. If this partner-structure is very focused on profits, and the individual consultants are primarily rewarded for their turnover, then private knowledge would be very valuable for the individual management consultant. If people are forced to share knowledge, they often “feel that they have lost the ownership and control of it”, according to De Long and Fahey (2000: 118). In our research context this feeling would be multiplied when the norms of the firms are based upon individual performance measurement and incentive mechanisms. A management consultant is heavily dependent on his/her knowledge domain, where both explicit information and tacit know-how is the very foundation of his/her status, reputation and power. This results in their reluctance to share it.
We could argue that in order to facilitate knowledge sharing across firm boundaries, internal incentives to give up private knowledge need to be introduced. One way this could be facilitated is to adjust the reward system towards one that evaluates both internal and external sources for feedback. One famous example of such a system is known as 360-degree feedback performance measurement system (Waldman et al., 1998, Bracken et al., 2001). This kind of employee performance review would increase the value for each individual consultant to share private knowledge, as his/her performance would be measured on more than solely individual output. Interestingly, the one firm representative who reported that they have strategically deselected collaborative arrangements was also the only who reported the use of a strong “feedback culture” (ToI: 487). We would argue that this firm has actually established the pre-conditions necessary to help the firm overcome many of their key challenges for strategic alliances. Their choice not to engage in such relationships might be caused by their size of 30 employees, which enables this firm to take on larger and more complex projects on their own. Their business strategy and area of expertise are both well adapted to avoid transaction costs of setting up close relationships and as an alternative they have focused on effective internal management of resources. Furthermore, this firm clearly states that if high standards of service are to be maintained, inter-firm resource combinations are not a possibility.

“We can not use average performance to anything. You can not take a high price for that. Such companies are rare, and while they exist, they also do not want to work with others.” (ToI: 511)

From a strategic alliance perspective, high quality and unique services are possible to create collectively, but the choice depends on other factors such as level of resources, current size of company and fundamental approach to the client-consultant relationship.

In essence, this means that the medium-sized consulting companies have two choices. Either they can face the costs of setting up close alliance relationships or they can accept the costs of internal management, which requires a certain firm size that ensures that projects are not lost due to limited capacity. Increased internal capacity of the firm (growth) would imply the danger of lower agility and flexibility and this risk could be limited by choosing strategic alliances as a platform for increased capacity. These are
some of the fundamental considerations the target firms need to bear in mind when analyzing the opportunities to win larger and more complex projects.

Furthermore, the top-down approach to managing the consulting firms is argued to be a limiting factor on strategic alliance formation. As noted earlier, this management style conflicts in many areas with the willingness to share knowledge. A radical way this could be eased would be to advocate for the implementation of what is known as an outside-in style of management (Gulati, 2010). This management philosophy advocates traditional mechanisms, such as authority in relation to employees and customers, are replaced by a management that enables employee action, and the organization focuses entirely on the customer. Such management is encouraged to promote so called dynamic linking where work is done in short cycles and measured against the direct feedback from clients (Denning, 2010).

This way of focusing on customers combined with less financial performance based reward systems, we would argue, could increase the willingness to share knowledge within the organization. By setting up a dedicated alliance team and having full commitment from the company owners, this would increase the incentives to also share knowledge across firm boundaries.

Such a fundamental change however would require a transformation in this industry segment and the management of it. The managerial assumptions, values, attitudes and ways of communicating must be transformed into customer-focused value creation. This is of course taken to the extreme and many of the interviewee firms express that they are focused on their clients, but as we have found during the qualitative analysis, more and more clients expect that the consultancy services they buy can be measured in terms of their value. This demand for return on consulting must be created in a close relationship with the clients, and the feedback they give. There are so many factors that may create a biased result, if one only measures value in terms of immediate increase or decrease in stock prices, turnover, profit or other financial measures. The advocated outside-in management style, would by having a strong focus on customers, enhance the opportunities to create more valid and comprehensive measurements of the benefits derived from buying management consulting services.
Furthermore this proposed set-up of management style and dedicated alliance team would make the individual firm less dependent on attracting key human resources. If the firms open up towards other firms in an alliance and if the culture support the sharing of tacit knowledge, then the strategic use of network connections will provide access to human resources, otherwise costly to attract and retain (Grant and Baden-Fuller, 2004). In addition to this, by being forced to define and articulate each firm’s resources and capabilities, the unique combination of these in an alliance would help differentiate their services and raise entry barriers when the alliances are managed successfully. As mentioned earlier, many of the interviewees indicated the use of referrals, and one could argue that an alliance formation could be a strategic way of making referrals and thus enhance not only the reputation of an alliance but also each individual firm’s brand awareness and trustworthiness due to the mutual endorsement of alliance partners.

By such, not only are strategic alliances able to overcome the key challenge of providing value in larger and complex client projects while allowing each firm to concentrate on their core area of expertise. They are also to a great extent believed to be able to solve the other identified challenges this segment faces.

The core objective of strategic alliances is to provide value and flexibility. We argue that value and flexibility is a product of making sure that an alliance is seen as a strategic tool, where several both private and common motives are allowed for but carefully balanced, and where each firm fosters a culture that allows for the building of trust and sharing of knowledge. But is this even realistic in our specific context?

De Long and Fahey (2000: 115) stated that,

“At the deepest level, culture consists of values, which are embedded, tacit preferences about what the organization should strive to attain and how it should do so. Values are often difficult to articulate and even more difficult to change.”

Several interviewees claimed that the top down approach to management, the high performance culture and the signalling of quality in terms of individual human resources are the fundamental building blocks of the consulting industry. Without this there would be fewer client relationships, lower quality of service and in essence no firm. In our view, this industry is negatively affected by its path dependency (Penrose, 1959, Argyres
and Porter Liebskind, 1999) and the norms and values of the overall management consulting industry forces this kind of organizational structure and way of incentivizing employees upon even these medium-sized firms. Some small incremental changes are however found in our empirical data. The owner of one of the target firms has actually deliberately turned against this traditional way of perceiving of management consulting. As a final point in this discussion, the following quote from this interviewee clearly show how this firm has thrived to break free from the norms and values of the industry. What is noteworthy, however, and what is not included in the quote, is that this struggle has not materialized in any profound value and the interviewee has now begun implementing a lot of the same mechanisms as we have described as being a limiting condition for staying flexible and remain open to coopetitive behaviour. This shows how much the culture and the values of a specific industry context affect even entrepreneurs in this field of expertise.

“Culture is the most important thing for the companies. It has become a goal in itself. I deeply disagree with it. I’d rather think that there will come a time when I will not become wiser just negotiating with myself. If there is a person next to me who is better to determine or grow the business, then I think we should listen to him or her.

In my view, it is when all things considered, about whether you want to be with some lone wolves. I have tried that, and despite that they expressed commitment, then deep down they were closer to themselves after all.

We have some rules here and we will never quarrel about money. That is something that I think makes sense, but it is not something I see in most of the industry. I see someone, who when they have earned seven figures, they sit back and think, "Oh, this is great.”

I just think, “well yes, but consider what it could have become if you were transparent about it, and said, "If I have a good case, I will tell what is going on in the industry. Such as, what are the value drivers? What occupies the industry? What are their strategic agendas? What do they want to achieve? How can we help them? How are we doing something cool for them?"

This is a quite elaborate expression of how the culture within this industry has a negative impact on the ability for firms to create value collectively. As discussed in this section a change would require substantial transformations in both management,
organizational structure, values, beliefs, ways of viewing clients, way of communicating and way of collaborating. Only the members of this industry will be able to create the change. Currently many of the firms are forced into relationships where no high common benefits seem to be present. This is an interesting finding, because past research on strategic alliances have focused heavily on cultural differences between firms as a barrier for collaboration to effectively occur, but our results point towards that an industry culture as a whole can create unfavourable conditions for creating valuable strategic alliances.

The clients are gaining more power and the large competitors keep growing larger, and if the consulting industry wishes to maintain independence and not be integrated into larger clients, they must find a way to overcome these threats. As discussed the firms can grow and by doing so increase costs of managing internal resources and face the risk of losing agility. Or the firms can collaborate and conditions necessary for this to occur are costly and difficult to create.

We would speculate that only a few successful strategic alliances within this industry segment are enough to begin changing some of the fundamental ways of competing in this business. At the same time, maybe this change would already be too late, and alternatives to the focus of this thesis might appear more compelling.
7 Discussion of Perspectives and Limitations

As discussed in the previous section, the condition most important to focus on in relation to strategic alliances among the Danish medium-sized management consulting companies is the cultural aspect. In order to fully understand the consequences of trying to adapt the internal structure of management consulting companies, more focused analyses on the cultural aspect would be needed. Our contribution has been to determine from the view of a number of these companies what their key challenges are and how they are trying to adapt. Against this data, areas where change is needed for strategic alliances to become a viable option have been identified.

The findings suggest that in the light of the target firm’s key challenges, strategic alliances could be an option to pursue. The norms and values of the firms and the industry however put constraints on creating more favourable conditions for this type of strategic option. The key implication of securing a necessary change of culture is not a matter of financial resources or even human resources. It concerns fundamental changes in the perceptions of how value can be created, and the opportunities to implement these changes cannot be forced by for example industry associations or other formal institutions. The change must come from within the firms, and as we have shown, small incremental steps have been taken by this industry segment. None of these new, more radical thoughts on management consulting seem to survive in the long term, despite pressure from competition and a continuous increase in bargaining power of buyers and suppliers. Several closely related but alternative areas of research could provide additional insights to the challenges of this target segment.

One area to investigate further would be the opportunities for value creation in terms of forming strategic alliances with firms from other industries. Case 1 in the description of the target firms’ experiences with alliances (section 4.3.4) showed that value of doing this could be achieved whenever the firm is able to be the linking partner, the project manager and owner of the task. Whether this strategic option is valid for a broader range of our target companies and whether this could help them overcome their key challenges would require further research.
One could also look at the prospects to join forces with international consulting firms, and by such increase the reach of market access. This however is not only limited by the general culture of the industry, but it is also expected to give rise to additional inter-firm cultural barriers. While internationalization is a natural result of being forced to follow clients into a global marketplace, one could argue that as long as the target firms are not able to find a model that can satisfy the client’s demand for specialization in larger more complex projects nationally, the target firms may not be able pursue any significant international strategies. This however would need further investigation.

Another option would be that the individual firms establish strategic alliances with large client organizations. The client would then be the project manager of a range of firms each providing their area of expertise, but this again would necessitate that the firms are able to deliver collectively. The authority might be in the hands of the client, but how the orchestration of firms that have a hard time working together would be interesting to investigate. A result of the currently low degrees of value created through inter-firm collaboration could result in large corporations beginning to intensify the use of internal consulting departments, and then simply source selectively among the firms. This would increase the power of buyers and the differentiation of each management consulting firm would become even more essential. This challenge would be a very interesting area for further research, as the whole notion of authority within strategic alliances has only merely been touched upon by this thesis.

Yet another related area of research could be to investigate the opportunities for these medium-sized firms to partner up with larger consulting firms. This type of strategic alliance would allow the smaller firms to concentrate on their core area of expertise and become back-end suppliers and the larger firm would be able to flexibly draw on strong local experts, while providing the front-end consulting services in complex projects. The competitive implications of this and the cultural barriers inherent in this option are expected to be of great interest for research.

As a side-effect one could easily imagine that waves of mergers and acquisitions would take place in the future. Some levels of consolidation was reported by the interviewees and backed with data from industry reports, but opportunities for larger consulting firms to fully integrate members both from alliances as well as in general could prove to
be a fruitful ground for research. The target segment of this thesis might actively pursue the option to become part of a larger brand, but as we have seen it is limited by the strong felt need for control and independence of the firms.

The empirical data indicated that small consulting companies often approach the target group of firms with the intent of forming alliances. One interviewee stated that, “there are so many who would like to make strategic alliances with us. I would almost say that it is on a weekly basis that there are consulting companies with one, two or three employees who want to make a strategic alliance with us.” (ToI: 83). Some of the same issues as reported in this thesis, regarding willingness to share knowledge also seem to apply within this context. The interviewee continues by stating that, “but they just want to steal revenue from us, and then it will never work.” (ToI: 83). An investigation of opportunities to form alliances with smaller firms might be fruitful and would be closely related to the themes derived from this thesis.

The basic options highlighted in this thesis are that either the target firms choose a slower, costly option of internal growth, or they may begin looking for alternative solutions to overcome their key challenges. The firms should increase their presence in the competitive market landscape, increase the ability to bid for and win larger, complex and more profitable projects without sacrificing the flexible, innovative and high performing organization. Strategic alliances are in our view one very obvious option, but their success would require fundamental changes within this industry and hence require substantial efforts. Whether this option materializes as a result of burning platforms or it comes from a pre-emptive deliberate choice, the conditions necessary for strategic alliances to create prolonged competitive advantage within this context will need adaptation and careful attention by the management of this target segment.

**Discussion of Theory**

This thesis has used several theoretical streams of literature in order to answer the research question and it is important to discuss the limitation of each. Four theoretical lenses were used to answer the research question.
TCE, which assumes that alliances are a transaction cost minimizing form of governance was introduced. This was complemented by the RBV and was used as a theoretic basis for assuming that alliances arise when the target firms require additional resources (complementary resources) that are costly or difficult to create internally. Both of these streams of literature has been criticized for their overly reliance on formal control mechanisms such as contracts (TCE) and equity (RBV) (Gudergan et al., 2012). Neither TCE nor RBV could fully help analyzing the context specific conditions for this research. While these theories help further the understanding of possible motives for using alliances, the empirical data showed that alliances would only be valuable for the target firms, if they were used strategically, i.e. could provide prolonged periods of competitive advantage for the alliance participants.

Strategic Positioning theory (Porter, 1980) was applied with the purpose of clarifying the immediate consequences for the target firms wishing to pursue this choice of governance. This theory however cannot tell how SCA may be achieved. Therefore the RVF was used to fully understand the conditions necessary for alliances to become a valuable option for the target firms.

RVF builds on several theoretical aspects mainly derived from social science which give an overall understanding of the phenomenon of strategic alliances. This generalization however is also perceived as a weakness, as it only allow for the identification of possible barriers for creating relational rents. The theory does not explicate to any significant degree possible remedies to these barriers.

This thesis have scratched the surface of some of the literature which underpins the RVF and by such been able to provide some solid recommendations. A strong point made concerns the facilitation of mutual adjustment and trust to ensure effective coordination and cooperation. Frequent interaction will over time foster mutual respect, understanding and thus trust. This limit the need for formal control mechanisms and sharing of equity and instead of being a pure transactional task, the interaction becomes platforms for learning and innovation. To investigate this further it would be useful to focus in on more recent aspects of this such as Gudergan et al. (2012) which proposed that “Competitive Alliance Capabilities” are possible to built and are a source for sustained competitive advantage. Theories concerning knowledge-sharing in complex
and highly uncertain settings would also help further the understanding of the underlying issues of using strategic alliances within this specific context. As the results of this thesis indicate, the cultural aspects should be further analyzed with dedicated theories that scrutinize the key barriers that limit the creation of optimum conditions for strategic alliances.

We believe that the choice of theories are well suited to answer the research question, but we encourage future research to impose a more narrow theoretical scope in relation to the cultural and structural barriers identified in this thesis.

**Discussion of Method**

Although we believe that our analytical results are valid as a result of the choice of methodological approach, the limited number of firms that have been investigated within a relatively narrow segment of an industry could limit the generalizability of the results. Further research into the findings from this exploratory analysis would be considered necessary for validation. We would suggest including clients, larger consulting firms and a benchmark against other industries as a way to substantiate the result of this thesis.

Furthermore, just as the companies themselves are believed to have difficulties in articulating their exact function, resources and capabilities, so has the qualitative analysis. It was found to be a complex process when analyzing substantial amounts of data from semi-structured interview data. The differences and similarities among the participating firms were manageable, but the underlying reasons for the sometimes contradicting information these firms provided needed careful attention in especially the coding process. One could have chosen to focus on performance measures such as financial figures, statistics and other hard data, but this data is difficult to access and it would fit neither the overall intent nor the exploratory nature of this thesis. As the research process is exploratory with an interpretative approach, the results are fragile and very context-specific, and thus could be prone to overgeneralization if care is not taken. By using effective tools for analysis, i.e. our means of coding and through the application of theoretical frameworks, we believe that we have captured the essence of the information that has been collected.
Strategic alliances are a complex phenomenon, and despite the risk of providing unclear results when using multiple theoretical sources as analytical tools, we consider having a multifaceted theoretical approach necessary and fruitful in order for this thesis to effectively and efficiently provide adequately breadth and depth to answer the overall research question.

One key factor that might have limited the reliability of the thesis to some extent is the type of interview partner. The interviewees are all highly skilled communicators, negotiators and sales people. While gaining access to these people was relatively easy, they were often very keen on selling their business rather than critically reflect on the actual questions asked. This required skilled interviewers and having limited experiences with such data collection method and given our status as students, the power relationship frequently shifted in favour of the interviewee. We found that it was hard from the outset of the interviews to secure in-depth investigation of the interviewees perceptions and experiences and that the time allocated for each conversation was a limiting factor. We did however experience that most of the interviewees frequently but momentarily stepped out of their consultant-client mode of providing information and began giving less “professional” answers. This gave us opportunities to ask more critical follow-up questions and by such increase the richness of the data collected. Furthermore, due to time constraints and limited resources, the second round of interviews was primarily based on written replies or by phone, which also limits the possibilities to fully get under the skin of the interviewees’ statements.

A possible way to increase depth of the data would have been to increase both the length and number of face-to-face interviews with the interviewees. Also a selection of more than one person from each company could have enabled us to secure possible contradicting responses to the same topics within the same firm. While this might have been rewarding, the aim was to gain insight into the business and industry from a managerial point of view (as often as possible). If several interviewees within each firm would have been interviewed, this would have had a negative effect on the total number of firms that could have participated. This trade-off is acknowledged and carefully evaluated, but the choice of having one representative from as many firms as possible is based on the intention to increase chances of providing the most solid answer within the boundaries of the research question.
8 References


Appendices

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Appendix A – Interview Guide 1

Interview of person X and firm X

Interviewer:

Interviewee:

Date/time/location for interview:

Presentation and information:

• **Who are we?**
  o We are two MSc. thesis students from SDU Odense with a primary focus on strategic and organizational aspects of businesses – Jakob Østergaard og Peter Strarup

• **Purpose of this interview?**
  o To gain critical insights into the management consulting industry.
  o To apply the collected data in our thesis. The thesis has an overall aim to discover the key challenges met by especially the medium-sized (5-30 employees) Danish management consulting companies.

• **Estimated duration of interview?**
  o A maximum of 1 hour

• **How will the answers be used?**
  o The interview will be transcribed and then codified in order to identify the key challenges for the medium-sized management consulting firms.

• **How do we handle data protection?**
  o The interview will be recorded digitally (audio) and stored in encrypted form in a password protected folder on a secure online server. The recording will be fully deleted as soon as it is no longer needed for the thesis (maximum 6 months from the date of the interview). All data will be handled 100 % anonymously and no one to one recognition will be possible in the final text.
  ATTENTION: If the company does not want the interview to be recorded, please make sure to let us know in advance.
The following set of questions are meant as a guide for the interview and also as a tool which makes it possible for the interviewee to get an understanding of the themes we would like to cover. The interview is going to be flexible, which means that all the information that the interviewee finds relevant is welcomed.

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>How long have you been associated with this company and what is your position?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Can you tell me about your background?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm specific questions</th>
<th>Could you explain the company’s business model?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>How is the company’s ownership structure?</td>
</tr>
<tr>
<td></td>
<td>Does the company have freelance staff?</td>
</tr>
<tr>
<td></td>
<td>Does the company make use of incentive schemes, and if yes, which?</td>
</tr>
<tr>
<td></td>
<td>What is the company’s strategy?</td>
</tr>
<tr>
<td></td>
<td>What do the company do when a client asks for a service you have little or no experience with?</td>
</tr>
<tr>
<td></td>
<td>Could you describe your clients? (Private or public? Size, industry etc.)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Development in the industry</th>
<th>How would you characterize the industry? E.g. in relation to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ Competitive environment</td>
</tr>
<tr>
<td></td>
<td>▪ Revenue potential</td>
</tr>
<tr>
<td></td>
<td>▪ Barriers for growth/revenue</td>
</tr>
</tbody>
</table>

<p>|                        | Which changes have you noticed within the industry from you started and until now? |
|                        | How are these changes challenging other firms within the industry?                |
|                        | How do they react to the changes?                                                |
|                        | What do the most successful firms do to cope with the changes?                    |</p>
<table>
<thead>
<tr>
<th>The firm and the industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is this firm leading or lagging in responding to industry changes?</td>
</tr>
<tr>
<td>How is this firm reacting to the changes in the industry?</td>
</tr>
<tr>
<td>What are the firm’s core competence(s)?</td>
</tr>
<tr>
<td>What are the firm’s weaknesses?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you consider your professional network important for you and the company?</td>
</tr>
<tr>
<td>If yes, why is this network important for you and the company?</td>
</tr>
<tr>
<td>How do you make use of your network?</td>
</tr>
<tr>
<td>Do you discuss strategic decisions with people in your network?</td>
</tr>
<tr>
<td>Are you a part of some kind of industry group/association/round table etc.?</td>
</tr>
<tr>
<td>If yes, in what respect does this benefit you and the company?</td>
</tr>
<tr>
<td>What are the benefits and/or weaknesses of these network relationships?</td>
</tr>
<tr>
<td>Can you come up with an example of when an individual or group of people in your network took unfair advantage of their knowledge about you or the firm?</td>
</tr>
<tr>
<td>How did you react to this unfair behaviour?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alliances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has the company formed or entered an alliance with other firms within the industry?</td>
</tr>
<tr>
<td><strong>YES</strong></td>
</tr>
<tr>
<td>Has the company made any relation specific investments in these alliances?</td>
</tr>
<tr>
<td>If yes, will it be costly to exit this arrangement?</td>
</tr>
<tr>
<td>Can you tell me the greatest drawbacks/barriers in these alliances?</td>
</tr>
<tr>
<td>Question</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Are there written contracts for the alliances?</td>
</tr>
<tr>
<td>What are your primary motives for entering or forming an alliance?</td>
</tr>
<tr>
<td>NO</td>
</tr>
<tr>
<td>Has the company considered entering an alliance with one or more firms within the industry?</td>
</tr>
<tr>
<td>If yes, what is the rationale behind such considerations?</td>
</tr>
<tr>
<td>What would be the most important factors when choosing a firm to partner up with?</td>
</tr>
<tr>
<td>Which drawback do you see in such arrangements?</td>
</tr>
<tr>
<td>What potential benefits do you think such arrangement would give?</td>
</tr>
<tr>
<td>If no, why haven’t the company considered alliances?</td>
</tr>
<tr>
<td><strong>Closing Questions</strong></td>
</tr>
<tr>
<td>Do you have additional information which may be relevant for us (internal reports, documents etc.)?</td>
</tr>
<tr>
<td>Do you know of any other relevant people/companies who might be willing to conduct an interview with us?</td>
</tr>
<tr>
<td>Would you be willing to conduct a follow-up interview with us?</td>
</tr>
</tbody>
</table>

Thank you very much for your participation!
Appendix B – Interview Guide 1 (revised)

Interview of person *X* and firm *X*

<table>
<thead>
<tr>
<th>Interviewer:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee:</td>
<td></td>
</tr>
<tr>
<td>Date/time/location for interview:</td>
<td></td>
</tr>
</tbody>
</table>

Presentation and information:

- **Who are we?**
  - We are to MSc. thesis students from SDU Odense with a primary focus on strategic and organizational aspects of businesses – Jakob Østergaard og Peter Strarup

- **Purpose of this interview?**
  - To gain critical insights into the management consulting industry.
  - To apply the collected data in our thesis. The thesis has an overall aim to discover the key challenges met by especially the medium-sized (5-30 employees) Danish management consulting companies.

- **Estimated duration of interview?**
  - A maximum of 1 hour

- **How will the answers be used?**
  - The interview will be transcribed and then codified in order to identify the key challenges for the medium-sized management consulting firms.

- **How do we handle data protection?**
  - The interview will be recorded digitally (audio) and stored in encrypted form in a password protected folder on a secure online server. The recording will be fully deleted as soon as it is no longer needed for the thesis (maximum 6 months from the date of the interview). All data will be handled 100% anonymously and no one to one recognition will be possible in the final text.
  
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<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>How long have you been associated with this company and what is your position?</td>
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</tr>
</tbody>
</table>

<table>
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<th><strong>Firm specific questions</strong></th>
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<tbody>
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<td>Could you explain the company’s business model?</td>
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<tr>
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</tr>
<tr>
<td>What is the company’s strategy?</td>
</tr>
<tr>
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</table>

<table>
<thead>
<tr>
<th><strong>Development in the industry</strong></th>
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</thead>
<tbody>
<tr>
<td>How would you characterize the industry?</td>
</tr>
<tr>
<td>E.g. in relation to:</td>
</tr>
<tr>
<td>▪ Competitive environment</td>
</tr>
<tr>
<td>▪ Revenue potential</td>
</tr>
<tr>
<td>▪ Barriers for growth/revenue</td>
</tr>
<tr>
<td>How do other companies in this industry react to the industry development?</td>
</tr>
<tr>
<td>How has this company reacted to the industry development?</td>
</tr>
<tr>
<td>Question</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Is this firm leading or lagging in responding to industry changes?</td>
</tr>
<tr>
<td>What are the firm’s core competence(s)?</td>
</tr>
<tr>
<td>What are the firm’s weaknesses?</td>
</tr>
<tr>
<td><strong>Network</strong></td>
</tr>
<tr>
<td>Do you consider your professional network important for you and the company?</td>
</tr>
<tr>
<td>Are you and/or the company a member of any industry association, network group or similar?</td>
</tr>
<tr>
<td>If yes, in what respect does this benefit you and the company?</td>
</tr>
<tr>
<td>What are the benefits and/or weaknesses of these network relationships?</td>
</tr>
<tr>
<td><strong>Alliances</strong></td>
</tr>
<tr>
<td>Has the company formed or entered an alliance with other firms within the industry?</td>
</tr>
<tr>
<td><strong>YES</strong></td>
</tr>
<tr>
<td>What are the primary motives for forming or entering an alliance?</td>
</tr>
<tr>
<td>Which resources have been dedicated to the alliance?</td>
</tr>
<tr>
<td>▪ In the formation</td>
</tr>
<tr>
<td>▪ During the course of the alliance</td>
</tr>
<tr>
<td>Are there written contracts for the alliances?</td>
</tr>
<tr>
<td>Can you tell me the greatest drawbacks/barriers in these alliances?</td>
</tr>
<tr>
<td>Does the company consider intensifying the use of alliances?</td>
</tr>
<tr>
<td><strong>NO</strong></td>
</tr>
<tr>
<td>Has the company considered entering an alliance with one or more firms within the industry?</td>
</tr>
<tr>
<td>If yes:</td>
</tr>
<tr>
<td>What is the rationale behind such considerations?</td>
</tr>
<tr>
<td>Question</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>What would be the most important factors when choosing a firm to partner up with?</td>
</tr>
<tr>
<td>Which drawback do you see in forming or entering an alliance?</td>
</tr>
<tr>
<td>What potential benefits do you think such arrangement would give?</td>
</tr>
<tr>
<td>If no:</td>
</tr>
<tr>
<td>Why hasn’t the company considered using alliances?</td>
</tr>
<tr>
<td><strong>Closing Questions</strong></td>
</tr>
<tr>
<td>Do you have additional information which may be relevant for us (internal reports, documents etc.)?</td>
</tr>
<tr>
<td>Do you know of any other relevant people/companies who might be willing to conduct an interview with us?</td>
</tr>
<tr>
<td>Would you be willing to conduct a follow-up interview with us?</td>
</tr>
</tbody>
</table>

Thank you very much for your participation!
Appendix C – Final Coding Template

This final coding template shows the hierarchical structure of themes and their sub-categories used in the qualitative analysis of the empirical data.

<table>
<thead>
<tr>
<th>CODES</th>
<th>LEVELS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Factors</strong></td>
<td>1</td>
</tr>
<tr>
<td>Threat of entry</td>
<td>1.1</td>
</tr>
<tr>
<td>Free title no set-up costs</td>
<td>1.1.1</td>
</tr>
<tr>
<td>Confusion about services, small entrants</td>
<td>1.1.2</td>
</tr>
<tr>
<td>Personal relationships versus professional relationship</td>
<td>1.1.3</td>
</tr>
<tr>
<td>Growth – industry</td>
<td>1.1.4</td>
</tr>
<tr>
<td>Legal barriers – public sector</td>
<td>1.1.5</td>
</tr>
<tr>
<td><strong>Buyer power</strong></td>
<td>1.2</td>
</tr>
<tr>
<td>Mature professional sourcing – structural barriers</td>
<td>1.2.1</td>
</tr>
<tr>
<td>Immature unprofessional sourcing – structural barriers</td>
<td>1.2.2</td>
</tr>
<tr>
<td>Pressure on price</td>
<td>1.2.3</td>
</tr>
<tr>
<td>Sales process – architect</td>
<td>1.2.4</td>
</tr>
<tr>
<td>Experts versus generalists</td>
<td>1.2.5</td>
</tr>
<tr>
<td>Importance of reputation and brand</td>
<td>1.2.6</td>
</tr>
<tr>
<td>Return on investment</td>
<td>1.2.7</td>
</tr>
<tr>
<td><strong>Consolidation</strong></td>
<td>1.3</td>
</tr>
<tr>
<td>Larger competitors growing larger</td>
<td>1.3.1</td>
</tr>
<tr>
<td><strong>Complementors</strong></td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Competitive rivalry</strong></td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Internal Factors</strong></td>
<td>2</td>
</tr>
<tr>
<td>Diffuseness of service offerings</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Business strategies</strong></td>
<td>2.2</td>
</tr>
<tr>
<td>Behavioural traits of customers</td>
<td>2.2.1</td>
</tr>
<tr>
<td><strong>Areas of expertise</strong></td>
<td>2.3</td>
</tr>
<tr>
<td>No juniors</td>
<td>2.3.1</td>
</tr>
<tr>
<td>Experienced consultants</td>
<td>2.3.2</td>
</tr>
<tr>
<td>Growth strategies</td>
<td>2.4</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----</td>
</tr>
<tr>
<td>Slow</td>
<td>2.4.1</td>
</tr>
<tr>
<td>Organic</td>
<td>2.4.2</td>
</tr>
<tr>
<td>Profit over growth</td>
<td>2.4.3</td>
</tr>
<tr>
<td>Agility</td>
<td>2.4.4</td>
</tr>
<tr>
<td>Marketing and branding</td>
<td>2.4.5</td>
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</tbody>
</table>

**Organization** 2.5

<table>
<thead>
<tr>
<th>Partners</th>
<th>2.5.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost base</td>
<td>2.5.2</td>
</tr>
<tr>
<td>Staffing – freelance versus permanent staff</td>
<td>2.5.3</td>
</tr>
<tr>
<td>Incentive schemes</td>
<td>2.5.4</td>
</tr>
<tr>
<td>Culture – high-performance versus team-work</td>
<td>2.5.5</td>
</tr>
<tr>
<td>Network – use and importance</td>
<td>2.5.6</td>
</tr>
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</table>

**Prevalence of strategic alliances** 3

<table>
<thead>
<tr>
<th>Actual experience</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Motives</td>
<td>3.2</td>
</tr>
<tr>
<td>Brand awareness</td>
<td>3.2.1</td>
</tr>
<tr>
<td>Flexible capacity</td>
<td>3.2.2</td>
</tr>
<tr>
<td>Circumvention of legal barriers</td>
<td>3.2.3</td>
</tr>
<tr>
<td>Circumvention of structural barriers</td>
<td>3.2.4</td>
</tr>
</tbody>
</table>

**Search for alliance partners process** 3.3

<table>
<thead>
<tr>
<th>Complementary skills</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Network proximity</td>
<td>3.3.2</td>
</tr>
<tr>
<td>Conflict reducing</td>
<td>3.3.3</td>
</tr>
<tr>
<td>Trust</td>
<td>3.3.4</td>
</tr>
</tbody>
</table>

**Formalization** 3.4

<table>
<thead>
<tr>
<th>Money contracts</th>
<th>3.4.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic versus non-strategic alliances</td>
<td>3.4.2</td>
</tr>
<tr>
<td>Cultural aspect of contracting</td>
<td>3.4.3</td>
</tr>
<tr>
<td>Flexibility versus formalization</td>
<td>3.4.4</td>
</tr>
<tr>
<td>Experiences with alliances</td>
<td>3.5</td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>Alliance with firms outside mgmt. industry</td>
<td>3.5.1</td>
</tr>
<tr>
<td>Alliance between two competing firms</td>
<td>3.5.2</td>
</tr>
<tr>
<td>Trust as an illusion</td>
<td>3.5.3</td>
</tr>
<tr>
<td>Openness versus self-sufficient</td>
<td>3.5.4</td>
</tr>
<tr>
<td>Opportunism</td>
<td>3.5.5</td>
</tr>
<tr>
<td>Value for customers versus costs of alliances</td>
<td>3.5.6</td>
</tr>
<tr>
<td>Planning alliance versus getting it to work</td>
<td>3.5.7</td>
</tr>
<tr>
<td>Conflicts of long-term benefits versus common benefits</td>
<td>3.5.8</td>
</tr>
<tr>
<td>Respect of skills</td>
<td>3.5.9</td>
</tr>
<tr>
<td>Commitment</td>
<td>3.5.10</td>
</tr>
<tr>
<td>Maintenance of alliance relationships</td>
<td>3.5.11</td>
</tr>
</tbody>
</table>
Appendix D – Interview Guide for Second Round

Interview guide for companies using of strategic alliances

In the previous interview, the company stated that it makes use of strategic alliances with other firms within the management consulting industry. The purpose of this follow-up interview is to clarify further details about the company's use of strategic alliances. Strategic alliances are defined here as cooperation with other companies where resources are combined to achieve competitive advantage.

<table>
<thead>
<tr>
<th>Motives and Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What considerations and/or analysis have been made prior to the formation of an alliance?</td>
</tr>
<tr>
<td>2. What are the goals set up for the alliance?</td>
</tr>
<tr>
<td>▪ Goals defined between participating companies</td>
</tr>
<tr>
<td>▪ Internal goals for the company</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Partner Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Where does the company search for potential partners, and why?</td>
</tr>
<tr>
<td>4. What qualities/attributes does the company look for in potential partners?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management and Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. How are tasks coordinated and how often does the company evaluate the alliance in terms desired delivery of results?</td>
</tr>
<tr>
<td>6. Which barriers should be overcome in order to form the alliance?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. How is an exit from the alliance planned?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Do the alliances deliver the desired results for this company?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry and Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Do you consider the Danish management consulting industry as an open and transparent sector?</td>
</tr>
<tr>
<td>10. What are the most important characteristics of a management consultant (individual consultant)?</td>
</tr>
<tr>
<td>11. Why does this company not have more employees?</td>
</tr>
<tr>
<td>12. What significance has the internal culture of this company?</td>
</tr>
</tbody>
</table>
Interview guide for companies not using of strategic alliances

In the previous interview, the company stated that it does not use alliances to any significant degree. The purpose of this follow-up interview is to clarify further details about the background of why strategic alliances are not used. Strategic alliances are defined here as cooperation with other companies where resources are combined to achieve competitive advantage.

<table>
<thead>
<tr>
<th>Strategic Alliances</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Has the company strategically decided not to enter into strategic alliances?</td>
</tr>
<tr>
<td>- If yes, please answer question 2</td>
</tr>
<tr>
<td>- If no, please answer question 3</td>
</tr>
<tr>
<td>2. What are the root causes of the decision not to establish strategic alliances with other companies?</td>
</tr>
<tr>
<td>3. Why does this company not make use of strategic alliances?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alliance Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. If you were to collaborate with other companies, which requirements would you ask for and why?</td>
</tr>
<tr>
<td>5. Where would you search for potential alliance partners?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry and Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Do you consider the Danish management consulting industry as an open and transparent sector?</td>
</tr>
<tr>
<td>7. What are the most important characteristics of a management consultant (individual consultant)?</td>
</tr>
<tr>
<td>8. Why does this company not have more employees?</td>
</tr>
<tr>
<td>9. What significance has the internal culture of this company?</td>
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</tbody>
</table>
Appendix E – Audit Trail

The Intellectual Research Audit Trail

The search for a philosophical stance
Prior to the master thesis we had only limited experience with methodology. We started out thinking that we needed to measure and quantify everything, and hence had a very positivistic approach. This perception comes from the literature that has been presented for us during our education. We did however struggle to figure out how this should be applied to a complex phenomenon such as strategic alliances where much of the key variables were unknown. In order fully explore the topic in our specific setting we soon settled on a qualitative interpretive approach. We recognized that it would not be sufficient or even useful if we tried to quantify the behaviour that leads to and influence the emergence of strategic alliances. We needed to explore the topic from within the setting we have chosen in order to analyze the topic from a position that allows for multiple interpretations.

Considering alternatives for data analysis
Grounded theory is widely applied in qualitative research due to its ability to capture individual interpretations on a topic as a basis for further exploration. This inductive approach seemed somewhat suitable in our research setting, but acknowledging that we had certain expectations and preconceptions about what we most likely would encounter when collecting the data, we needed a more flexible tool. Looking further into methodology literature, we came across Template Analysis, which is similar to grounded theory, but with a major difference that coding and analysis process is speeded up by allowing for the so called *a priori* themes. By allowing for some preconceptions in the coding process, a hybrid of deductive and inductive measures emerges. It did not seem logically to pursuit epoché. Using Template Analysis meant having a few categories or themes that would form the initial coding template and then during the actual coding of data, new themes and categories emerged and formed the final coding template for which our analysis is based.
Distillation of key information from data set

While coding tools such as Template Analysis and Nvivo 10 software, help in structuring the coding process a large portion of cognitive skills are put in to the selection of key information most useful for our specific setting and hence suitable for answering our research question. We definitely lacked experience in carrying out this type of research, thus making the process a daunting but also a very informative learning opportunity. Despite having made detailed plans and structures for our five month work we still found it hard to arrive at the intended level of quality within the timeframe. It did in many ways help us to be two students working on the same project, maybe not for the efficiency of analyzing and writing, but being able to discuss different perceptions and different approaches. We guess that we have learned more from the process than would a single student author.

The Physical Research Audit Trail

Identification of the research problem

During our education we have been presented with a number of possible theoretical themes which could be interesting for further exploration. We both agreed that a practical approach to the thesis would be more exciting that would a pure theoretical approach. Through our student job positions in different organizations we came across a question from a medium-sized strategy consultant company. The CEO asked how he should establish partnerships as a core part of his business model. We found it interesting that he had not found any answers for this in his network of business professionals, and we decided to pursue this thought further. Through a number of talks and interviews with different people within the industry of management consulting, it became clear that very little was known about how these organizations make use of inter-firm relationships. Furthermore, the people we talked to showed interest in this area as it on the surface seemed logically to use collaborative forms of governance as a tool for value creation.

First we made additional research steps in order to further narrow down our focus, and during this process it became clear that a thesis which concentrates on how strategic alliances are used in the industry of management consulting could provide useful
insights for practitioners while at the same time be very much in tune with the courses followed during our education. During the preliminary research it was discussed with industry professionals on which industry segment to apply the topic of strategic alliances. Consensus of medium-sized consultant companies as targets for our research soon formed, due to their constant struggle to increase their profits and stand out in a market that exists of thousands of very small companies and where pressure from a few large companies is present. This segment would allow us to investigate the phenomenon of strategic alliances in great depth and possibly find new knowledge which is unique for this kind of companies. Providing guidelines on when strategic alliances are useful and how the companies could make best use of this seemed to be very interesting. Therefore the aim of the research is two fold;
1. When are strategic alliances useful?
2. How can the target group make use of strategic alliances?
This leads to the following overall research question:

Under what conditions can strategic alliances help the Danish medium-sized management consultant companies overcome their key challenges?

Two questions facilitate and lead up to the answering of the above research question, namely;
What are the key challenges for the target group?
How does the target group currently make use of strategic alliances?

The research proposal
The research proposal differed slightly in its wording from the final research questions presented above. The reason was that a great deal of further research into the specific target group was necessary in order to clarify what elements would provide the greatest depth. During discussions with our academic supervisor we were able to explicate our preliminary research findings and even though our overall approach was not altered significantly, the research questions were adjusted slightly.
Reviewing the literature:
Having collected some data from our preliminary research, we began reviewing literature that would help us to understand the research setting in more depth. The focus was first to review the theoretical underpinning elements of organizations, such as coordination and collaboration mechanisms. This was done in order to draw on these fundamental building blocks further in our analysis of the behaviour of our target group in relation to strategic alliances. Next logic step was to review more specific literature on strategic alliances. Decades of research in this topic provided some useful insights into the potential benefits and pitfalls when wishing to use strategic alliances. For our specific setting with a target group of medium-sized knowledge intensive service companies not much research has been conducted.

Designing a research framework
The next step involved designing a research framework to support the collection of empirical data.
Our qualitative interpretive approach would require rich data. The research framework was built upon multiple semi structured interview from multiple sources.

The interview guide
The semi-structured interviews are the primary basis for our investigation. An initial interview guide was developed, tested in a pilot interview in order to get feedback on content and construct. This led to a subsequent refinement of the instrument.

Selection of informants
The selection of informants was based upon objective criteria, such as size, different geographical locations, industry code and access. Also subjective criteria were used during the interview process by letting referrals from sources lead us to further cases of interest. It was often difficult to evaluate the sources up front and a few interviews ended up not being useful in the final data set. However the sources chosen are all high rank business professionals that are expected to have sufficient knowledge in relation to our research topic.
Data collection

In total, 13 semi-structured interviews were conducted across 13 companies. These lasted approximately one hour and were recorded and transcribed. The interview transcriptions, independent reports, newspaper articles and website details were used in developing the analysis. However due to a very limited number of secondary resources, triangulation is made difficult, thus having a negative impact on the validity of the research. However, by having multiple sources of information from multiple locations cross identification of themes is made possible and increase the strength of the data.

Interpreting the data

Computer Aided Qualitative Data Analysis Software (CAQDAS) in the form of Nvivo 10 was used in order to handle the large amount of data in order to create meaningful clusters of coding. Nvivo 10 facilitates an iterative process, where we could come back to different parts of data for reflection and adjustments for further analysis. By such the software supported the Template Analysis approach by making the process flexible and easier to overview.