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**PARTNER PROGRAMS OF FINNISH  
SOFTWARE FIRMS**  
*-THE VIEW OF THE CORE COMPANY*

International Business  
Master's thesis

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# 1 INTRODUCTION

## 1.1 Background of the study

In a study made in 2004, signs were recognized, that the partnerships of Finnish ICT companies<sup>1</sup> may be poorly managed. (Nummela, Saarenketo & Puumalainen 2004, 285). It has been argued that managerial competence, especially in marketing, currently remains at rather a premature stage in many software companies, where technological development has traditionally been the central area of interest among the managers (Alajoutsijärvi, Mannermaa & Tikkanen 2000, 154). The 124 ICT companies that were studied by Nummela, Saarenketo and Puumalainen (2004) had created networks<sup>2</sup> mainly with companies from their own sector and not with companies offering complementary functions such as marketing channel activities. Some researchers, however, argue that networking with similar companies, may allow further focusing on the company's own field of expertise (Santangelo 2000).

With successful partnerships, it is possible for companies to expand quickly, as they gain access to resources outside their own boundaries. If a partnership is successful, the benefits may include for example complementary know-how, access to the partner's networks and other complementary services. (Varis, Kuivalainen & Saarenketo 2005, Coviello & Munro 1997). Capability to internationalize quickly is a feature that is appreciated especially in ICT and related industries, where many products have global markets from day one and where companies must get their products quickly to the market before their competitors develop similar products. One possibility to rapidly exploit the developed technology is to form marketing partnerships (Forrest 1990, 41). It has been discovered that such networks are significant in the internationalization of small software firms (Ruokonen, Nummela, Puumalainen & Saarenketo 2006). The internationalization aspect is vital for the Finnish software industry, as its growth lies abroad and the Finnish companies need international activities to reach their potential markets (Lassila, Jokinen, Nylund, Huurinainen & Kontio 2006, 4). In a quantitative study conducted among Finnish ICT firms, it was discovered that in an environment characterized by high technological uncertainty (that is, no-one knows which technology will ultimately prevail), partner orientation and positive outcomes related to expanding were positively correlated. The results suggest that for high-technology companies with limited resources alliances may be particularly effective in enhancing

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<sup>1</sup> The abbreviation ICT refers to Information and Communications Technologies, which is a "collection of technologies and applications which enable electronic processing, storing and transfer of information to a wide variety of users or clients" (Cohen, Salomon & Nijkamp 2002, 34)

<sup>2</sup> In this research paper the term 'network' refers to a set of actors and relationships that connect them, such as relationships between multiple firms that interact with each other (Ojasalo 2003b, 195). It does not refer to networks consisting of computers or devices and connections between them.

innovation or accessing complementing resources. (Varis & Sintonen 2004, 10). In the internationalization of small firms, the right partners in sales, marketing, or distribution may be crucial for success (Varis & Sintonen 2004, 4).

As firms focus, even deconstructed firms are emerging, in which the firm will focus on a subset of the value-added functions previously performed within the firm (such as manufacturing or design) and rely on partnerships with other firms to provide the remainder of the value-chain activities. (Anderson, Håkansson & Johanson 1994, 10; Buono 1997, 251). Large-scale managed networks started to emerge in the early 1990's (Achrol & Kotler 1999, 147). With partnerships firms may achieve wider diffusion of products without their own costly physical presence in the markets and be able to reduce their coordination and transaction costs that are generated when partners are constantly changed (Maheshwari, Kumar & Kumar 2006, 278). With a working partnership portfolio, it is possible to control the partnerships more effectively and get more out of them. (Zablaf, Johnston & Bellenger 2005). In order to the partner portfolio to work, companies should actively seek to create also a revenue logic that is mutually rewarding for the company itself and its partners. (Ruokonen et al. 2006). Partner programs can be helpful in alliance management: to reduce the complexity of dealing with partners, the focal firm classifies its partners in various groups and sets rules regarding the way a group of partners should be dealt with. (Duysters 1999, 182).

Partnerships have so far been studied mainly in relation to suppliers and customers. Research has concentrated around complex and fast-developing industries such as mobile phone and computer manufacturing. Only little research has been done about the software business (see Vainio 2005). Most previous partnership research has concentrated on the management problems associated with or within dyadic relationships (Hoffmann 2007, 828), and the systematic research approach to business network management is still in its infancy (Ojasalo 2004, 195). This study will contribute to this research thread.

As approximately 60% of partnerships fail, a firm's ability to develop and manage successfully its relationships with other firms may be regarded as a core competence, which varies among firms and which may be an important source of competitive advantage (Ritter, Wilkinson & Johnston 2004; Doz & Hamel 1998, 85). A partner program could help in this task.

This research will look deeper into the subject of partner programs, and study what type of programs Finnish software companies have. As partner programs are a relatively new and emerging subject, it is in place to do a mapping study of the existing partner programs.

## 1.2 Purpose and structure of the study

The purpose of this study is to examine the partner programs of Finnish software firms. This purpose is approached with the following research questions:

- 1) For what type of software companies is it reasonable to set up a partner program?
- 2) What types of partners should be included in the program?
- 3) What affects the structure of the program?
- 4) How are partner programs managed?
- 5) What benefits do companies perceive to gain with partner programs?

The viewpoint for the observation is the one of the core company in the program. Framework for the structure of this study is derived from the research issues Gulati (1998) has identified as important in his studies on social networks within business alliances. In the following table these research issues are compared side by side with the research questions for partner programs in this study.

Table 1 Comparison of Gulati's research approach to strategic alliances and the approach of this research to partner programs

<b>Gulati's (1998) research issues for strategic alliances</b>	<b>Research question in this study</b>	<b>Primary research method</b>
The formation of alliances	For what type of software companies is it reasonable to set up a partner program?	Literature review, content analysis of partner program websites
	What types of partners should be included in the program?	
The governance of alliances	What affects the structure of the program?	Literature review, content analysis of partner program websites
	How are partner programs managed?	Case interviews
The evolution of alliances and networks	How are partner programs managed?	
The performance of alliances	What benefits do companies perceive to gain with partner programs?	Case interviews, literature review
Performance advantages for firms entering alliances		

In the introduction the software product, companies and the software industry were described to help the reader understand the context of this study. As partner programs are such a new phenomenon, first the term 'partner program' is defined in the first part of the theoretical framework. Also, some explanation for the emergence of partner programs will be provided and some of its basic characteristics will be explained. When the concept of partner programs is clear, the different purposes for which a partner program would be a suitable choice in controlling its network, will be discussed. In the

third part the partner selection and screening process is explained. Several major firms are known to have categorized their partners in the program, and therefore the motivations behind such categorization will be made familiar in the fourth part of the theoretical framework. The structure of the program leads to the issue of controlling the partners, which will be discussed in the fifth part of the theory chapter. In the final part of the theoretical framework, the focus will be on the factors influencing the performance of the partner program as a whole.

The methods used in answering the research questions are briefly described in the fourth chapter. Also, the three case companies, interviewed for this study are described, as it is necessary to understand the nature of their business and sales processes for understanding the decisions they have made in their partner programs.

The results are displayed in the fifth chapter. This chapter is organized in the same order as the theoretical framework. The connections of the research questions, parts of the theoretical framework and the empirical research findings are displayed in the table below.

Table 2            Connections of the research questions, parts of theoretical framework and empirical research findings

<b>Research question</b>	<b>Chapter in the theoretical framework</b>	<b>Chapter in the empirical research findings</b>
1. For what type of software companies is it reasonable to set up a partner program?	3.2 Networking in the software industry	5.1 Suitability of a partner program
2. What types of partners should be included in the program?	3.3 Partner selection	5.2 Partner selection process
3. What affects the structure of the program?	3.4 Configuration of the program	5.3 Structure of the program
4. How are partner programs managed?	3.5 Controlling the partners	5.4 Controlling the program
5. What benefits do companies perceive to gain with partner programs?	3.6 Performance advantages of the program	5.5 Performance advantages

In the sixth chapter the conclusions of this study are presented. Once again, this chapter is organized in the same order as the research questions, theoretical framework and empirical research findings. This thesis closes with a summary, which presents the most essential theoretical and empirical findings in an abbreviated form.

This Master's thesis has received support from a research project called Global Network Management, which is a joint project between Turku School of Economics,

Lappeenranta University of Technology and Technology Business Research Center. The purpose of the project is to clarify how a company can create a successful business that is based on technology know-how and partnerships in a global environment and to transfer the best practices of networking and international growth to knowledge-intensive companies in order to enhance their competitiveness and furthermore their ability to succeed (Global Network Management: Project Description).

This study uses only the viewpoint of the core company of the partner program, and thus provides only a one-sided view of the subject. Even though some of the research questions would have required a research paper of their own, this study discusses them at a level which is sufficient for gaining a good overall picture of the subject.

## 2 FINNISH SOFTWARE INDUSTRY

In this chapter the Finnish software industry will be described. First the products and companies are described before explaining the structure of the industry. Software industry is not national by nature, but Finnish software companies are in focus in this study. Therefore the Finnish software industry as a study object is described in the fourth sub-chapter.

### 2.1 Products

In Webster's Encyclopedic Dictionary (1996, 461) software is defined as *Any of the written programs, flow charts etc including general subroutines that may be inserted in computer programs*. The range of software is wide: it stretches from subroutines meant to operate the hardware of the device to flowcharts made with other computer programs. In this study software is classified based on the demands it sets for the business operations. The offerings of the software industry can be divided roughly into three categories: software products, embedded software and customized software (Lassila et al. 2006, 16). Embedded software refers to software that has already been installed in a system and is not necessarily visible to the user, such as the software of a digital watch or a printer driver on a PC. The polar opposites in this scale are standardized products with low service content delivered to a broad range of customers, and at the other end of the scale is the system integration of corporate-wide software infrastructure. (Ruokonen 2006, 6). This continuum is displayed in the figure below.

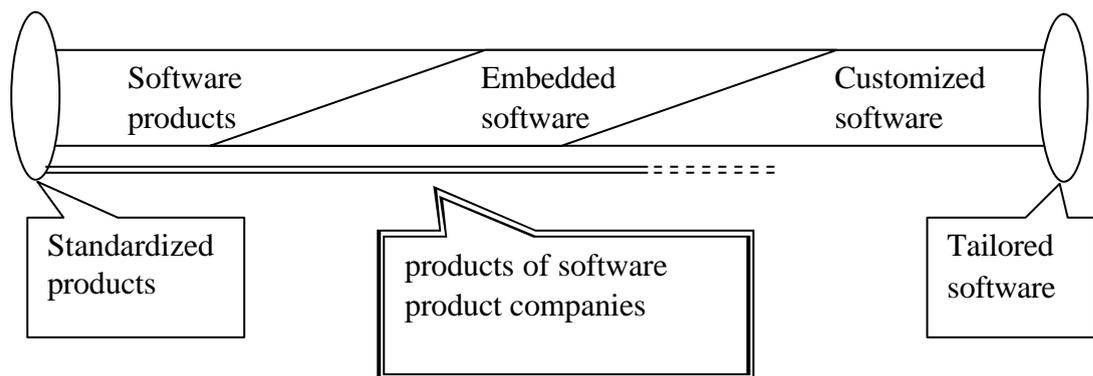


Figure 1 Offerings of the software industry

The above mentioned range of software product companies is depicted in this figure with the thin double line. Although software product business often includes services such as installation, the main object being traded is software. Pure software products are highly productized and often referred to as packed or mass market software. These kinds of products are delivered to a large number of customers in exactly the same

format, without any tailoring according to customer needs. (Kuitunen, Jokinen, Lassila, Mäkelä, Huurinainen, Maula, Ahokas & Kontio 2005, 7). A big difference between software industry and other industries is that software often has no physical form and thus requires almost no manufacturing, where as in other industries partnerships are often built with manufacturing companies and partnerships are often controlled by material-related issues.

Information or digital products such as software have unique cost characteristics which differ a great deal from those of a physical product. A digital product is typically expensive to produce, but very cheap to reproduce. (Kulmala & Uusi-Rauva 2005, 176). The designing of software is done by hand and only very little automation is possible in the designing process: the code has to be written by a person. Some parts of the code that perform some overall function may be reusable in other programs. This somewhat reduces the labor intensity of the designing of the program. (Rao & Klein 1994, 32). The costs related to producing the first copy are often fixed and sunk. If the software product is a failure, the labor costs as well as all other costs cannot be recovered (Rajala et al. 2001, 21). However, parts of the design may even be used in other software products.

Software implementation almost always requires servicing. The software program as itself is often only a part of a working solution –the pre-sales and after-sales services such as implementation, training, hosting and product upgrades make the solution whole. (Rajala, Rossi, Tuunainen & Korri 2001, 48)

It has to be noted, however, that more and more often software is delivered as a service (Lassila et al. 2006). This means that the software is not installed to the systems of the client or user, but it is ran online instead. This method is faster and cheaper to implement than traditional software. (Hazard 2006, 24). Software as a service (SaaS) blurs even further the thin line between software and service.

Software is not evaluated on the basis of what it is, but on the basis of what it can do. It is an experience good. (Ahokas 2007). Other distinguishing features of the software industry are that software is coded information, which has no material form, and thus an equipment of some sort is always required to handle the software. (Ahokas 2007). The device does not necessarily have to be a computer; almost all electronic devices have software of some sort in them.

## **2.2 Software companies**

Finnish software companies are on average 11 years old and they are currently profitable by 5,6%. Most of the companies are small or medium sized, 41% of them have less than 5 employees. However, most of the people working in the industry are working in large companies. Finnish software companies are international; on average they have foreign activities in 10 countries. The companies are owned mainly by the

founders and their family members. The development of international products, activities, procedures and networks are the most important improvement areas for the companies at the moment. (Rönkkö, Eloranta, Mustaniemi, Mutanen, Kontio 2007a)

There have been a large number of mergers and acquisitions during recent years. Some analysts regard this consolidation as a sign of a maturing industry. Perhaps the most important reason for software companies to merge is to achieve higher rates of growth. In the 1990's software companies showed high growth rates, but the economic slowdown and the existence of too many software companies has dramatically cut growth. The quickest way for companies to grow is by acquiring other software firms. (Gao & Iyer 2006, 120).

In recent years, software companies have been faced with the globalization of competition, increased pace of innovations and fragmented customer needs. In responding to these challenges, companies have focused on their core competencies, which in turn have required more network-intensive business behavior. As companies specialize, they need to acquire knowledge outside of their own area of expertise in order to create and deliver value propositions to their customers. (Rajala & Westerlund 2007, 115) Due to networking, some software firms are able to grow and survive despite the lack of significant firm-specific resources. (Vainio 2005, 1080).

There is an extremely wide variety of ways of conducting business in the software industry. Rajala and Westerlund classified these ways in their study to four main categories based on the level of homogeneity of offering and the degree of involvement in customer relationships. (2007, 120). This division is displayed in the figure below.

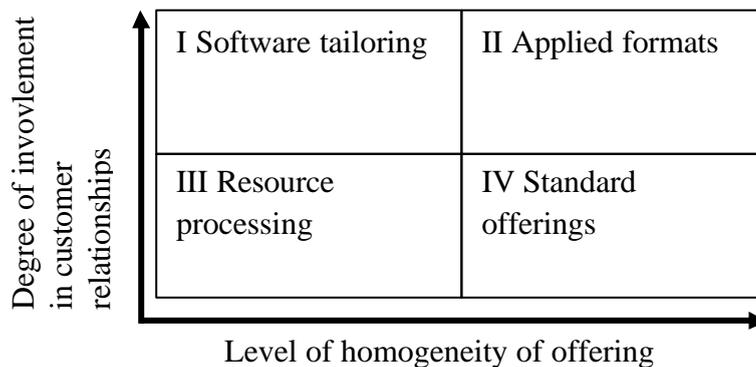


Figure 2 Classification scheme for identifying different types of business models (Rajala & Westerlund 2007, 122)

The type I business model is described as software tailoring. In this category, customer relationships are based on close collaboration between the software vendor and the clients, and typical value realization consists of direct consultation for the most part. (Rajala & Westerlund 2007, 120). Examples of software business in this category include IT consulting firms and tailored software providers.

The second type of business models is called Applied formats. The offerings are typically based on a core solution that does not vary from one client to another, but it is always modified to customers by adding modular components. The modification is sometimes carried out by value-adding resellers acting as software integrators of the systems solution. (Rajala & Westerlund 2007, 120). An enterprise resource planning systems provider such as SAP would be a typical example from this category.

The type III models are labeled as resource provisioning. In this class, the typical product or service offering is typically semi-finished and based on a set of components, middleware or a product platform. Examples of companies from this category could be game component providers. (Rajala & Westerlund 2007, 120).

The fourth type –Standard offerings– is the type of software business that is most familiar to the public. The product is standardized and the also online services fall to this category. Commercial off-the-shelf software providers and software-as-a-service providers would be the most typical companies from this category. (Rajala & Westerlund 2007, 120).

These four categories are displayed in the table below for easy comparison.

Table 3 Key characteristics of the diverse types of business models (Adapted from Rajala & Westerlund 2007, 121-122)

Business model type	<b>I Software tailoring</b>	<b>II Applied formats</b>	<b>III Resource provisioning</b>	<b>IV Standard offerings</b>
Nature of offering	Based on tailored, customer specific solutions	Embodied customized solutions, based on a uniform core of several solutions or separate modules	Based on a set of components, middleware or a product platform	Offerings are based on a uniform core product, a modular product family or standardized online service
Customer relationship construct	One-off production in close relationships	Through value-adding resellers	Through an internal hierarchy	Through a wide distribution network including online distribution
External assets	Management procedures and systems	Software-deployment networks	Operating facilities	Distribution networks

This division of software business models clearly display, that service is connected with the software in most of the business models. Only if the product is completely standardized, it may be able to stand alone without services. But even in that case the providing software company needs retail partners, unless the software is sold online from the website. The service-dimension of software has its roots in the basic qualities

of software: the software does not have material form, it is an experience good and evaluated by what it can do instead of what it is (unlike for example jewelry). Software is coded information, and the coding can take place as late as at the keyboard of the end-user when an IT-professional performs his duties.

Some business models require and enable more extensive networking than others. Clearly the degree of customer involvement and the nature of the product in terms of the additional services or products it requires affect networking possibilities. Products which require a high level of client-specific adaptation are more likely to be sold by the original manufacturer and not through intermediaries. (Burgel & Murray 2000, 53)

Rajala and Westerlund did not study the networking of the companies in the product development or in other parts of the business; they focused solely on partnering in the distribution channels. In the channel the possibilities and the necessity to network increases as the company is able to reduce the degree of involvement in their customer relationships allowing middlemen to come in, and as their offering is more standardized enabling the product to be offered to larger and larger masses of customers. The increasing possibility to network in the channel is displayed in the below figure with the grey arrow.

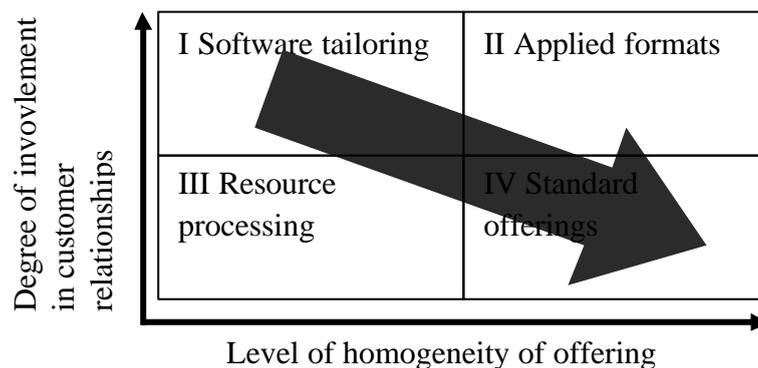


Figure 3 Increasing networking possibilities in the classification scheme of Rajala & Westerlund (Adapted from Rajala & Westerlund 2007, 120).

The networking inside and outside the software industry is discussed further in the following chapter.

### 2.3 Structure of the industry

The structure of the software industry is explained here in a level of detail, which allows the reader to form a picture of the variety of different types of business model alternatives a software firm has available. A more precise description of the subject is not necessary for the understanding of partner programs as the situations of each software company differs a great deal from that of the others. Furthermore, new

business models are emerging as new ways to collect revenue are invented and old ways are being combined in a new way.

In the previous chapter the business models in the software industry were divided into four classes based on their level of homogeneity of offering and the degree of involvement in customer relationships. Here the business models are divided into two based on their revenue collection method: into direct and indirect models. In direct models, revenue is collected straight from the user of the software, in indirect models the revenue is collected either from a third party, or value is created to the company by some other means (Rajala et al. 2001, 43). The indirect models usually include building up a sales channel and partnering along the supply chain. Different channel partners can be agents, dealers, distributors, republishers, resellers or retail outlets. Also integrators and complementary technology partners may be regarded as channel partners. Of the above mentioned partner types republishers require some further explanation. Republishers typically contract for taking the vendor's product, localize it (where necessary), rebadge it with their own branding as part of their product portfolio, and then handle all sales and implementing activities from there on. (Rajala 2001, 48).

Software market differs a great deal from conventional markets. The existence of network effects, the idea that a product's valuation is higher because of larger installed bases of consumers, is a reason for managers to make significant effort in expanding markets. In network-type industries such as software, two or more components made by different manufacturers using different technologies may have to be able to work together and systems have to be inter-operable. Within the software industry, companies create products that operate with complementary products or components from other companies and this way deliver more business value. Compatibility is an important issue also to the users. The number of network users reflects long-term stability, and consumers prefer firms and products which have large installed bases. (Gao and Iyer 2006, 121). This creates ground for extensive networking within the software industry and with adjacent industries. Partnering is important for the success of software products because they create interdependencies and synergies extending the effectiveness of partners (Vainio 2005, 1078). Both the number of partnerships and the average value per partnership have been increasing steadily (Vainio 2005, 1079).

A variety of marketing channels is used in the software industry (Varis et al. 2005). The sales channel from the software producer to the end user can have several middlemen. (Möller & Halinen 1999, 61) This makes the question arise of who owns the customer and who is the leading, dominant actor in the process. One listing of possible different actors is depicted in the following table 4.

In a study made in 2005 on partnering of Finnish software firms, it was found that the nine case companies had a total of 36 different types of relationships. (Vainio 2005, 1083). This gives a good picture of how essential networking is in the software business. The software is often only a part of a complete solution, where services fill most of the rest of the solution. Some of the channel partner arrangements used in

software business are focused on the servicing co-operation in order to deliver a complete solution. (Rajala et al. 2001, 49). As there are often many middlemen involved in the sales channel, value-chain innovations are often based on cutting some of the middlemen off (Möller & Halinen 1999, 61).

Table 4 Possible roles for different actors (potential partners) in marketing software product (Varis, Kuivalainen & Saarenketo 2005, 24)

<b><i>Resource (i.e. actor or “player”)</i></b>	<b><i>Primary Function</i></b>	<b><i>Role in International Marketing (&amp; Distribution)</i></b>
System integrator	Provides consultation for the end-users (defines their needs) and designs custom solutions.	Should know your product, should be trained and educated
Solution provider	Provides solutions, work is based on the end-user’s definition of needs	Should know your product, but you should also market it to potential end-users (they need to know your product and to ask for it)
(Value added) Reseller (VAR)	Provides products with configuration and integration; turn-key projects	Effective channel, if good partners can be found
Volume distributor	Distributor in the chain, mostly used for packaged goods/software products	See above
Retailer	Business front –end sales partner	Might be able to bring in more sales from new markets. The length of the chain increases, hopefully also sales
Sales agent/representative	Third-party software vendor, revenues based on fees from the actual sales	Might be useful in distant markets in which one’s own presence is not useful/profitable
Independent software vendor	Software provider without contractual relationship with you	Usable for packaged software (i.e. software products)
Influencer, consultant etc	Companies that comment, evaluate, and give guidance and advice to end-users	Useful and important especially in the case of systemic software (e.g. extra application of electronic resource planning systems)
OEM (Original Equipment Manufacturer)	Normally provides one privately labeled product	Easy way to get your products onto the international market. However, this does not develop your own brand (potentially risky)

## 2.4 Software industry as a study object

Statistics Finland has placed software industry in its Standard Industrial Classification in the year 2002 under real estate; renting and business activities, in category Computer and related activities in class 7221 Software production and supply. (Standard Industrial Classification 2000). In order to be included to this class, a company should sell software as a manufacturer or develop, tailor, analyze, realize or design computer systems according to customer's demands. Tailoring of readymade programs to customer needs is in this class also, as well as the maintenance activities of software. (Toimialaluokitus 2000). The variety of firms in this class is very wide, and the industrial classification does not tell precisely in what business the company is. This study focuses on software product companies, companies that design their own software, productize it and sell it to customers. Companies of this type do not have any industrial classification of their own, the class 7221 includes also other companies than just software companies, and on the other hand software companies may list themselves also under other classes if they see it more suitable. The software product business can be defined as

*(...)business, which is based on selling software owned by the company either as licenses or as services, and all other services which are tightly linked to this business.*

(Rönkkö, Eloranta, Mustaniemi, Mutanen, Kontio 2007b)

Some statistics of firms of this type is however available, gathered by the Centre of Expertise for Software Product Business. (Kuitunen et al. 2005, 2). For practical reasons, the software product companies to be studied in this research were selected from the class 7221 using the conditions and limitations described later on.

In 2004 the turnover of the Finnish software product sector was 1.19 billion Euros, of which the international sales were 405 million euros (34%). In 2004 the profitability (2,2%) and employment —12 400 software professionals— grew. According to the Center of Expertise for Software Product Business, there were approximately 1100 Finnish software product companies. (Kuitunen et al. 2005, 6).

In Finland the software industry is still relatively small although it grew rapidly during the 1990's. The companies are still mainly owned by their founders and their family members, with only little external or foreign ownership. (Kuitunen et al. 2005, 2). European companies have lagged behind the U.S. firms in the packaged software segment, due, e.g., to small and diverse home markets and low degree of productization and internationalization. This has been true also in the case of Finnish companies. The trend, however, seems to be towards greater degrees of both productization and internationalization, i.e., from customized software developed for local markets towards mass-market software intended for international distribution. (Kuitunen et al. 2005, 4) This could create emerging need also for partner programs as a method of controlling sales channels.

The software industry is an interesting object to study. The industry changes rapidly, which heightens the importance of the timeliness of the study. The industry is global by nature, and therefore limiting the study to companies originating from one single nation may seem artificial. The companies found in Finland are mainly small when measured at international scale, there are only few large world-class software companies originating from Finland. Some individual smaller companies are leaders in their own niche segment.

The value chain can be very fragmented in the software business. Starting a software business requires only very little investment; any capable person with a laptop computer can start a business. The variety of companies and the variety of business models make it challenging to classify the companies and to define the position they possess in their networks.

### 3 THEORETICAL FRAMEWORK

In this chapter the theoretical framework of the study is presented. First the most central concepts are defined, and after this the framework is presented in the same order as the research questions.

#### 3.1 Defining a partner program

In this chapter the concept of partner program will be constituted. In order to do this, first the concepts of partnership and network environment of a company will be depicted. Partnerships have been studied extremely widely through the years, but partner programs as such are a relatively new subject, and no comprehensive descriptions of it were available ready at the time this Master's thesis was written. Naturally, most of partner management theories are applicable to partner programs also.

Partnership as a term is used widely (for a variety of definitions, see e.g. Winicur 1993). Mohr and Spekman (1994) have defined partnerships as *“purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence”*, whereas other researchers give up in front of various definitions and define a partnership to be *“any interorganizational relationship, such as an alliance, consortium, joint venture and so on.”* (Banks 2006, 262). Different researchers and different companies use the term partnership differently, and therefore the latter definition of partnership is more suitable for the purposes of this research.

The formation of alliances and partnerships is motivated primarily to gain competitive advantage in the marketplace, as partners join efforts to achieve goals that each firm acting alone could not attain easily. (Mohr & Spekman 1994, 135). Partnerships are most often bilateral. Partnerships are one form of relationships, and partnerships – just as ordinary relationships – are the building blocks of networks. Partnerships may have different depths. There is variety in the relational configurations between discrete or even anonym market transactions and relational exchanges. Based on the markets and hierarchies –continuum first presented by Coase in 1937, Gundlach and Murphy (1993, 37) provide a classification scheme that arrays midrange relationship configurations and organizes them into four broad categories: 1) Contractual exchange, 2) Interparty systems 3) Transparty systems and 4) Joint ventures. This scheme is pictured in the figure on the following page. The scope of partner programs has been marked to this continuum with a grey polygon, and it will be explained in more detail after the figure.

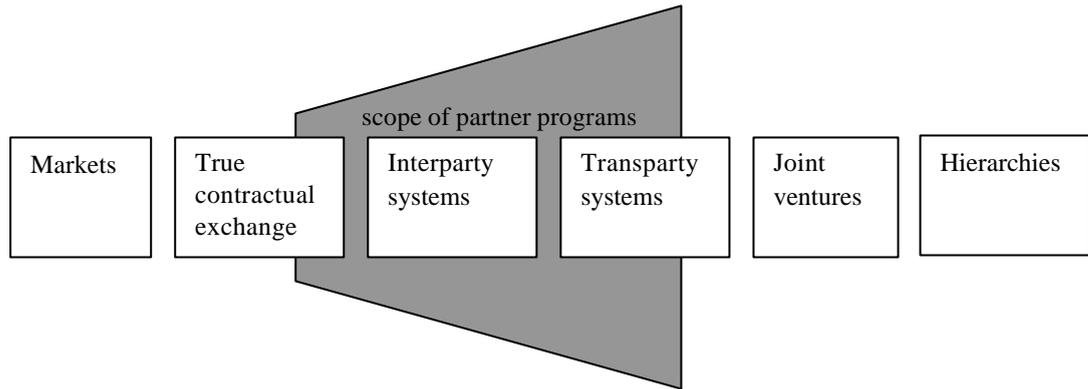


Figure 4 Continuum of the exchange and the scope of partner programs (adapted from Gundlach and Murphy 1993)

Relationships between firms are often compared to marriages. If the continuum of exchange is compared to a marriage, the *markets* end of the continuum would be comparable to one-night relationships, whereas the *hierarchy* end would be comparable to a stable and long-lasting marriage. True contractual exchange is close to market exchange. They differ mainly in terms of the duration of the contact with the other party. Interparty systems involve traditional boundary spanning (e.g. buying and selling) and coordination, such as licensing, franchising and traditional channel relationships. Transparty systems equal strategic partnering, which are interfirm cooperative arrangements aimed at achieving the strategic objectives of the partners (Das & Teng 1998, 23). Here interorganizational penetration takes place through coordination, liaison and decision-making linkages. The category of joint ventures adds equity bonding to the previous category. The companies invest money to a third company created specifically for the purpose. The end of the continuum is to be hierarchically organized and completely bound up with the other party, as for example mother and daughter companies. (Bardzil & Johnston 1997, 110-111). On this continuum, partner program is situated between contractual exchange and deep strategic alliances as depicted by the grey polygon in the figure above. Deep strategic alliances and joint ventures are of so unique nature and of so high importance to the core company that they are most likely handled separately and not in bundles.

A partner program is an organized way to group different dyadic relationships together. The core company classifies its partners in various groups with the benefit of reducing complexity. It sets rules regarding the way a group of partners should be dealt with. (Duysters 1999, 182). Building a partner program requires a good capability to plan and implement the partner management process so well that it can be repeated endlessly without significant new input. It also requires well planned support to the partners and a clear purpose and a reason for existence. (Ahokas 2007). With a partner

program a company tries to create a powerful and strong network of its own and most likely to become the core company so that it has the capability to control the network. This issue will be discussed in more detail in the chapter 3.5 Controlling the partners.

A partner program is a part of the core company's network. It includes most but probably not all of the partners from the partner portfolio of the core company. This will be discussed in more detail in the following chapter. The relations of the concepts of network, partner portfolio and partner program are displayed in the figure below.

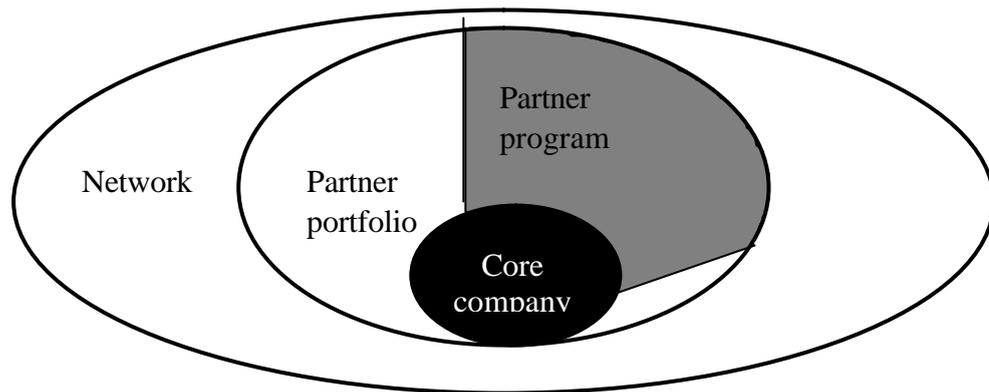


Figure 5 The relations of network, partner portfolio and partner program

As mentioned above, the focal firm classifies its partners in various groups (Duysters 1999, 182). For this to be possible, there have to be *numerous partners* to be categorized or organized. Another significant feature of partner program is that it is public, meaning that the partner companies know what their role in the network is, and they know what needs to be done in order to move from one group or level to another. This separates a partner program from an internally used tool to classify partners without the partners even knowing they are being included in a program.

For the purposes of this study, partner program is defined as *published partnership activity, in which the partnerships are handled mainly in a standardized manner in groups and not as individual cases*. Numerous partners are divided in different categories on the basis of the functions they provide or on the level of partnership they possess. Partner program helps the core company to control and navigate in its network environment. In the following chapter the network environment of Finnish software companies will be discussed.

### 3.2 Networking in the software industry

In the previous chapter the border terms of partner programs were defined. There has to be more than a handful of partners, and it has to be possible to handle the partners in a standardized manner rather than as individual cases. What was not defined, however, was for which purposes and functions a partner program may be set up. It is clear, that a

partner program is not suitable for all partnerships or network environments of companies. Similarly, the prevailing circumstances have an effect in the structuring and management of the program. In this chapter the networking environment of software companies is approached first through network theories and after that through previous research on the subject.

### ***3.2.1 Levels of network management***

Partner programs operate between the core company and its surrounding corporate environment, and therefore it is one part of the firm's network. Möller and Halinen (1999) have created a model of levels of network management to better distinguish and analyze networks. This model comprises of four levels, which are described in the following table alongside with the level's resonance to partner program.

Table 5 Network model by Möller and Halinen (1999) and its resonance to partner program

<b><i>Level</i></b>	<b><i>Consists of</i></b>	<b><i>Resonance to partner program</i></b>
1. Industries as networks	The whole industry as a network	Positioning the program in the industry
2. Firm in a network	Actors within the firms network horizon	Basis for possible partners
3. Managing relationship portfolios	Actors in exchange relationship with the focal company	The scope of the partner program, companies within the program
4. Exchange relationships – Relationship management	Single relationships	Part of the program

The first level in the model is called Industries as networks. At this level the whole industry is regarded as one big network. It depicts industries through three key constructs: actors, resources and activities. In this case the actors do not have to be firms; instead, they can be any type of organization or even an individual who is relevant for understanding the network. Network is a configuration of actors carrying out value activities, and it forms the environment the firm is embedded in. (Möller & Halinen 1999, 418).

The second observation level is called Firm in a network. Here it may be observed how a company navigates in the network. What roles and positions it maintains and how the firm creates, defends and changes its position within the network. From the perspective of a single firm, a focal net consists of those actors the management perceives relevant, that are within its network horizon. Positions are created through business relationships. (Möller & Halinen 1999, 418).

When the focus is narrowed further from this observation level, the third level, which is named *Managing relationship portfolios* in the model of Möller and Halinen, becomes visible. Operationally, it is useful to create a partner portfolio; the “right” mix of partners who do not compete directly with each other (Buono 1997, 264). The firm is regarded as a nexus of resources in context of exchange relationships with other companies. The focal company must decide which of these activities are carried out internally and which through different types of exchange relationships. The subject of this research –partner program– operates within relationship portfolio and thus this level is the one where this research will concentrate on. At this level the key managerial challenges are how to develop an optimal portfolio of exchange relationships, and how to manage it. (Möller & Halinen 1999, 419).

The fourth level of networks focuses on the management of individual dyadic relationship. This is the basic unit of analysis in interaction and network theory. (Möller & Halinen 1999). As the model demonstrates, all companies operate in a network of some sort. Partner program does not help the management of all networks relationships (at levels 1 & 2), but it is of assistance in managing the portfolio of established partner relationships. Partnership can be divided according to two main partnering directions, which will be discussed in the following chapter.

### ***3.2.2 Horizontal and vertical networking***

The broad definition of Mohr and Spekman (1994) displayed earlier does not separate the direction of the partnership: whether it is a vertical or a horizontal relationship, or for what purpose this partnership is. There are general subjects that are relevant to all partnerships, but partnering to different directions necessitates more precise segmentation of partnerships and the theories relevant to it. A partnership with a retailing partner has many different characteristics than a partnership with a technology partnership formed to develop new products. The different directions of partnering are depicted in the figure on the following page.

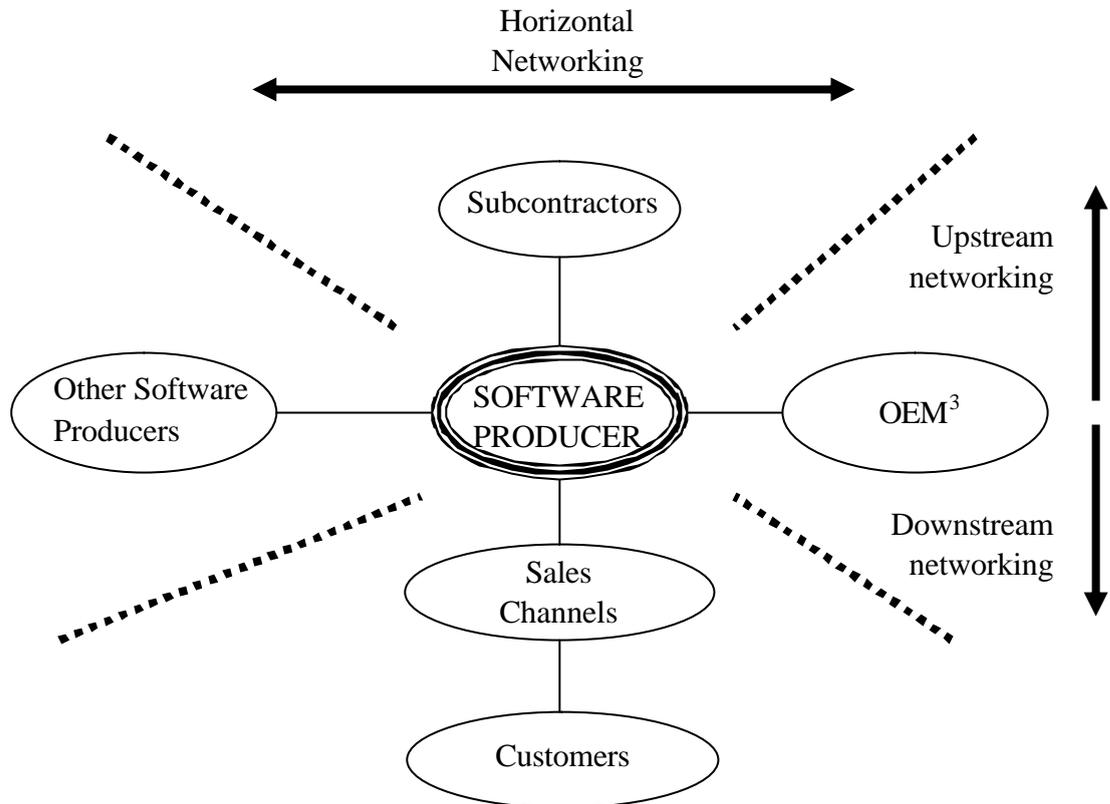


Figure 6 Networking directions of a software company

The theory creation for partnering has evolved according to the abovementioned directions. Partnering can be done either vertically or horizontally. Horizontal partnerships are formed among companies wishing to solve a common marketing problem, to improve the efficiency of production or to exploit a market opportunity through resource mobilization or sharing. (Vainio 2005, 1080). Such networks efficiently promote, modify and move goods to markets. Networks may also include vertical partnerships among channel participants aiming at a solution for marketing problems, improved production efficiency, or the exploitation of market opportunities. Vertical partnerships may stretch also upstream in the channel. In such cases the narrower definition of value-adding partnership by Johnston and Lawrence (1988, 98) may be considered applicable: *“a set of independent companies that work closely together to manage the flow of goods and services along the value-added chain”*.

Horizontal partnering is common at the production stage of the product. The growing technological interrelatedness and the growing need to acquire capabilities in related fields have led to an increased technological co-operation in the ICT sector (Santangelo 2000, 1015). Other explanations for the increased technology partnering are the rapid

<sup>3</sup> OEM refers to Original Equipment Manufacturer, a company that manufactures electronic devices which may be included in other devices and re-branded by other companies.

changes in the technological development, the complexities and uncertainties surrounding technological development and the necessity for large firms to monitor a wide array of technologies (Varis, Kuivalainen & Saarenketo 2005, 20). This drives technology partnering also in the software industry, as it faces the same kinds of rapid technological changes and the companies have a need to monitor the surrounding technological development.

Vertical networking is common in networking downstream, along the sales channels. Global competition is motivating firms to see innovative ways of entering new markets. Further, many firms (especially those in knowledge intensive sectors like software development) find that marketing strategies based on pricing, product differentiation or advertising do not yield long-term sustainable advantages in global markets. Thus, channels have become a strategic focus for foreign market entry (McNaughton 2002, 190). To this purpose also partner programs have a possibility to contribute to as well, as they enable the core companies to control a large number of partners.

As different relationships can be for different purposes, so can the networks formed of these relationships be for different purposes. Achrol and Kotler (1999) have identified four different types of networks: internal, vertical, intermarket, and opportunity networks. The model will be explained after the figure explaining its connection to previously presented models. The classification of Achrol and Kotler (1999) is different from the classification made by Möller and Halinen (1999), which was explained on page 24. These two models complement each other, as the model by Achrol and Kotler (1999) can be used to give further insight to the Managing Relationship Portfolios –level in the model by Möller and Halinen. The market-hierarchy continuum connects to the network model by Möller & Halinen at the Exchange Relationships –level, as it explains the depth of individual relationships. The markets-hierarchy continuum was displayed earlier in this study in figure 4 ‘Continuum of the exchange and the scope of partner programs’ on page 21. The connections of these three theories are depicted in the figure on the following page.

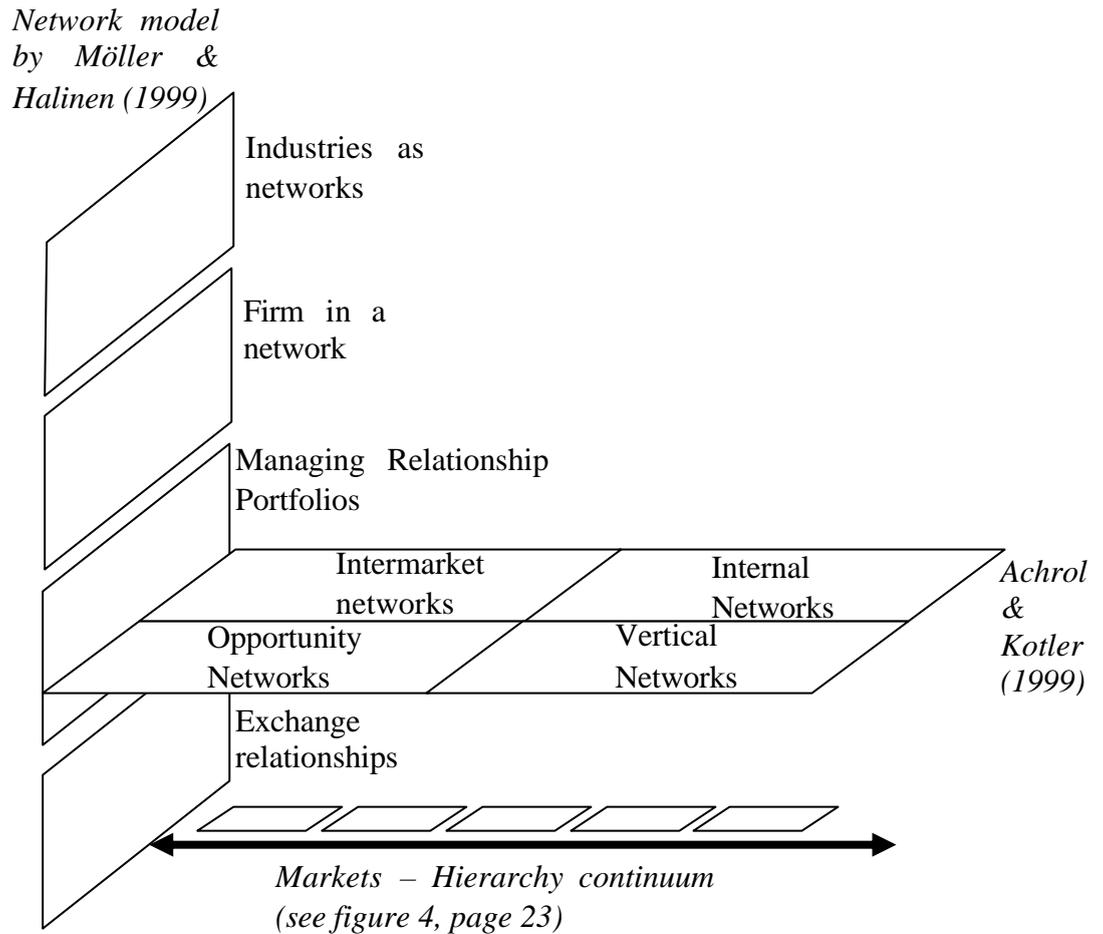


Figure 7 Connections between the parts of the theoretical framework

According to the model by Achrol and Kotler (1999), internal networks are designed to reduce hierarchy within the company and open firms more to their environments. Vertical networks maximize the productivity of serially dependent functions by creating partnerships among interdependent skill-specialized firms. Partner programs are built as vertical networks. The network firms are smaller companies focused on core technologies and functions. Achrol and Kotler argue that marketing plays a focal role in the organization and management of vertical networks. The marketing integrator will develop conventional strengths in customer research, forecasting and pricing, distribution, advertising and promotion. Because the network members are highly specialized and interdependent and there is no hierarchical authority, the burden rests on marketing managers to organize information and resource flows, coordinate decisions and activities, expand opportunities for network members and nurture the social culture of the network. (Achrol & Kotler 1999, 153).

In this model the intermarket networks seek to leverage horizontal synergies across industries. Opportunity networks are organized around customer needs and market opportunities and are designed to search for the best solutions for a single business case –to be able to grab the opportunity. (Achrol & Kotler 1999, 148). A network managed

through a partner program may have characteristics of all these networks. We are most interested in partner programs built as vertical networks, as it is the most common type of partner programs and because such networks provide the best help for internationalization which is of crucial importance for Finnish software companies as described in the first chapter.

### ***3.2.3 Studies about networking***

In this chapter some results from previous research relating to the research objectives of this study will be presented.

Bell (1995) noticed in his research on Finnish, Norwegian and Irish software firms that firms which sell highly customized products almost exclusively relied on direct exporting without sales channel intermediaries (Bell 1995, 68). This result is further supported by the results Burgel and Murray (2000) received from their studies on high-technology intensive firms. They found that not only do companies selling customized products rely on their own sales forces more, but if they have involved intermediaries these are excluded during the sales process. Products which require a high level of client-specific adaptation are more likely to be sold by the original manufacturer and not through intermediaries. (Burgel & Murray 2000, 53). These results would indicate that companies selling customized software would not use partnering excessively in their sales channel and therefore would not need a partner program for their sales.

In the same study Bell (1995), found out that having external agents or distributors was the most common channel of exports for Finnish software companies. (Bell 1995, 68). Nine years later a study made in the Finnish infocom<sup>4</sup> sector found that almost 80% of the companies that answered the questionnaire were seeking new partners for sales and marketing purposes to large or extreme extent and 75% for distribution and reselling. (Varis, Virolainen & Puumalainen 2004, 121). When the infocom companies were asked what kind of capabilities they seek from partners, they answered as follows: over 80% seek customer relations, contacts and network connections. Contacts to distribution channels were sought by over 70% and about 56% sought international expertise. The seeking of new marketing capabilities was not however connected to how good or weak the companies considered their own marketing capabilities. This may be partially explained by the fact that companies already had some complementary partnerships in those areas. (Varis et al. 2004). The infocom market may be characterized as technology intensive, competitive and volatile. The firms of interest in the study in question were characterized as small and medium-sized Finnish companies providing value added services in the infocom sector. These included content and

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<sup>4</sup> The term infocom industry covers the converging markets of Information and Communication Technology (ICT) and the media industry. (Varis et al. 2004).

software providers for service platforms and management systems connected to telecommunications, both mobile and fixed. (Varis et al. 2004, 120-121). The target industry of the study resembles and partially also includes Finnish software industry, and therefore we may presume that the findings are to some extent transferable to the population of this study. Thus it may be expected, that Finnish software companies would network mainly downstream along the value chain.

Analyses of firm linkages have shown that customers and suppliers are the two most important types of linkages possessed by innovative firms. (Segelod & Jordan 2004, 9). Therefore it seems interesting that software companies would include middlemen in their sales channels as suggested by the above mentioned research by Varis et al. (2004). When it comes to software firms, customer linkages are overall the most important type of linkage, presumably due to the fact that software has to be developed in close cooperation with the users as product requirements can rarely be specified at the outset. The observation that suppliers seem to be relatively less important in software development, than in other industries, can be explained by the fact that suppliers do not adjust their hardware or software to the new software for which it will be used. The hardware is taken for granted and combined with older parts of software, in close cooperation with the users. This makes customer linkages more, and supplier linkages less, important than in most other industries. (Segelod & Jordan 2004, 9).

In the software industry firms often make a product and service offerings together and therefore it is more useful to observe and analyze networks of firms instead of individual firms (Rajala et al. 2001, 8). In a survey, which was conducted among ICT companies towards the end of 1999 and the beginning of 2000, partnerships were defined as close and long-term co-operative relations, which aim at the commercial advantage of both parties (Varis & Sintonen 2004, 2). As software industry is included in the ICT-sector (Cohen 2002, 34), the results of this study give a hint of what can be expected from partnering in the software industry. Altogether 493 ICT companies were asked about their partnering relations. This study showed that that the number of partnering relations was high in the ICT sector, as 49% of the companies that responded had partnering relations. Most of the partnerships were related to product development (61%) or sales activities (53%). Among partnering companies were usually customers (55%), resellers (37%) and suppliers (36%). Nearly half (47%) of the companies considered that their partnerships had strategic importance. 75% of the companies saw that they would need partnerships in the future, 60% of the companies sought partnerships for sales and 43% for internationalization. (Varis & Virolainen 2000, according to Varis & Sintonen 2004, 2). These results are supported by a study made by Lavie on 367 firms operating in the U.S. software industry. This study found out that marketing and financial resources of partners enhance the firm's market performance (Lavie 2007, 1205), but technology and human network resources fell short of creating value, probably because software firms already specialize in the development of intellectual property based on their own technology and human assets.

Based on previous research on software and related industries it may be concluded that software companies are most likely to network downstream and seek support for their marketing and distribution activities from their partners. In the following chapter the selection of these partners is discussed.

### **3.3 Partner selection**

Partner selection is one of the most critical tasks in the establishment of alliances and the right choice of partner has been identified as a precondition for alliance success (Varis & Conn 2002, 1). There is still a limited amount of research regarding partner selection in dynamic markets such as software where products are mostly intangible and where competences and knowledge are most often tacit. (Varis et al 2005, 21). Still, there are some conformities which are universal to partner selection.

Geringer (1991) has distinguished two categories of partner selection criteria. Nearly a limitless range of alternative and complementary criteria exists, but it is possible to simplify the analysis by distinguishing between certain broad categories. A selection of possible criteria is displayed in the appendices. The categories that Geringer has identified are task-related criteria and partner related criteria. Task related criteria refer to those associated with the operational skills and resources the venture requires for competitiveness (also Ojasalo 2004, 199). Partner related criteria refer to the criteria associated with the efficiency and effectiveness of the partner's co-operation, and the suitability of the partner. (Geringer 1991, 45; Maheshawari et al. 2006, 283). Suitability in political, cultural, organizational and human aspects of the partnering organizations makes a partnership feasible and drives its potential economic gains (Maheshawari et al. 2006, 285).

In the network perspective the individual alliances need to be managed as being part of a portfolio of alliances (as demonstrated earlier by the network model of Möller & Halinen 1999). This has consequences also for partner selection. Traditional partner selection focuses on researching the fit between two parties. In the network this bilateral fit remains important, it is however not sufficient and the fit into the alliance portfolio should be regarded as well. The question in this respect is whether a prospective partner improves the mix of the network. (Duysters 1999, 184). Categorization of partner selection criteria for partner programs is displayed in the table on the following page.

Table 6 Categorization of partner selection criteria

<i>Category</i>	<i>Example criterion</i>
Skills and resources	Potential of the personnel
Efficiency of co-operation	Complementing network Cultural fit
Strategic positioning	Target markets and industry focus
Fit to the partner program	Overlapping with previous partners at the markets

The different criteria may be weighed to suit the focal company's desires and needs, thus forming a balanced scorecard to guide the decision making process. (Varis et al. 2005, 30; Cavusgil, Yeoh & Mitri 1995, 302). In partner selection process compatibility and commitment are emphasized. The importance of different partner selection criteria depends on the context, and one all-fitting configuration may not be constituted (Varis et al. 2005, 22).

As it is within the stock market, previous performance does not guarantee future success. Occasionally, a successful partnership can be derailed by an external event or changing external conditions such as recession. (Maheshawari et al. 2006, 283). The future possibilities should also be evaluated, as relationships and network-specific assets learned and developed over time are what create a competitive advantage for the partnering firms (Ojasalo 2004, 199). Optimal partnership success can be dynamic: what is possible for a partnership to achieve may change over time as business conditions change (Maheshawari et al. 2006, 282). Just as with customers, there are also allies that are just not worth having. The allies may for example be unreliable and late with deliveries, offer inferior or variable quality or they may demand too high prices for their services or not pay a fair economic price. (Zolkiewski & Turnbull, 2002).

In instances where firms independently initiate new alliances, they often turn to their existing relationships first for potential partners or seek referrals from them on potential partners (Gulati 1998, 294). Firms are likely to search for and be sought by partners that are known to them through some channels. One ground breaking prerequisite for partner seeking is that there should be resource and capability complementarities (Wilkinson, Young, Freytag 2005, 669). In their studies on partner selection Wilkinson et al. (2005) found that firms are most often in relationships with those that are similarly or complementarily positioned in the market. In other words the characteristics of firms forming relations are not randomly matched but result from a process of assortative mating. Similar firms operating in similar ways in similar market positions are more likely to notice each other. (Wilkinson et al. 2005, 677). Another study, made on software companies operating in the U.S., found that technology and human network resources fell short of creating value for the partnering companies, as software companies most often already specialize the development of intellectual property based

on their technology and human assets. (Lavie 2007). Thus, it would seem that resource complementarities bring about the greatest rents. The seeking of complementarities does not necessarily mean that the core company would perceive their own ability to handle the function in question to be inferior. This was noted also in the before mentioned study made in the Finnish infocom sector: the seeking of new marketing capabilities was not connected to how sufficient the companies perceived their own marketing capabilities. (Varis et. al 2004). Other criteria for selecting partners can be for example the way the company develops its competencies and how they learn, who are they connected with and how prepared they are to be connected with other companies (Cairns 1998, 43). A more detailed list of partner selection criteria is attached in Appendix 1: Partner selection criteria list.

Partnerships are built also with companies that have overlapping capabilities and resources. Santangelo (2000) provides reasons why corporations have built and why they also should build partnerships with other companies from the same industry branch. According to her article (Santangelo 2000), the possibilities to absorb new corporate competencies and to learn from the allies are greater if the partners are in the same industry and partners' technological portfolios overlap with one another. Thus, if learning and strengthening one's core know-how is the aim of the alliance, then partnering with similar companies is recommended. Varis, Kuivalainen and Saarenketo (2005) on the other hand motivate why building up partnerships with companies from other industries is crucial for the rapid growth of the corporation. A firm can gain access to new markets, make it possible for them to provide a wider range of products and services and get access to complementary products, skills and assets. (Varis et. al 2005, 23). The technology leaders in areas where technology is changing rapidly will seek ways of quickly capitalizing on their technology to ensure that it does not become obsolete before development costs are recovered. According to Forrest (1990, 41) Porter and Fuller (1986) have argued that technology leaders form coalitions for two reasons – access to capital and access to markets. Segelod and Jordan (2004) again state that firms in fast developing high-tech industries are compelled to an increasing extent to specialize in and integrate different technologies, and must therefore form external linkages to gain access to new knowledge; the software industry being an excellent example of such a fast developing industry. (Segelod & Jordan 2004, 7).

One of the factors that indicate that the partnering organizations may not fit each other, is the size difference of the organizations. Alliances between strong and weak companies rarely work. They do not provide the missing skills needed for growth, and they lead to mediocre performance. (Bleeke and Ernst 1991, 127). Wilkinson (2005) argues that “Symmetry in terms of importance of each firm to the other's success, relative size, market share, financial strength, productivity, brand image, company reputation, and level of technological sophistication will make a stronger relationship”. (Wilkinson et al. 2005, 670). Larger partners or partners that are otherwise resource rich

are desirable as long as they do not leverage their superior bargaining positions to benefit on the smaller partner's expense (Lavie 2007, 1191).

There are several reasons why not to form partner relationships. Some of the addressed burdens of close interfirm relationships are: 1) the loss of control, 2) the uncertainty of future outcomes, 3) the demand of resources or costs related to benefits, 4) the preclusion of others and 5) stickiness – the exposure to your partners' partners. (Håkansson & Snehota 1995b). Biong, Wathne and Parvatiyar (1997) identified in their research the factors 1) fear of dependency, 2) lack of perceived value of the outcomes which are to a great extent the same as the first and second factors addressed by Håkansson and Snehota. Additional factors Biong, Wathne and Parvatiyar found were 3) lack of credibility of partners and 4) lack of relational orientation in the buying (downstream) company and 5) rapid technological changes. (1997, 98). The last factor, rapid technological changes, is extremely relevant when considering partnering in the software industry. Generally, it is expected that the companies do not enter cooperative relationships or set up a partner program if the costs are perceived to be too high or the gains to be too low when compared to other market alternatives.

As conclusion it may be presented that partners are selected to the partner program so that they fit together with the previous partners. Various different criteria can be used in the selection process, and these criteria can be weighted according to the needs of the core company and so form a balanced scorecard for the selection. Partnerships need to be evaluated also later in the relationship, as internal and external development can influence the character of the partnership. There are also several good reasons to avoid forming partnerships.

### **3.4 Configuration of the program**

The construction of a network involves defining the roles for different partners and pointing the responsibilities and rights of each partner type. The business logic of the program and the revenue logic influence on the way the network operates and how it shares responsibilities, risks and costs. (Möller, Halinen & Svahn 2004, 67). The structure of the core company's partner portfolio including the partner program must be aligned with external environmental conditions, internal resources and firm strategy in order to positively contribute to firm performance. Essential configuration parameters of partner portfolios are the number, dispersion, and redundancy of the alliances and their linkage strength. (Hoffmann 2007, 834). In this chapter, the configuration of partner programs is handled according to these four main parameters.

### *3.4.1 Number of partners*

The number of alliances determines the quantity of information and resources that the central firm can access. The importance of large number of alliances is heightened when the central firm tries to adapt to changing market conditions. Partnerships give the business unit access to wide range of information and resources, and this way improves its strategic flexibility. (Hoffmann 2007, 834-835). Thus, it may be assumed, that in a volatile business such as software business the companies would try to maintain a large number of partnerships to better adjust to the changing market conditions.

When increasing the number of partners, a software company has to involve also foreign companies in its partner portfolio. Software business is global by nature, and the international dimension is especially important for Finnish companies who have a very small home market. Though the business is global by nature, cultural issues and distances still play a role. In a study made on software firms operating in the U.S., it was found that the firm's market performance declined with increases in the proportion of foreign partners in the alliance portfolio. The researchers explained this with cultural and organizational differences, geographical distance and communication and learning challenges. (Lavie 2007, 1203). The results of the study in question indicate that cultural fit and efficient communication have an essential role in the success of the partnership.

To be able to develop a strategic net and form numerous partnerships, a firm has to be able to mobilize other actors; why should they play along? Firms that have new and interesting resources to offer – products/services, process know-how, access to technology — can more easily attract qualified partners in the network. (Möller & Halinen 1999, 423). A good reputation as an alliance partner increases the attractiveness of the company as a partner. (Hoffmann 2005, 133) Companies which have unique relationships to other companies, who are not connected with each other, occupy powerful brokerage positions called “structural holes”. These companies are more powerful than others in the network, as they may control the information flows between groupings of firms who have loose ties with each other. Such networks have a hierarchical structure, and the rents accrue to the firm bridging the structural hole. (Kogut 2000, 414). A company in a structural hole may be attractive enough as a partner to be able to lure so many partners that creating a partner program would be necessary. The central company can be able to maintain the central position in its network, and be able to dictate the terms of partnerships to their partners.

The company should include most, if not all, of its partnerships in the partner program. Leaving individual relationships outside the program and managing them as individual relationships causes inefficiencies and may cause friction among the partners in- and outside the program. (Eilles, Bartels and Brunsman 2004, 31). However, some unique or vital partnerships may not be handled as groups at all, and they should be

handled individually. In the following chapter the different types of partnerships will be discussed.

### ***3.4.2 Dispersion of relationships***

Dispersion refers to the spread of partnerships in terms for example geographical, market or value chain positions. Partner portfolios and programs with high dispersion have included partners from different strategic groups and industries. Dispersion determines the diversity of information and resources that the company has access to with its alliances. (Hoffmann 2007, 834).

Initiation of the partner program is the most important phase in determining its composition. Building up the partner program involves very similar processes as the construction of an investment portfolio, such as answering questions as: do new relationships need to be created, which relationships should be developed and which maintained, and are there any that should be broken or discarded. (Zolkiewski & Turnbull 2002, 578). Portfolio theory was first developed by Markowitz in 1952 to be used with financial investments as a mechanism for reducing risk. It was further refined in the 1960s by Sharpe (1963), who suggested that the risk of an individual investment should not be seen in isolation, rather it should be viewed in terms of how it contributes to the overall balance and performance of an overall performance of an investment portfolio (Rubinstein 2002, 1043). The portfolio theory is applicable in this viewpoint to the initiation and management of a partner program. The new and added partnerships should not be considered in isolation to established partnerships, but they should be viewed in terms of how they contribute to the overall performance of the partner program. Specially the overlapping of different partnerships in terms of e.g. geographic or functional coverage should be observed and dealt with.

Different types of suppliers and customers require different managerial approaches for profitable action (Möller & Halinen 1999, 416). Different partners may be prioritized and even ranked in terms of various criteria such as cash flow generation, information, reference value, security, new competences and new business opportunities received (Ojasalo 2004<sup>5</sup>). This suggests that partnerships could be divided into different categories and to different levels in partner programs.

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<sup>5</sup> Originally in: Ojasalo, Jukka (2003) How to prioritise customers and adjust offering in key account management. *International Journal of Customer Relationship Management*, Vol.15, No. 8, pp. 259-270

### 3.4.3 Coverage of markets

Redundancy refers to the contextual overlapping of partnerships. Relationships are considered redundant if they give access to the same information and resources. The lower the portion of redundant relationships, the greater the efficiency, because the costs of developing and fostering relationships are minimized. (Hoffmann 2007, 834).

The decisions relating to networking and partnering are strategic by nature. (Varis et al. 2005, 32). They involve choices of which units the focal company wants to have in-house and through which sales channels they wish to sell their products. The choice of sales channels is influenced by the nature and number of the end customers. By segmenting the customer base it is possible to distinguish what products, services and channels the end customers need. For example, some products may be sold to thousands of SME customers via internet and needed services for the product may be provided by another sales channel, whereas other products from the same company which are sold to major enterprise customers may require direct key account services from the supplier company. One customer type may be served through several channels. (Möller, Rajala & Svahn 2004, 62). According to McHugh (see Rossi et al. 2001, 33), also the entry-level deal size and the sales cycle affect the business model and therefore also partnering decisions. Here the sales cycle means the length of the process of converting contacts into customers. Additional characteristics of the software product that have an implication on the applied business model include durability of the product, its scalability and embeddedness. (Rajala, Rossi, Tuunainen & Korri 2001, 9).

Rao and Klein (1994) have found out in their studies on software companies that the need to access new markets and to enhance distribution, marketing and sales operations is the main force behind partnerships (Rao & Klein 1994, 35). Kulmala and Uusi-Rauva received similar results on their studies on Finnish software companies (2005, 174). The companies can generate synergies by combining network resources with its own internal resources (Lavie 2007, 1192). Sales partnering is often seen as a fast and efficient way of doing business, since sales are gained more quickly because the partners have local knowledge and a ready contact base. (Varis et al. 2005, 26). In the software industry the competition is actually changing from the company level to network level: companies take part in end product supply networks that compete against alternative end product networks (Kulmala & Uusi-Rauva 2005, 169). Low price of the product and short sales cycle enable the company to use low cost sales channels, whereas such characteristics of the product offering as complicated functionality, immature technology and big organizational impact imply more interaction with the potential customer, which drives up the cost of sales (McHugh 1999 in Rajala, Rossi, Tuunainen & Korri, 2001, 33). On the other hand channel costs can be relatively low in the software industry, which, along with the additional profits that can be retained by not giving mark-ups to distributors, make direct channels an option for relatively small firms. (McNaughton 2002, 188).

Cespedes (1988) argues that the choice of channel is a trade-off between the desire for control and the resources available to integrate distribution functions. The key is that managers are not neutral with regard to whether distribution functions are performed internally or by intermediaries. Given sufficient resources, managers often have a preference for direct channels because of the additional control they can afford, even if another channel is more efficient. (Cespedes 1988, 49). Non-integrated channels (i.e. channel partners) afford less flexibility and control over the full range of activities that must take place in a software marketing channel. (McNaughton 2002, 194). In the software business it is hard to foretell what future activities need to be pursued, and this creates a need for companies need to maintain flexibility to be able to better grab emerging opportunities and deal with uncertainty (Hwee Ang 2007, 11). This creates to a situation where the companies have to balance between flexibility and control.

Environmental uncertainty has an impact in the partner program structure through the choice of having a single or multiple sales channels. Two dimensions characterize environmental uncertainty: volatility and diversity. If a market is volatile, it is difficult to predict future outcomes in terms of demand and competitor action, and to provide protection against negative contingencies by a contract. When there are few market-based actors willing to assume the risk implied by environmental volatility, integrated modes are likely to be deployed. The use of multiple channels is negatively associated with volatility (McNaughton 2002, 195). If partner programs are run by actors that have already established them at the market, the risk they pose is significantly smaller than with a newcomer.

The other dimension of environmental uncertainty, diversity, reflects multiple sources of uncertainty in a market. A diverse market is one in which there are many customers and/or competitors. In such a market a firm will need to adopt multiple strategies to meet varied and specialized demands. Independent channel members can help gather and process information required dealing with a heterogeneous market. Thus, the use of multiple channels is positively associated with market diversity. (McNaughton 2002, 195).

The use of an intermediary hampers direct communication channels with the end customers, and can limit the core company's learning about the needs of the markets. If the core company desires to learn as much as possible from its end customers, it should maintain a direct sales channel and a connection to customers. (Varis, Kuivalainen & Saarenketo 2005, 26) This situation is most likely to occur when the core company is entering new markets or new market segments. Because channel costs can be very low in the software business, a company may maintain multiple sales channels. Multiple channels involve the software developer performing some activities or selling to some types of customers, while other sales activities and customers are being handled by an intermediary (McNaughton 2002, 191). Thus it may be concluded that if a software company uses partners and a partner program as a sales channel, it is most likely to use also other sales channels simultaneously.

Firms are unlikely to enter new markets with complex multiple sales channels in place. Rather, these develop over time, as experience is gained in the market, awareness is developed of channel intermediaries, and additional niche markets are identified. The use of multiple channels is negatively associated with the sales growth of an individual channel. (McNaughton 2002, 196). Resources are scarce, and the core company has to prioritize between sales channels.

The results of previous research suggest that plural sales channels may be less common among small high-tech firms, and that hybrid sales channels in which the marketing functions are shared by the producer and the local partner are apparently more suitable in their international expansion. Thus, in selecting partners it is important to be aware of the difference between vertical and horizontal partnerships. Some researchers suggest that small firms should look for horizontal cooperation, with both parties being dependent on the outcome; as vertical cooperation often implies that the small firm becomes quite dependent on its large partners. (Ruokonen et al. 2006, 558).

The issue of the structure of a partner program is dominated by the question which groups of actors should be included. The following Figure 8 provides an example of the structure of a value network. The company in question is fictive and does not exist in reality.

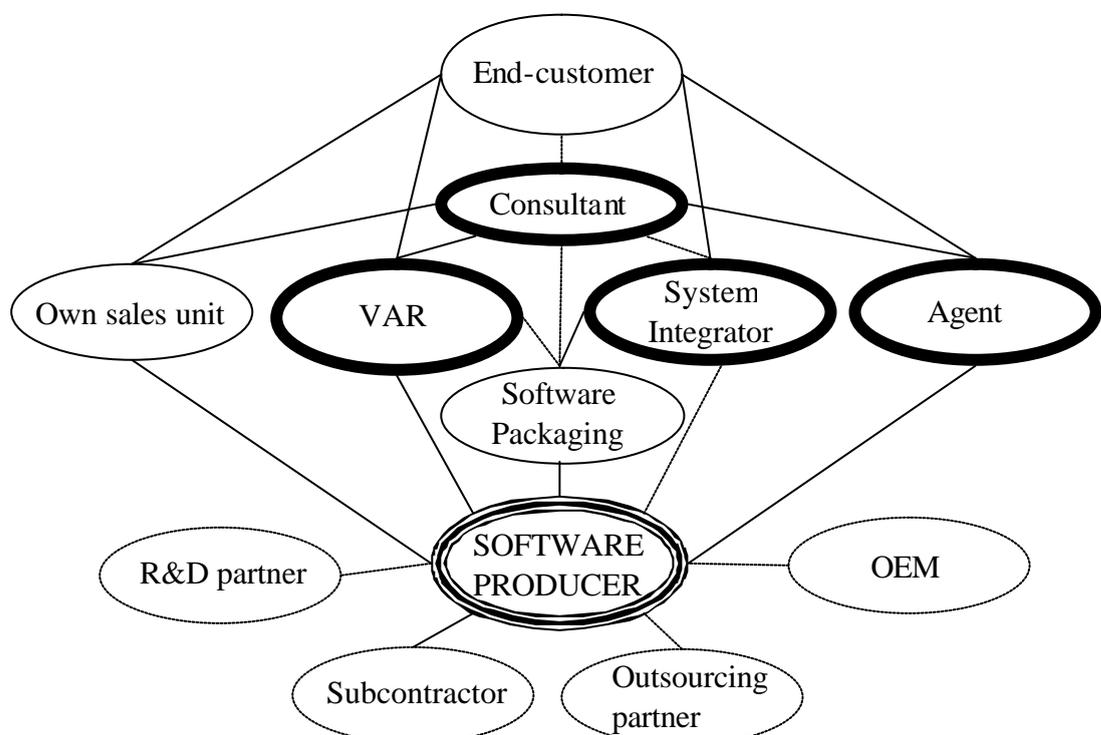


Figure 8 Value network of a software company

The case company in question is a systemic software producer for business customers. Several key actors in the network create value for the end-customer. There

are several sales channels, and the product can be delivered also through a combination of these channel actors. As described in chapter 3.1 Defining a partner program, one of the motivations of a partner program is to reduce complexity by grouping actors together. And in order for this to be possible, the company should have several similar partners. Therefore, the core company should include those actors, of which there are several of and where the single partners are not unique in a manner that would require a different process model to be created individually for them. In the case of this example company, most likely partnerships with Consultants, Value-Added Resellers, System Integrators and Agents could be included in the partner program. (These actors are all encircled with thick lines in figure 8). It is less likely, that a Finnish software firm would have several Software Packaging partners or subcontractors to such an extent that reducing complexity would be necessary.

Customized and complicated products require certain level of expertise from the partners. The costs of acquiring these specialized technological skills may be prohibitive and economically irrational for the partner (Burgel & Murray 2000, 53). Customization and specialized products thus represents a barrier to involving intermediaries and the attendant cost of sales support can be managed so that it becomes an attraction for the partners. (Burgel & Murray 2000, 54). This would indicate that the more complicated and customizable products the core company is selling, the more training it should provide for their partners and that the cost of attending these trainings should be low for the partners. With training, the partners may take up tasks from the core company.

In a study conducted in 1999 among Canadian software exporters one of the results was that many Canadian software firms focus on the service dimension of software, building an infrastructure of support services within their channels that includes installation, training, maintenance and upgrades. (McNaughton 2002, 193). This approach had generally been successful among the software firms. Other researchers had already earlier found out that the extent of post-sale service provided by vendors is often a more important criterion in selecting software than its price (Rao and Klein, 1994). This would suggest that software companies should not aim to cut costs by cutting down the availability of additional services.

Whatever the chosen structure of the partner program will be, the core company has to keep in mind that the existing structure of the networks can act as a brake on innovation because of its investment in existing ways of working and because of the requirement to enlist the co-operation of those with which the innovator does not have relationship (Håkansson & Ford 2002, 136). For this reason, a company should remain active in considering new partners and observing the markets.

As conclusion on the coverage of markets and choice of sales channels it may be stated that the sales channel decisions are strategic by nature thus making also the partner program building decisions strategic. The more diverse the market, the more partners are needed to create stability. However, using an intermediary hampers the

communication with end-customers, and therefore it may be preferable to have at least one direct sales channel even if other channels are more efficient.

#### ***3.4.4 Trust and commitment***

Trust is the first and major component of relationship capital. Trust is defined as the belief that the partner will behave in a predictable manner (reliability), can be relied upon to fulfill obligations (competence) and will act and negotiate fairly when the possibility of exploitation exists. (Maheshawari et al. 2006, 285). Often also the aspect of expectations of positive outcomes is included in the concept of trust. (Anderson & Narus 1990, 45)

Commitment is the second major component of relationship capital. It is determined by the partner's intention to continue the cooperation. Do the firms intend to stay in the relationship and to try to make the relationship succeed? Are they willing to invest in it? Commitment, like trust, stems from economic components and it grows with positive previous experience. Reducing the number of partners has been one popular way of indicating commitment to the remaining partners (Maheshawari et al. 2006, 286).

Interdependence of partners is the foundation on which successful alliances and partnerships are built on. (Doz & Hamel 1998, 27). Partners take risk in committing to each other. Although risk taking breeds trust, firms do not blindly take unjustified risk in the hope of developing a trustful relationship. It is more likely that a gradual approach is adopted, in which partners start with limited investments. Trust is developed over time, and continuous satisfactory experiences accumulate trust. Trust can be earned from partners when one adapts to the needs of cooperation in partnerships, and this signals also commitment. Locating a partner with a good reputation seems to be an effective starting point for a trustful relationship. A firm with a reputation of being honest, fair and trustworthy gives one the needed first piece of evidence to take some initial risk in committing. (Das & Teng 1998, 504). The risks involved in a partner relationship may be reduced through efficient contracting. However, trust and contracting should not be seen as alternative but complementing modes of governance which supplement each other (Blomqvist, Hurmelinna & Seppänen 2005, 502).

Opportunistic behavior is considered as one of the central risk of operators in business networks. This risk can be assessed in beforehand by considering the significance of the partner on the basis of the necessity and the uniqueness of the service or product provided. If the service or product is not easily replaced the risk involved with the partner is especially great. (Möller, Rajala & Svahn 2004, 77).

With a partner program the core company may be able to commit its partners more to the relationship, thus creating solid ground for the successful development of the relationship. The ties between companies make the power settings more visible. With

gained negotiating power the core company may for example prevent its dealers from selling competitive lines of merchandise (Gassenheimer et al. 1996, 96) Strong linkages enables the core company to acquire information from the partners and to succeed in benefiting from their resources. Strong ties require a long period of time to develop, several people to support them and an atmosphere of trust and commitment to flourish. (Hoffmann 2007, 834).

Communication and proactive exchange of information form yet another tactic to boost trust among partners. Only if partners can constantly sound off on their differences, of which there are always some in any relationship, will they be able to avoid fatal conflicts. Second, firms need to collect evidence about their partners' credibility and trustworthiness, and communication facilitates this process. Third, communication helps build trust because it provides the basis for continued interaction, from which partners further develop common values and norms. (Das & Teng 1998, 505)

The fact that a firm may have entered a wide array of partnerships also suggests that it has to simultaneously manage this portfolio and to address conflicting demands from different alliance partners. Furthermore, if the firm is at the centre of a network, it must pay particular attention to a series of strategic and organizational issues (Lorenzoni & Baden-Fuller 1995, 150).

It has been estimated, that more than half of corporate alliances are unsuccessful. Dissatisfaction with the alliance relationship is one of the major reasons cited for the failure of alliances. A partner's dissatisfaction can result from outcome variables (e.g. financial performance) and relational variables (e.g. the degree of commitment or competence displayed by a partner to the alliance). (Shamdasani 1995, 6). Many successful alliances terminate because they are predestined to do so by the parent firms at the very outset. In some instances, the transformation of a venture may actually indicate successful adaptation to environmental shifts. Also, not all ongoing alliances are necessarily successful and some may be continuing more out of inertia or the high exit costs associated with dismantling it than because of inherent success of the partnership. (Gulati 1998, 304).

Trust and commitment need to be addressed in the configuration of the partner program, as they are the basic building blocks of relationships. Systematic and continued interaction provides a good ground for relationship building including trust and commitment. Active interaction can also function as a tool for control, which will be discussed in the following chapter.

### **3.5 Controlling the partners**

Companies try to control the network that surrounds them and to manage their relationships to achieve their own aims. This ambition is one of the key elements in

developing networks. But, the paradox is that the more a company achieves this ambition of control, the less effective and innovative will the network be. If the development process becomes directed from one centre it will become more integrated and may have fewer overt conflicts, but the network may cease to exist and become more of a hierarchy. A controlled network cannot develop faster than the company that controls it. (Håkansson & Ford 2002, 137). Core companies must balance their need for commitment with the partners' desires to keep their options open. Obviously, commitment facilitates cooperation. But in a fast-changing world, companies have a desire for freedom to pursue better opportunities when they appear (Doz & Hamel 1998, 21).

As a centre of its network, a firm has the best possibilities to ensure that the web of partners is developed successfully. By utilizing their power position they can support change beneficial to them and prevent changes that could be a threat to their position –at least in the short run (Axelsson & Easton 1992, 171). Developing the web of partners includes management tasks such as setting and monitoring rules of co-operation, developing the competencies of partners and simultaneously structuring the network and aligning the strategies of the network members. (Hoffmann 2005, 122). Thus we may conclude that attempting to be the central point of its network would be a logical goal for a company. Håkansson and Ford (2002, 135) state in their article that no company can be the hub of its network or have complete control over it, but some will act as if they were in control. In the following chapter the different tasks of partner program management will be discussed.

### ***3.5.1 Tasks related to partner program management***

In a study made among leading European companies in co-operation intensive industries, it was noticed that developing alliance capability management seems to be a step-by-step process: first, companies generate the organizational capability to manage single alliances, and second, portfolio. (Hoffman 2005, 141). When relationships can be segmented into reasonable homogeneous sets, the management is facing a traditional portfolio management problem. It must assess the demands of the various customer groups and develop organized ways of handling the relationships in an efficient fashion. (Möller & Halinen 1999, 424). Partner programs set rules regarding the way a group of partners should be dealt with. Some groups can be given extensive access to technology information, managers and clients. Other groups may be more at a distance. The most important partners may receive regular visits from top management, whereas lower management may take care of the less important partners. (Duysters 1999, 186). The selection of key accounts and key partners can be problematic and this is where partner portfolio analysis and managing the partners within the same program can make a major contribution to management (Zolkiewski & Turnbull 2002, 575). The analysis can be

used to identify the key inter-organizational relationships that the firm has. Once this is done the firm can allocate resources to the efficient management of its key relationships. (Zolkiewski & Turnbull 2002, 576).

Managing in the field of inter-organizational field demands a set of complex management skills and abilities, including building relationships, negotiating mutually rewarding deals, finding the “right” partners, and providing the partnered organizations with the appropriate balance of freedom and control (Buono 1997, 252). Managing partners as groups or as a portfolio demands additional attention. It is important to institutionalize network management skills, working towards organizational partnership learning: understanding, framing and strategizing different types of partnership, their relationships and required resources (Buono 1997, 264). In his study on partner management of 25 leading European companies, Hoffmann (2005, 124) identified the following four tasks of partnership portfolio management:

- Developing and implementing a portfolio strategy
- Portfolio monitoring
- Portfolio co-ordination to utilize synergies and avoid conflicts among partnerships
- Institutionalizing multi-partnership management, i.e. establishing a partnership management system to support the other tasks of multi-partnership management.

The different tasks are depicted in the figure below.

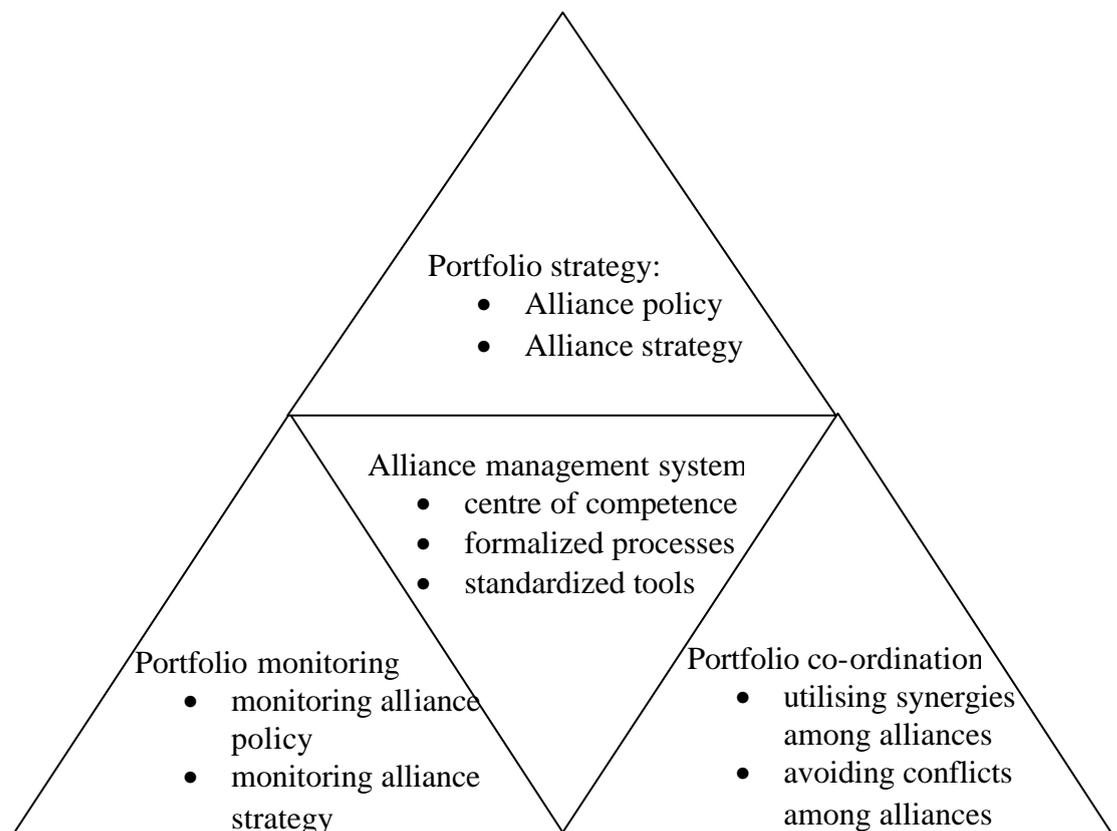


Figure 9 Tasks of alliance portfolio management (Hoffmann 2005, 124)

A portfolio strategy refers to the main strategic direction for all partnerships within the portfolio and general rules for managing the partnerships. Portfolio monitoring refers to monitoring and controlling the contribution of the partnership portfolio to the implementation of the corporate strategy. (Hoffmann 2005, 125). As discussed before, the choice of sales channels is strategic by nature. Developing and implementing a portfolio strategy includes the decisions of the configuration of the partner program: the selection of sales channels and control methods.

Portfolio monitoring and portfolio co-ordination are tasks of strategy implementation. The aim of portfolio co-ordination is to utilize synergies among partners while implementing the portfolio strategy. At the core of portfolio monitoring is the measurement of the performance of individual partnerships and of the whole partnership portfolio. Performance measurement shows whether portfolio strategy goals have actually been attained, allowing companies to analyze the reasons why performance falls short of expectations and to initiate processes of learning and change. Because of the two levels of portfolio strategy development, portfolio monitoring is needed at both corporate and business levels. The partnership management system provides an infrastructure to support the tasks of managing individual partnerships, and also to support the tasks of multi-alliance management. This infrastructure consists of standardized tools, formalized processes and specialized organizational units. Thus the alliance management system assures the quality of partnership management practices throughout the company and supports organizational learning processes to improve these practices. (Hoffmann 2005, 125). In the case of partner program, this task includes monitoring if the desired sales and functional targets are reached with the existing configuration of the program.

The interdependencies among partnerships within one business are usually greater than among different businesses, the need for portfolio co-ordination is greater at the business level than at the corporate level. (Hoffmann 2005, 125). This leads to the fact that a company could divide its partners into groups on the basis of the business they are in: what products they are selling and which services they offer. Different groups require different types of relationship management. Relationship management also has a strong organizational aspect, including issues like account management, customer or supplier specific teams, and utilizing customer databases. (Möller & Halinen 1999, 419). Portfolio co-ordination can also be used to organizing partners into value chains: connecting the software packaging with distribution and support services. Hoffmann noted in his studies (2005) that the most important partner management tools were reviews, internal seminars and workshops, benchmarking, manuals, checklists, data warehouses and intranet. (Hoffmann 2005, 136).

Since the partner program is built up by the core company, the goal of the program and the network is defined to be the goal set by the core company. The core company initiates and builds up the program with the goal in mind, and the program would not even exist without this goal. (Ojasalo 2004, 198). The goal of the program serves the

core company, but successful long-term management of the program and the relationships in it requires aiming at a win-win –situation. (Ojasalo 2004, 196). The joint participation by partners in planning and goal setting send important signals to the parties and contribute to commitment and partnership success (Mohr and Spekman 1994, 148)

The general rules of the partnership policy are intended to assure that all the company's partnerships are run according to the same principles and are subject to systematic control and supervision. Partnership policy, for example, can prescribe specific governance structures (e.g. equity/non-equity) for specific types of partnerships, can set a minimum standard for mutual information and control rights and can determine how the core company executes the roles of management and supervision. Almost all companies also have a catalogue of requirements for partners. The main emphasis for all companies, when evaluating potential partners, are strategic, operative and cultural fit as well as the reliability and trustworthiness of the partner company. (Hoffmann 2005, 127). This task is the most essential one in applying Hoffmann's model to partner programs. Partner program takes the partner portfolio management to a new level and sets more specific and systematic principles and methods of management.

Besides control, literature suggests interfirm trust as a second source of confidence in partner cooperation (Das & Teng 1998, 494). The selection, development and implementation of control mechanisms, such as budgets, planning systems and cost-accounting systems can be expensive. The alternative of control, trust, is not free either. Trust building is a planned activity and takes considerable resources from organizations over time. (Das & Teng 1998, 496). To reach a minimum level of confidence in cooperation, partners can use trust and control to complement each other. The trust level and the control level jointly and independently contribute to the level of confidence in partner cooperation, which may vary greatly for different partner firms (Das & Teng 1998, 497). The benefits of interfirm trust in partner relationships seem wide ranging in character, including lowering transaction costs, inducing desirable behavior, reducing the extent of formal contracts and facilitating dispute resolution.(Das & Teng 1998, 494). The core company of partner program would therefore get also monetary gains from investing to the quality of the partnerships.

### **3.5.2 *Quality of partnerships***

Financial performance is the most important yardstick in partnerships. Still, over what scope of activities and time frame, financial benefits are to be generated varies greatly from one partnership to another. Managers therefore need to develop a balanced and comprehensive scorecard to assess the performance of a partnership, one that is consistent with the value creation logic it pursues. A comprehensive scorecard reduces

the danger of missing value creation opportunities by focusing too narrowly on a few benefits and ignoring or forgetting, other benefits (Doz & Hamel 1998, 85).

Several strategies can be recommended to core companies concerned with improving relationships with their channel partners. First, the company should assess both the needs of their partners and the performance of their competitors in a way that creates a differential advantage in their partner relationships. This includes the minimum use of power to assure partner satisfaction. Second, lines of communication must remain open in order for the core company to understand partner problems and respond to emerging opportunities in the marketplace. The manner in which the core company communicates its desires and goals to the partners determines the atmosphere of the ongoing relationship, and impacts what is “just” and “equitable” as well as the degree of rationale for entering into a working relationship in the first place. Therefore, core companies must communicate regularly to their partners so that the programs they offer can be utilized to build a strong product support system throughout the channel. (Gassenheimer et al. 1996, 113). Frequent communication may have an impact also on the competitiveness of the whole network. The diffusion of knowledge over various partners improves the quality of the entire network and thereby the competitive strength of the individual firms (Duysters 1999, 185). Kulmala and Uusi-Rauva (2005, 170) suggest that personnel at all organizational levels should be allowed to discuss with corresponding persons in other networked firms, because – in the interest of efficiency – personnel cannot wait for manager-level comments or negotiations.

The core company’s performance with respect to key marketing services has an impact throughout the building and maintaining of long-term relationships. Such performance can be measured by the flexibility and innovativeness of performance that provides the partners with tools to maintain a competitive advantage in the marketplace. Means to this goal can be the continuity of products, flexibility of credit possibilities and the support given to dealers and end-customers. (Gassenheimer, Sterling & Robicheaux 1996, 112).

A prerequisite for the success of a partner program is that it is beneficial for both partners. For each group of partners it should be clear what the benefit for being in the program is. A final success factor is that partners must be able to move between groups. Rules for moving a partner from one group to another should be clear to all parties. Changes in the business environment or in the alliance itself may make it necessary to forge closer ties with some partners and loosen ties with others. This must be accommodated in the partner program. (Duysters 1999, 186). Other critical issues in managing change and collaboration between partnerships include providing leadership, managing asymmetries in the partnerships, managing conflicts, building partnership skills and managing performance. (Maheshawari et al. 2006, 287).

Naturally some researchers have studied the factors of partnership success. Factors that have been associated with partnership success include flexibility in management of the alliance, knowledge exchange, building trust with partners, regular information

exchange with the partners, constructive management of conflict, continuity of dedicated boundary personnel and managing partner expectations. (Gulati 1998, 303; Lavie 2007, 1189).

As a conclusion it may be stated that a partner program should be financially beneficial for all parties in order to be successful. The quality of the partnerships is also affected by the commitment of the parties and the core company's performance with respect to the activities that are on its responsibility.

### ***3.5.3 Formal and social control***

Control and trust can be used to complement each other in forming a coherent governance system. In this chapter we will look deeper to control and its different forms.

Structural arrangements, including rules and regulations, are the heart of formal control. They are designed to minimize partners' incentive for opportunism, or to function as structural safeguards against opportunism in the process of managing alliances. Specific arrangements include reporting and checking devices, written notice of any departure from the agreement, accounting examination, cost control, quality control, arbitration clauses and lawsuit provisions. This is costly in the operation stage, since substantial resources and information processing capacity have to be allocated just for the purpose of internal control. Nevertheless, strict structural arrangements do effectively set the boundaries for the behavior of partners. Goal setting emphasizes the importance of establishing specific and challenging goals in organizations. Based on this idea, management by objectives, as a prominent form of goal setting has gained acceptance as a management program for enhancing control and boosting performance. The process of goal setting may become important as a useful social control mechanism in partnerships. Participatory decision making serves the purpose of controlling, because in the process partners interact among themselves to gain a better understanding of each other. In sum, the goal-setting process is important for both formal and social control. (Das & Teng 1998, 506).

The use of social control may also be conducted through the use of informal mechanisms, such as implicit contracts. These are defined as unwritten agreements between firms which are enforced not by formal authority and power but rather by the desire to create and maintain a positive reputation for integrity and fairness and to build trust. In other words, informal mechanisms may provide a valuable alternative compared to written contracts and formal control as a way to encourage mutual interest without written legal obligation. Recent research has suggested that such considerations are a viable option. Some researches found that "written agreements tended to produce more conflict than did unwritten ones". Larson (in Frankel, Whipple & Frayer 1996, 47) concluded that firms discounted the use of written contracts and concentrated more on

the development of “informal and implicit social contracts” to achieve effective control and co-ordination in alliances. Often, informal social contracts serve a more critical role in developing long-term commitment. Most importantly, trust and managerial judgment can provide a more flexible means to ensure alliance success in the long run (Frankel, Whipple & Frayer 1996, 49)

It is important to rotate members of partner management team as a conscious process, as a way of controlling for inevitable turnover and replacement needs. It is useful to undertake an orientation and assimilation strategy as team members change or new members are added, focusing once again on building relationships between those involved. (Buono 1997, 263).

Social control can at some point turn to trust. A social network of prior ties can promote trust through two possible means. First, by serving as effective referral networks, the prior social structure makes firms aware of each other’s existence. Through these ongoing interactions, firms not only learn about each other but may also develop trust around norms of equity or ‘knowledge-based trust’. There are strong cognitive and emotional bases for such trust, which are perhaps most visible among individual organization members. Close personal ties often emerge between individuals in organizations that contracted with each other, these personal relationships in turn ‘exert pressures for conformity of expectations’. Second, social networks can serve as important basis for enforceable trust. The anticipated utility from a tie with a given partner motivates good behavior. Each partner’s awareness that the other has much to lose from behaving opportunistically enhances its confidence in the other. Potential sanctions include loss of repeated business with the same partner, loss of other points of interaction between the two firms and loss of reputation. (Gulati 1998, 302).

As a conclusion it may be stated that even though one of the aims of partner programs is to cut transaction costs related to partnering, the core company should invest also in social ties with the partners to have a good, trustful relationship and the necessary amount of control. Social ties evolve through time just as business relationships do. The evolution of relationships is discussed briefly in the following chapter.

#### ***3.5.4 Evolution of relationships***

The processes underlying partnership development and trust building are evolutionary by nature. As a way of accelerating such development, the core company should fully learn the partner company’s business, engage in joint planning and vision casting and engage in interpersonal contact and interaction, especially at operational levels. Moving gradually from operational to strategic integration when appropriate is a key to successful partnership development (Buono 1997, 262). A partner program may house these changes and offer room for evolving relationships.

Partnerships have a life-cycle pattern, which can be divided into different phases. Here a division of alliance life-cycle phases presented by Larraine in 2005 is used.

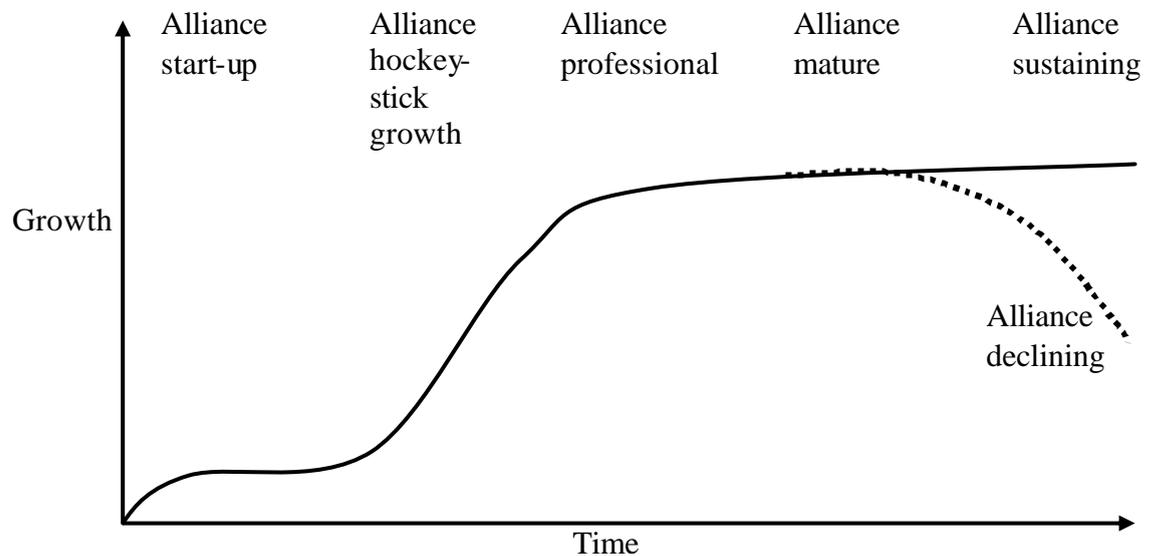


Figure 10 Alliance life-cycle (Larraine 2005, 47)

The alliance start-up is often characterized by start-up problems and the growth potential is not realized before the hockey-stick growth phase. In the third phase the alliance activities become routine and often the preservation of the current state begins. In the mature phase often the partners start to reduce costs and the partnership may get stuck in old routines and rituals. This may lead to alliance declining and eventual termination, or the alliance may be sustained as successful as before. (Larraine 2005). Different phases have different characteristics, and different metrics of success. Partner program management as well as alliance management could adjust according to these phases to get the most of each phase. The capability to adjust to changes has been associated with relationship success in latest research (Lavie 2007, 1189).

Two different types of development processes can be identified in relation to activities in the distribution channel. The first one can be regarded as a rationalization process: the activities are repeated and over time learning occurs so that the activities are adapted and, as a result, work together better. The second type of development process originates from changes in one of the channel activities. The changes may originate from the producer who changes the product, the consumer who changes the use of the product or the partner decides to change their business model. (Axelsson & Easton 1992, 175-176). Resources are often very dependant on each other, and a change in one requires often change also in the use of other resources. Therefore the state of relationships should be re-evaluated from time to time.

Individual partnerships may endure for a long time, but the total system of relationships can face dramatical changes over the years. Numerous gradual changes accumulate so that the whole partner structure can be radically altered over the years.

Even a strongly bonded network will change if the external forces are powerful enough. Network structures can be thought of being stable but not static; they can gradually change in response to changes internal and external to the network. (Axelsson & Easton 1992, 10).

Software business is evolving rapidly, and the partner programs as well as companies should be able to adjust to the changes happening at the marketplace in order to survive over time. In the software business specification of activities in beforehand is often difficult and thus the companies need to maintain flexibility to give room for emerging opportunities and uncertainty (Hwee Ang 2007, 11).

It may be concluded, that partner programs should be constructed so, that they are capable to change even to great extent. This presents a clear risk to relationship management, as relationships often require a long time to develop and they require stability and commitment, which are the opposites of change. The partner program has to balance between these two opposites: offering stability to partners and maintaining flexibility to endure changes.

### **3.6 Performance advantages of the program**

The capability to manage partnerships effectively may be a source of competitive advantage (Ritter, Wilkinson & Johnston 2003). Managing partnerships as networks or as a portfolio may give an opportunity to capture more value when compared to managing individual relationships. In order to succeed in this, the company has to take seriously the interdependencies between strategic relationships, to allocate the firm's resources strategically to the relationships within the portfolio and to modify the portfolio contents when necessary. There are also efficiencies available in managing the relationships consistently, applying repeatable processes and comparable performance metrics. (Eilles, Bartels and Brunsman 2004, 31). It has been suggested that managing partnerships as a portfolio can be helpful also in the decisions relating to resource allocation and the selection of key accounts, preferred suppliers and key relationships. (Zolkiewski & Turnbull 2002). However, care must be taken to avoid excessive simplification of all dealings with partners to dealing as if in a single relationship. (Zolkiewski & Turnbull 583). The right type of structuring is crucial for the functioning of a partner program.

It depends on the company and the structure of the partner program, whether the partners in the program are in contact with each other bypassing the focal firm and thus creating a more typical network. This type of diffusion of knowledge over various partners would improve the quality of the entire network and thereby the competitive strength of the individual firms (Duysters 1999, 185). Diffusion of knowledge is one of the benefits an efficiently managed partner program may bring to the partners, and the

core company may actively participate in advancing such an activity by organizing meetings between partners.

As establishing partnerships is regarded as a time-consuming process, treating partners in a more standardized way later on in the relationship should produce savings in time and effort (Ruokonen et al. 2006). Transaction cost economics (TCE) provides a good framework how do these savings occur.

### **3.7 Transaction cost explanation for partnering**

Transaction cost economics were first presented by Coase in 1937, and further developed by Williamson in 1975. Here theories developed on the basis of TCE are presented.

Transaction cost economics theory emphasizes cost efficiency as motivation for alliances. It is one of the main theories for understanding when deep co-operation emerges. (Varis, Virolainen, Puumalainen, 2004, 118). A transaction occurs when a good or service is transferred across a separable interface, such as the border between companies in a sales channel (Williamson 1985, 1). Transaction costs can be summarized as “costs of using the price mechanism” (Coase 1937, 392) and it can be regarded also as “costs of doing business with someone else” (Axelsson and Easton 1992, 14). These costs can be divided into four separate costs related to transacting: 1) search costs, 2) contracting costs, 3) monitoring costs and 4) enforcement costs. Search costs refer to the costs of gathering information to identify and evaluate potential trading partners; contracting costs refer to the costs associated with negotiating an agreement. Monitoring costs refer to the costs of monitoring the agreement to ensure that all parties fulfill the obligations and enforcement costs refer to the costs associated bargaining and sanctioning a trading partner that does not perform according to the contract. (Dyer 1997, 536). Also the original expression of transaction costs *‘The costs of negotiating and concluding a separate contract for each exchange transaction which takes place on a market must also be taken into account’* (Coase 1937, 390) indicates that these costs do arise from a variety of activities. Having long-term relationships with trustworthy and committed partners should reduce the costs of partnership management through reducing transaction costs generated with each partner. The costs are reduced by not having to search and contract a partner each time separately, by being able to develop trust and thus reduce monitoring and most likely also enforcement costs. Also repeating of transactions with the same partner reduces the costs associated with that specific transaction (Dyer 1997, 552).

Partner program is of further aid here, as it groups similar partners together and makes most of the processes repeatable from one partner to another. As there is no clear definition of what transaction costs are, the amount of transaction costs saved by using a partner program is impossible to be quantified. (Blois 1990, 493). Also specific

transactions differ in the impact that they have on decision making about the partnering selections and the potential they provide for opportunistic behavior; therefore, the best institutional arrangement for each transaction will depend on the transactions themselves. (Majumdar & Ramaswamy 1994, 120)

The transaction cost model has been criticized for emphasizing cost efficiency as the motivation for cooperation and it does not capture many of the strategic advantages of alliances (Gulati 1998, 301). Institutions commonly serve a variety of objectives, among which cost efficiency may be of lower importance (Williamson 1985, 17). Alliances are not only about cost minimization but also about joint value maximization. Transaction cost accounts in general focus on single-party cost minimization while alliances are naturally dyadic exchanges, which raises the question of whose costs are minimized. (Gulati 1998, 301). In a partner program the costs of the core company are minimized, not the transaction costs of the partner. The members of the partner program are mainly receiving the results of repeated processes of the core company, and it is most likely that they are not able to create scale benefits for themselves from these. However, both parties are able to benefit of long-term relationships where the other party is committed.

It is generally believed, that technology-intensive forms are not very marketing oriented and thus needing resources that would help them in bringing their products to markets (partners in sales, internationalization, distribution etc.) (Varis et al., 2004, 119). Such network relationships are not free. All relationships are the result of investments of management time and financial resources, and the development of relationships take time. As resources are scarce, the firm should try to develop an optimal set of relationships. (Möller & Halinen 1999, 423).

In a survey conducted in 1999 among successful software companies in the US, it was found that the companies spent an average of 1.4% of their revenues on training their partners, 75% more than the less successful companies. In 1997, for instance, Microsoft had invested \$600 million annually on training, certification, and support of partner developers, according to a report by the U.S. securities firm Everen. The successful companies had, on average, more than four times more partners than the less successful players (Hoch, Roeding, Purkert & Lindner 2000, 182). The surprisingly small percentage of expenditure can be partially explained by the fact that in some cases partners pay for the education themselves. Still, spending money on partners seems to pay off.

Excessive persistence with poorly performing partnerships often turns costly for all partners. Given the complexity of partnership management, managers are not always able to monitor and evaluate the continued relevance of the partnership. High termination costs and the emotional involvement of top executives may function as exit barriers. (Maheshawari et al. 2006, 288) If the relationship is significant to the differentiation of the product or service, it contributes to the cost of switching to alternate partners and therefore provides a competitive advantage. The partners are likely to seek ways to remain in the current relationship until the costs of remaining in

the relationship exceeds those of switching. (Fontenot & Wilson 1997, 7). A possibility to extend the use of relationship assets by advancing partnership goals and objectives beyond their initial level exists. It is therefore important that the relevance and value proposition of each partnership is continuously improved and monitored. (Maheshawari et al. 2006, 288). A partner program should bring order to chaos, and still allow room for development and evolution.

## 4 RESEARCH DESIGN

The main purpose of this chapter is to describe the reader the methods used in conducting this research and to give foundation for evaluating the trustworthiness of the study. Both the reasoning for selecting these methods and the use of the methods in data collection and analyzing phases will be described.

### 4.1 Research approach

This study uses quantitative content analysis and qualitative case study approach. Qualitative research is suitable for this study as only very little is known about partner programs, and this study is exploratory from nature (Ghuri, Grønhaug & Kristianslund 1995, 85). To gain a picture of how dispersed partner programs are, also quantitative methods were used in the first phase of the study. The connections of the methods used to the empirical research objectives are displayed in the figure below. In this figure the main author and source used to each methodological part has been written in parenthesis.

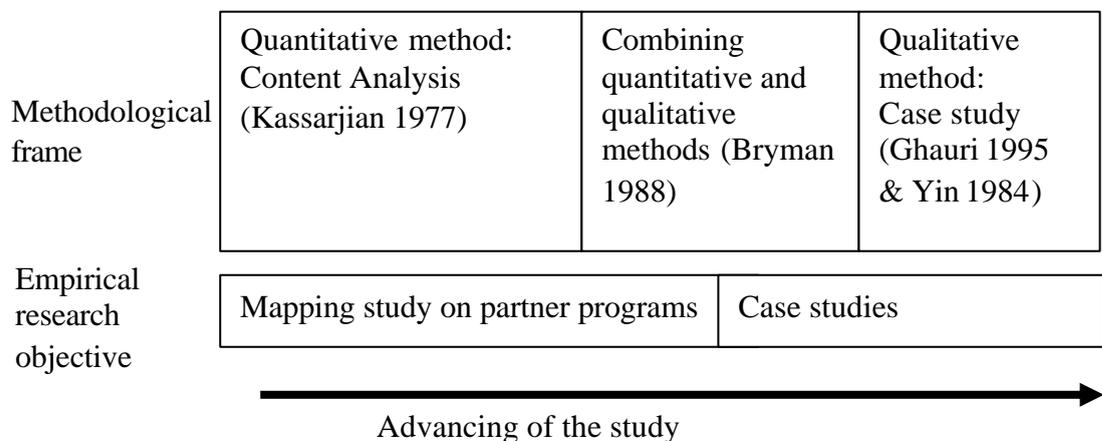


Figure 11 Connections of the methodology and the research objectives of the study

In this study the empirical research consisted of two types of data collecting. First the popularity of partner programs was studied by visiting the websites of selected Finnish software companies. As little to no research exists on the partner programs of these firms, an overall picture was required for the selection of case companies for further research. The ones found to have a partner program were studied in more detail, and the three case companies were selected for interviews from this group. The quantitative method was used to evaluate how common partner programs are in the Finnish software industries and what characteristics are common, and qualitative methods were used in the case studies of three selected companies. The combining of quantitative and

qualitative methods is discussed based on a book on the subject by Alan Bryman (1988).

Case studies are a suitable approach when ‘why’ or ‘how’ questions need to be answered, when the researcher has little control over events and when the focus is on a current phenomenon in real-life context (Yin 1984, 13). The field of software business is changing rapidly, and therefore it is beneficial for the quality of the research to study partner programs in their timely context.

The interviews conducted in the qualitative phase were constructed based on the theoretical framework and on the material available about the partner program in question. The interviews in the three case companies were conducted within a short time frame. After the interviews, literature on partner programs was studied further and the theoretical framework was strengthened where it fell short. The results of the interviews were compared with the theoretical framework and conclusions were made. As the research proceeded, it became increasingly interesting to study why certain companies did not have a partner program. These companies were studied briefly and compared with the companies having a partner program.

The two main research methods are now discussed in more detail.

#### **4.1.1 Content analysis**

The main sources for quantitative material for the content analysis were the web pages of Finnish software companies. Content analysis has a long history in social sciences and has also previously been used to analyze web pages. (Ellinger 2003, 178). In content analysis the researcher creates a set of categories and then counts the number of instances that fall into each category (Silverman 2001, 123).

Content analysis is convenient for studying systems and institutional processes (Krippendorff 1980) and thereby it is also suitable for studying partner programs. Because content analysis is an unobtrusive method (Krippendorff 1980, 29), it was found suitable also to the situation where this research was made in. Most likely the people most knowing about partner programs are on a high post in the companies and thus very busy. It was regarded as unnecessary to contact the people personally to ask basic questions that could be answered to necessary extent also with other methods.

Kassarjian (1977, 9) has stated that the three most distinguishing characteristics of content analysis are that it must be objective, systematic and quantitative. The requirement of objectivity means that the categories of analysis must be defined so precisely that if a different analyst would apply them to the same body of content he would get the same results. (Kassarjian 1977)<sup>6</sup>. Objectivity refers also to the processes

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<sup>6</sup> Original source Berelson, Bernard: *Content Analysis in Communication Research*. Hafner Publishing Company: New York. Reprinted, facsimile of 1952 edition 1971

by which the categories are developed and used (Kolbe 1991, 245). Each step in the research process must be carried out on the basis of carefully formulated rules and procedures. (Kassarjian 1977, 9).

Systematization means in content analysis method means that the exclusion and inclusion of communication content or analysis categories is done according to consistently applied rules. (Kassarjian 1977, 9). The quantification requirement is the most distinctive feature of content analysis. A measurement of the extent of emphasis or omission of any given category is what content analysis is all about. Some researchers feel that the quantification requirement can take the form of quantitative words like more, always, increases, often. It is not relevant whether the statistical method involved requires parametric or nonparametric data or nominal, ordinal or interval scales is not relevant. (Kassarjian 1977, 11).

The procedures involved in the methodology consist of selecting a reasonably sized sample for study from the available population. The second step is to determine the measurement unit whether it is the specific word, an overall theme or simply the existence or nonexistence of some claim. In this study the existence or non-existence of partner programs was observed, and after this the central features of the programs. Then the procedures call for categorization of the content according to predetermined rules and finally the analysis of data. (Kassarjian 1977, 16).

#### ***4.1.2 Combining content analysis and case studies***

The border between qualitative and quantitative studies can be vague, as also researchers conducting qualitative research wind up using quasi quantitative terms like 'many', 'frequently' and 'some'. However, there is a significant distinction between qualitative and quantitative *data*. (Bryman 1988, 127).

Quantitative and qualitative methods can and have been successfully combined. Second method may help provide the answers for the questions the first method was unable to. One of the ways in which quantitative research may facilitate qualitative research is in the selection of the cases for further study. (Bryman 1988, 136).

Bryman (1988) mentions several examples where this has been done. One such is a study made by Smith and Robbins on parental involvement in Federal Educational Programs in 1982. The investigators carried out a questionnaire survey of a national sample of representatives of 1155 schools, and in addition they chose 57 local projects from the survey sample for more intensive research. The 57 cases were chosen to reflect a variety of characteristics, that is, they were selected so that they were different from one another. (Bryman 1988, 129) The research setting for this study resembles the one made by Smith and Robbins. First 31 large Finnish software companies were studied by quantitative methods, and from these 31 companies 3 case companies were selected so, that they differed from one another significantly.

### **4.1.3 Case studies**

A case study is not a methodological choice, but a choice of object to be studied. Case studies can be both quantitative and qualitative. (Ghauri et. al 1995, 109). Case studies involve data collection through multiple sources such as verbal reports, interviews, written reports, financial reports and so on. In a case study it is important to have sufficient information available to characterize and explain the unique features of the case, as well as to point out those characteristics that are common to several cases. (Ghauri et. al 1995, 110). Here data was collected through interviews, written reports and brochures and through newspaper articles.

Ghauri states, that the informant has to be a manager who is involved in the process under study. (Ghauri et. al 1995, 112). In this study this recommendation is filled well, as the interviewees were managers in charge of the partner programs.

In this study multiple cases were used. According to Yin (1983, 48), when using multiple case studies the separate cases should be selected so, that it predicts similar results or produces contrary results but for predictable reasons. An important step in comparing multiple cases is the development of a rich, theoretical framework. The framework needs to state the conditions under which a particular phenomenon is likely to be found as well as the conditions when it is not likely to be found (Yin 1983, 49).

### **4.1.4 Case company selection**

In this chapter the selection process of the companies to be studied is described. The purpose of the selection process was to screen all relevant Finnish software companies and choose the most interesting group of case companies for further research.

Due to fast changes in the software industry, it is hard to define the total population of Finnish software companies (Kulmala & Uusi-Rauva 2005, 170). There are approximately 2500 firms operating in Finland that have announced that at least one field of their activity is producing software (Voitto-CD). This information is based on an official announcement the firms themselves have made, and it is in the firm's interest to announce all the industries where it thinks it might someday be active in. This way the company may save trouble in bureaucracy when no new registration procedure is needed when the company starts to operate at a new industry. Therefore there may be companies listed in a specific industry, even though they have not yet engaged in that specific business. Another source states that there are approximately 1100 companies in Finland actually practicing software-related business, most of these are small- and medium-sized companies (Finnish Software Product Business 2005).

Burgel and Murray (2000) found in their study on high-technology intensive firms that the use of foreign intermediaries was more prevalent among experienced and larger firms, as selling through distributors represents a more complex and advanced

managerial arrangement than direct selling because of the requirement to attract, train, give incentives and monitor a third party agent. (Burgel & Murray 2000, 52). Because of this, this study was concentrated on the largest Finnish software companies. Larger companies are more likely than smaller ones to have significant partnership activity and even a partner program. The larger the firm, the more contacts it has with the surrounding business environment (Kulmala & Uusi-Rauva 2005, 176). Also Ghauri (et. al 1995, 113) recognizes that research problem tend to be richer in large companies (such as MNC<sup>7</sup>'s), but it is likely to be harder to negotiate access and identify right informants who have personally been involved in the phenomenon in the phenomenon under study. This was the case in this study, when the researcher did not gain access to the largest Finnish software company, which seemed to have the most interesting partner program judging by the published information.

The group of software firms to be studied was selected from among those 2500 software firms, which had a turnover of over 5 million euros according to the last data available in the corporate database named Voitto-CD. There were 89 such companies. The company screening process is depicted in the figure below.

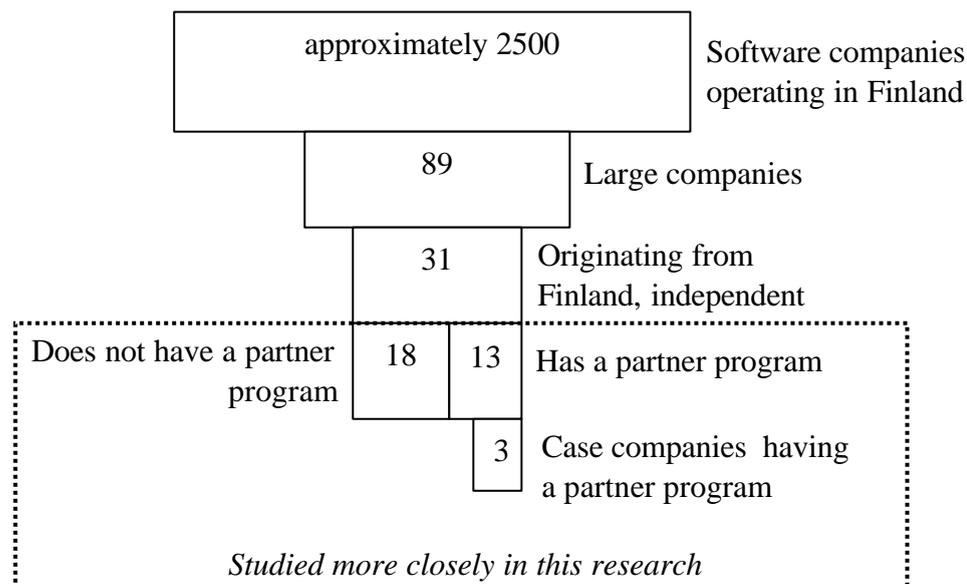


Figure 12 Selection process of the companies included in the study

The web pages of the 89 large software companies were then thoroughly visited to find out their country of origin and their true fields of activity. As this research focuses on Finnish software companies, companies that were not of Finnish origin and/or were not conducting any software programming themselves were excluded. The requirement was that the company develops and produces its own software. The remaining 31 formed the group of companies that was to be studied in more detail in the first phase of

<sup>7</sup> MNC refers here to multinational corporation.

this study. Among the excluded companies were e.g. companies that originated from abroad, did not produce any software themselves or were joint ventures or closely tied subsidiaries of other firms. These criteria are similar to what Kulmala & Uusi-Rauva have used in their research on Finnish software companies (2005, 171).

The partner programs were sought out from the target population by looking for a link for “partners” in the websites, if this was not found, information about the company’s relationships with other companies was sought. If material relating to partnerships did exist, the number of partners was counted to see if this would be sufficient to create a field where standardized activities would pay off. In a partner program the partnerships are mainly handled in a standardized manner in groups and not as individual cases. This requires that there are more than a handful of partners. The core company has to be in a leading role in most of its partnerships. The minimum was set to three partners. Then the quality of the partnerships was observed to see if the focal company was in balance in terms of power with the partner company. For example if the focal company was very small and had partnerships only with enormous players such as Microsoft or SAP, it did not fit our prescription of a partner program where the core company has to be in a leading role in most of its partnerships. Companies having partnerships only with few actors that were out of its own league were excluded from further investigations.

According to Yin (1983, 48), when using multiple case studies the separate cases should be selected so, that it predicts similar results or produces contrary results but for predictable reasons. In this research the latter path was the one chosen, and dissimilar companies were selected. Partner program was defined in this study as *published partnership activity, in which the partnerships are handled mainly in a standardized manner in groups and not as individual cases*. 13 of the abovementioned 31 companies had a partner program, and these programs were analyzed on the basis of information that the companies provided in their publications and on their websites. From among these 13 companies having a partner program three were selected for case studies: Mirasys, Comptel and Basware. The companies were selected so that they would be different from each other in terms of size and customers. Additional criteria emerged when access was not gained to all interesting companies. Mirasys, Comptel and Basware was considered the most interesting combination of three case companies that was available. The 18 companies which did not have a partner program were also studied, to find out explaining factors for not having a program. The purpose of the interviews was to gain in-depth knowledge about the programs. As this study was not concentrating on a specific type of partner programs or to a specific feature, the three companies were selected so that their partner programs were very different from one another. This was expected to give a good picture of the different possibilities a partner program carries within, and of the suitability of a partner program to different types of corporate environment. These three Finnish software companies are described in the following subchapters.

#### 4.1.4.1 *Mirasys*

Mirasys was founded in 1997 with the purpose of developing a digital video recorder to replace existing analog video recorders in closed-circuit television (CCTV) systems such as surveillance camera networks. Mirasys supplies IP-based<sup>8</sup> digital video surveillance software. Mirasys started their international operations in 2000 from Scandinavia; later on they proceeded to Baltic countries and Russia. Now they are a significant market player in several European countries, the USA, South Africa, China and Australia, according to their own announcement. (Mirasys website). As IP-based solutions are replacing video-based surveillance systems, Mirasys has an edge to the market but also several competitors. The people's need for security after 9/11 has grown also Mirasys' markets (Erola 2004). Over the years 2002-2006, Mirasys' growth percent was 342% (Mirasys website).

Mirasys provides the software as such, and on order they may provide it ready installed in a computer. The software products require little to no local customization. Mirasys delivers the product to distributors, who deliver it to their clients, value-added resellers (VAR). These resellers are most often companies who market and install surveillance systems to the end clients. For the end client the Mirasys software is only a part of the total solution. Because Mirasys is operating within the security industry, its clients often wish to remain unknown. In especially demanding customer cases such as large or complicated systems the retailers contact Mirasys and Mirasys gives assistance to the end customer directly. These are the types of customer contacts that Mirasys has. (Woitsch 2006).

Mirasys does not have its own sales channel reaching to the end customers. Sales are conducted in most cases through distributors and in some cases directly to resellers. Mirasys does not sell directly to end users. Most of the resellers that are directly connected with Mirasys are of strategic importance and have had a long relationship with Mirasys. Having direct connections is no heightened status; it is more the remains of Mirasys' old sales channel model. Mirasys switched to the current model of selling through distributors in 2005, and this decision created the question of how to maintain the resellers' level of expertise now that the direct contact had been lost. They created their partner program to fill this need. (Woitsch 2006).

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<sup>8</sup> Internet Protocol (IP) is a data-oriented network layer protocol used for communicating data across a packet-switched internetwork. It provides the service of communicable unique global addressing among computers. (Tietotekniikan liiton ATK-sanakirja 1999, 51)

#### *4.1.4.2 Comptel*

Comptel provides teleoperators and service providers convergent mediation, charging, provisioning and network inventory software. These solutions support the core business processes of teleoperators and service providers. (Comptel Financial Report 2005, 2006, 2). The company was established in 1986 as a spin-off from Helsinki Telephone Company. When GSM was rolled out and new teleoperators established themselves around the world, Comptel sold “unbelievably much” as there was little to no competition. (Schulman, 2007). The company is listed in the Helsinki Stock Exchange.

Comptel has divided its sales areas into four areas: Africa and Middle-East, Asia and Australia, North- and South America and Europe. The requirements of each area to partners vary, and the requirements also vary within the four different product lines. The processes related to partner management are similar in all four areas and with all four product lines. Most of the strategic partners are global, and in these cases the area division has little to no impact to them. (Schulman, 2007).

Comptel has very long sales cycles; from 3 months to one year. The process usually starts with the teleoperator’s initiative when they wish to have a new operating system in their network. The operators send tenders to several system integrators or directly to vendors. These actors then contact Comptel to have their products in their total service offering. It is with these actors that Comptel builds partnerships with. Comptel’s products are only a small part of a total solution, and it may be a part in several offerings to the same end customer. (Schulman 2007). The deals Comptel closes are mainly huge projects, for example in 2005 they sold only 16 new licenses but had a turnover of 66m€ The value of a single contract may be as high as 10m€ Comptel gains 37% of its turnover from licenses and 63% from services and maintenance. (Comptel Financial Report 2005, 2006, 21).

Comptel has also its own sales network, but it does not cover their whole market area. In several markets Comptel’s products are available directly from their own sales network and from their partners. This is done to gain as much visibility on the markets as possible.

In the beginning of their international operations (1990’s) most of Comptel’s revenue came from partner sales. Soon Comptel’s competitors emerged and partners had also other alternatives to choose from. As Comptel at the same time built up their own sales network, the share of partners diminished to its current status. (Schulman 2007). In 2005, Comptel gained 24,5% of its revenues from partner sales and 75,5% from own direct sales. (Comptel Financial Report 2005, 21).

#### **4.1.4.3 Basware**

Basware provides software for the automatization of procurement and invoice processing; they also provide products which aid financial planning and reporting. The company was established in 1985, and it is enlisted in the Helsinki Stock Exchange. (Basware website). The company's turnover was 42,8m€ in 2005. Basware has been expanding its partner network, and in 2005 17% of the sales came through the partner network (Annual report 2005, 5). The reseller network covered 20 countries by the end of 2005. Currently Basware is growing both organically and with acquisitions. They also use acquisitions to expand their product portfolio.

Also Basware had a sales channel of their own as well as a reseller channel. Basware has reported, that they wish to develop their reseller channel especially in Europe and North America, whereas in other market areas they are relying more on their own sales network. The developing partner sales channel will not replace their own sales channel; it will be built as an addition. (Annual Report 2005, 9).

The demand for clarity and preciseness of financial reporting is creating markets for Basware. The laws around accounting have tightened, and even smaller companies now have the need to be able to precisely follow their monetary transactions. The market is growing and maturing quickly, and only with a rapidly expanding number of partners is Basware able to meet this speed. (Elovaara, 2007).

The products of Basware require the partner to be able to implement and support the software atop of selling it. To be able to do this, the partner has to invest, mainly time and effort from their employees in the trainings provided by Basware for a fee.

#### **4.1.4.4 Comparison of the case companies**

The three selected case companies are displayed in the following table for easy comparison. It is worthwhile to note, that the companies differ significantly in terms of their size and products, thus having very different start setting for their partner programs. Large share of the revenues of the companies comes through partners, and all are planning to increase the number of partners.

Table 7 Comparison of the case companies

	<b>Mirasys</b>	<b>Comptel</b>	<b>Basware</b>
Turnover	6.2m€(2004)	66m€(2005)	42.8m€(2005)
Product(s)	IP-based CCTV system software	Software for operators of wireless telephone networks	Electronic invoice processing and financial planning software
Number of partners	Approx. 30	38	54
% of revenue through partners	70-80%	24,5%	17,5%
Planned increase in the number of partners within year 2007	“doubled”	“moderate”	“doubled”

In the chapter 2.2. the differences between software business models were discussed based on a classification by Rajala & Westerlund (2007). The three case companies are situated in the classification in the figure below. The companies are represented by the starting letter of their name: C for Comptel, B for Basware and M for Mirasys

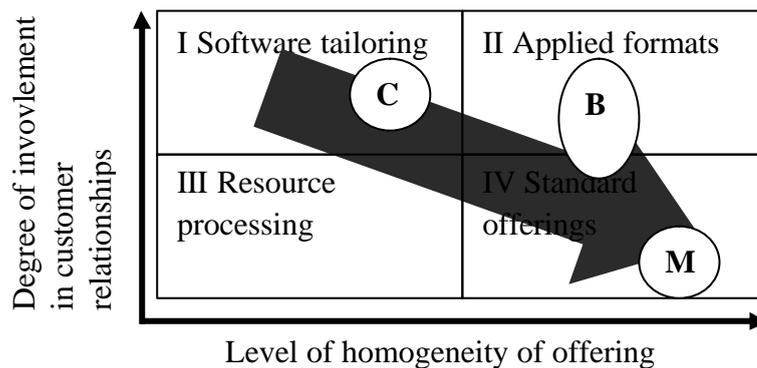


Figure 13 Positions of the case companies in the schema of Rajala &amp; Westerlund

The grey arrow in the background represents the growing likeness and demand for networking. Comptel’s products require significant tailoring and are at the core of the customer’s operations. Mirasys does not even know who their customers are, and their products are very standardized. Basware is situated somewhere in between these two companies. Basware has several different product lines which require different amount of involvement in customer relationships. Therefore it is displayed as a wider oval in the figure.

## 4.2 Collecting the data

In the first phase of this study, the partner programs of the Finnish software companies were mapped to gain a picture of the subject. As explained in the previous chapter, only few studies about the partner programs of Finnish software companies had been made before, and thus mapping was needed for recognizing the research issues and selecting the case companies.

Public information of the partner programs was retrieved from the websites of the companies themselves. The information was then coded to a table for easier comparison and sorting. Most of the collected data was stored coded as numbers, some variables such as the different partnership types offered were first stored as text which was copied word for word from the website, and later on this was also coded to a table. During this coding phase further information regarding the meanings of partnership categories and terms was retrieved from the websites to ensure correct codification. Most of the data was stored with a scale of two options, some was stored with a three-step Likert-scale. Numerical data was stored as original numbers, such as the number of partners in the partner program. The websites were visited several times during the research, the visits were concentrated on a short time period of one week in the latter half of October in 2006. When possible, the web pages were viewed as English versions to ensure the correct use of terms in this final report.

In the second phase of this study, the partner programs were approached by interviewing specialists in three Finnish software companies. Interviews can be used to collect both qualitative and quantitative data. In this study interviews were used to collect mostly qualitative data, but also some individual quantitative data such as numbers about the partners and their significance to the operations to the case company. Interviews are discussions led and guided by the interviewer with the purpose to dig out information from the interviewee. (Eskola & Suoranta 1998, 86).

The interviews were semi-structured interviews, meaning that all interviewees received mostly the same questions and they could answer in their own words. The questions were not asked in the same order, but instead they were thrown into the discussion when seen suitable. Thus the interviews had characteristics from also theme interviews. (Eskola & Suoranta 1998, 87). This way of conducting the interviews resulted in the interviewees answering all the same standard questions, and telling freely on subjects they themselves regarded as important.

The first interview was conducted on 18<sup>th</sup> of December 2006 on the premises of Mirasys in Helsinki. The interviewee served as a Marketing Vice President and he had been in the house since its start-up in 1988. The questions for the interview were sent in beforehand, and the interview was conducted mainly on the basis of these questions. There were no inferences during the interview, which lasted for one hour. The interviewee had been planning the partner program from the beginning and possessed a thorough view of the program as well as alternatives they had not chosen.

The second company to be interviewed was Comptel. The interviewee was Peik Schulman, Alliance Manager at Comptel. The interviewee had joined Comptel in 1999 and possessed a thorough view of the partner program and could explain with expert knowledge the changes it had gone through and that it was going to go through. The questions for the interview were sent in beforehand, but the interview itself consisted of the interviewee's presentation of the partner program with specifying questions by the interviewer, and in the end the rest of all the questions sent in beforehand were asked. During the interview the interviewee showed material of the partner program with a projector. This material was not to be taken outside the company; its purpose was to clarify certain issues to the interviewer. The interview took place on 5<sup>th</sup> of January 2007 at the corporate headquarters in downtown Helsinki. Mr. Schulman received two short phone calls during the interview, but they did not disturb the interview significantly. In total the interview lasted for one hour.

The third interviewee was Basware's Vice President of Global Operations Jaakko Elovaara. He was the highest ranking person responsible for the management of the partner program. The interview was recorded at Basware offices in Espoo on 5<sup>th</sup> of January 2007, the same day as the interview at Comptel. The questions were sent in beforehand and the interview was conducted following the prefabricated structure with adding specifying questions as interesting topics came up. The interviewee had joined Basware in August 2006, he had worked there five months before the interview took place. Earlier he had worked in alliance management tasks at Microsoft. At the end of the interview the interviewee showed material of the partner program with his laptop. This material was not given to the interviewer, but the contents were allowed to be used as long as no company names or exact numbers were mentioned.

### **4.3 Analysing the data**

A qualitative analysis consists of three concurrent flows of activity: reduction of data, data display and conclusion drawing and verification. Data reduction is the process of selecting, focusing, simplifying and transforming the "raw" data gained from collecting the data. This process continues after fieldwork, until a final report is completed. In fact it starts even before the data is actually collected when the researcher decides on the research questions, data collection approaches and conceptual framework. Qualitative data can be reduced and transformed through selection, through summary or paraphrase or through being subsumed in a larger pattern. Sometimes it may be quantified, as was the case in this study. Data display refers to an organized, compressed assembly of information that permits conclusion drawing and action. Most common ways of data display are narrative text, charts and graphs. Last stage of the analysis is conclusion drawing and verification, which a competent researcher does not do until the very end of the research project. (Miles & Huberman 1984, 21-23)

In this research in the content analysis phase the data reduction happened mainly when the data was gathered and codified to tables. The table and the categorization of the data were constructed on basis of individual observations that were done in the initial phase of the research or that stem from the theory. The codification was aimed to be developed so that it would consist most of the information on the websites telling about partnerships. Data display was then done on basis of these tables by transforming them once again to a word form and extracting information from the data by connecting the individual observations. Conclusion drawing and verification was done on basis of the word form observations by sketching outlines that describe the whole body of research.

All interviews made for this study were recorded to assist further analysis. The interviewees were asked for permission to record the discussions. All recordings were transcribed briefly after the interview took place. Transcribing means converting the interview from tape to written format word by word. As the transcriptions were analyzed, the answers to the question at hand were sought from the transcription and the answers of the three companies were compared side by side. The analysis was then compared to the theoretical framework and the quantitative data about the subject and conclusions were made.

## **4.4 Quality of the study**

In this chapter relevant theories about the quality of the study are presented and explains in detail how does this study answer to those quality demands. After reading this chapter the reader is able to assess the quality and trustworthiness of this research.

### ***4.4.1 Validity and reliability of the study***

Validity is defined as the extent to which an instrument measures what it is supposed to measure. In the field of content analysis the choice of categories and the content units enhances or diminishes the likelihood of inferences. (Kassarjian 1977, 15). Broadly defined, validity is concerned with the question of whether the researcher is studying the phenomenon he purports to study, and reliability is concerned with the question of whether the researcher is obtaining data on which he or she can rely. (McKinnon 1988, 36).

The main types of threats to the validity and reliability of a study are:

1. Observer-caused effects
2. observer bias
3. data access limitations
4. complexities and limitations of the human mind

Each of these threats and their significance to this study will now be handled separately.

**Observer-caused effects** can be described as the “reactive effects of the observer’s presence on the phenomenon under study” (McKinnon 1988, 37). Common examples of this would be that the participants in an interview would change their behavior and adjust the information they give out to the interviewer. In this case the interviewed persons can have been careful not to give out information that could be harmful to them when in the hands of competitors or partners. In the discussions most of the time was used to cover positive aspects of partner programs, and the conflict resolution and the strategic aspects of partner programs were left to less attention.

**Observer bias** is described as “the tendency to observe the phenomenon in a manner that differs from the true observation in some consistent fashion” (McKinnon 1988, 37<sup>9</sup>). In this study, the risk of observer bias is estimated to have been largest when the population of Finnish software companies was defined. The companies were initially selected based on secondary data available on a database named Voitto-CD. Some information in the database was old, the latest turnover information in the companies in question could be as old as from 2003 (the newest possible being from 2005). As the size of the corporation was only a method of narrowing down the research group rather than a prerequisite for further research, the latest turnover was not checked. It was assumed, that in this rapidly developing industry (Finnish Software Industry Survey 2006, 3) the largest companies would not lose turnover to go under the 5Me limit during a time when Finnish economy is doing well. (Tilastokeskus: Bruttokansantuote Markkinahintaan).

The purpose of most of the web pages that were studied in this research, was to create an image of the company in question and to attract future partners. It is extremely unlikely that companies would feed false information to the visitors as they might face their lies later on in the relationship, but it is likely that companies try to provide a positive and polished image of themselves. It may be that the real partner program is not as described in the web pages, e.g. as well structured and does not provide the mentioned benefits. Companies that were studied were the largest in their branch, and they have a reputation to preserve. Most likely all the material the companies publish of themselves go through a check-up before it is published, and this tributes also to the credibility of company websites as a source. We may assume that the information on the website is fine tuned and accurate and uniform to what the company wants to publish of themselves.

For the observer bias to be well estimated by the reader, the dependence of interpretation needs to be reduced. Mäkelä (1990) states that it is useful to distinguish three different ways to reduce the dependence of interpretation and to enhance its

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<sup>9</sup> Originally in: Simon, J.L. – Burstein, P. (1985) Basic Research Methods in the Social Sciences, 3<sup>rd</sup> edition, Random House, New York.

evaluability and repeatability. These three ways are the listing of the data, splitting the analysis phase into clear steps and to announce the rules and solutions for interpretation. The splitting up of the content analysis process is displayed in chapter 4.3 *Analysing the data* as are the rules and solutions for interpretation.

In the interviews the interviewees were asked to first tell freely about the partner program, thus creating common ground for understanding details of the program. When there was uncertainty of a term used, the interviewee was asked to clarify the term. The interviewer had acquainted with partner programs of several other companies and the theoretical background of partner programs before the interviews to become familiar with the field, thus reducing the risk of misunderstanding. The interviews were conducted in Finnish as this was the mother tongue of all the participants, thus reducing the risk of misunderstanding something because of inadequate linguistical capabilities.

**Data access limitations** refers to the shortness of time the researcher is on the field thus not being able to observe what has happened before or what will happen after the visit, and to the fact that at the time of the visit some extraordinary event may be influencing the research subject. The third data access limitation is of a more traditional type: the researcher may be barred to access certain documents, events or people. In this research the data access limitations pose a significant threat to the validity and reliability of the study. The researcher was barred to contact some of the most interesting case companies, and later on the researcher was barred to access confidential material about the partner programs of the case companies. It is impossible to evaluate how the restricted choice of the case companies and the lack of access to all material of the partner programs has influenced the results gained from the study.

The time the researcher spent on the field was extremely short, and the partner programs in question were expected to change and evolve during the following year. Regarding corporate world, this study does not differ in this aspect from other studies: nothing is as permanent as change.

The **complexities and limitations of the human mind** mean that “the statements subjects make may not be able to be taken at face value”. The subject may consciously or by habit seek to mislead or deceive the researcher by reporting events in a manner most flattering or acceptable to himself. This is similar to an observer caused effect, but is not restricted only to the researcher (McKinnon 1988, 38-39). In this research the effect of this limitation has been tried to minimize through the guidance that the researches has received from senior researchers who are experts in the field of software business.

#### 4.4.2 *Credibility of the study*

Credibility of the study means that the constructs of the study reflect reality. Credibility is one of the key criteria of goodness of a study (Lukka & Kasanen 1993, 380). Good

credibility enhances the transferability and the generalizability of the study. According to Lincoln and Guba (1985, 301) the credibility of a study may be increased through prolonged engagement, persistent observation and triangulation. Prolonged engagement is most suitable in situations, where the inquirer needs to achieve the trust of the group being studied and be accepted as a member. (Lincoln & Guba 1985, 301). Prolonged engagement would have been needed if this study would have focused on the partner program of a single firm. It is very unlikely that a researcher studying multiple companies would have been allowed access to confidential material in all of the companies, as the risk of information leak would have been obvious. Thus prolonged engagement would most likely have brought only very little more value to this multi-case study. Persistent observation was not possible in conducting this study due to resource limitations.

The third activity proposed to increase the credibility, triangulation, is of extreme importance. The data of this study was collected from the companies' publications, interviews and web-pages. This way it was tried to make sure, that the partner program is by no means being misunderstood by the researcher. The credibility of this study is improved also by the fact that the research structure is similar to the one established researchers have made in studying similar subjects (see Gulati 1998). This ensures that all essential parts of partner programs are studied. Also, the evidence from multiple cases is often considered more compelling than evidence from a single case. This makes the overall study more robust (Yin 1984, 48).

The mainstream business administration research regards generalizability as important, but some other research approaches explicitly reject it. According to Lukka and Kasanen, the researcher may use several methods in order to increase the generalizability of his results. The key question is whether the researcher is able to tie his or her analysis to business administration theories, and to other prior research, and particularly to the relevant real-world context of the studied phenomena. (1993, 381). Regarding partner programs there is little to no studies available as the subject has only recently emerged. There is extensive literature on managing partners and maintaining successful partner relationship, as displayed in the theoretical framework of this study. Partner program may be considered as a drop in the sea of partner management, and therefore most of the theories and studies relating to partner management may be considered applicable also to partner programs. Generalizability may be divided to the following three dimensions (Lukka & Kasanen 1993, 355):

- From a sample to a population (statistical generalization)
- From one place (such as research object, country or culture) to another
- From one time to another, most often from past to present or from present to future

The possibilities to generalize the results of this study can be estimated based on the chapter 4.1.4 Case company selection and in figure 12 Selection process of the companies included in the study.

It is highly disputable are the results generalizable or not. In this study we focused on large Finnish software companies. Generalizability from one place to another may be considered good, as the software business is global by nature. According to Ojasalo, the role and nature of network management may be somewhat different in large and small companies (Ojasalo 2004, 203). Software business in general is global by nature, and many of the companies studied here did indeed act globally. This would indicate that the results would be transferable to other countries. Software business differs a great deal from most other industries, and therefore the partner program structure and tasks may not be applicable to other industries. It is also worthwhile to note, that most of the 39 largest Finnish software corporations studied here did not have a published partner program at all. There are several different types of programs, and different products require different business logics and a partner program may not fit at all. Case studies are always context dependent. This reduces also the generalizability of this study.

## 5 EMPIRICAL RESEARCH FINDINGS

This chapter presents the research findings from the empirical research of this study. The results are reviewed against the theoretical framework of the study.

### 5.1 Suitability of a partner program

In this section first the prevalence and the use of partner programs in Finnish software firms is assessed, and then possible explanations are given to why exactly these firms have chosen to set up a partner program and others have not. This will aid to determine to what type of companies a partner program would be a suitable option. This chapter issues the first research question: *For what type of software companies is it reasonable to set up a partner program?*

#### 5.1.1 Prevalence of partner programs among software firms

There are approximately 2500 firms operating in Finland that have announced that at least one field of their activity is software production (Voitto-CD). From this group 89 largest firms were included in the initial phase of my study on the basis of turnover which had to be over 5 000 000 euros according to the last available information in the database in question. Of these 89 firms 31 matched the criteria of a Finnish software firm as described earlier in this study. Only 13 among them had organized their partners in a way that fulfills the conditions a partner program set earlier in this study. This result is in line with the observation made in 2004, that Finnish ICT companies have not fully taken advantage of the possibilities of partnering (Nummela, Saarenketo & Puumalainen 2004, 285). It is possible, that many of the companies studied here have some type of partner program although they have not published any information about it on their website. In this study, however, partner program was defined so that announcing it on the website was one prerequisite for it to fit to conditions set by us. If the partner program is set up to reduce transaction costs, the first transaction costs the core company can avoid are the costs associated with the searching of the potential partners; thus the core companies should show attempt to lure potential partners to them. It is also likely that many companies are far more organized in their partnership activities than what they publish on their websites. Thus we may conclude that at least 13 of the 31 largest Finnish software firms have a partner program. The transaction cost explanation for partnering was discussed in chapter 3.7.

Most of the rest 18 companies lacking a partner program appeared to do so mainly because they were more deliverers of tailored solutions rather than creators of a single productized software. This conclusion is supported by a study Burgel & Murray did

about high-technology firms. They found that products which require a high level of client-specific adaptation are more likely to be sold by the original manufacturer and not through intermediaries or sales channels. (Burgel & Murray 2000, 53). Another apparent reason for not having a partner program of their own, was that the companies positioned themselves more in the downstream end in the sales channel, and are thus most likely to participate in the partner programs of the creators of the software they implement, rather than creating partner programs of their own and offering it downstream to their sales channel. Most of the 18 companies were in the position of the actors drawn in bold in figure 6 on page 25. The companies had, however, listed themselves in the industry classification under the code 7221 Software production and supply, but it appeared that several companies had done this because they had some minor self-made software that was sold as a part of the total solution. Many of these companies sold tailored software solutions, or their own productized software had only a minor role in their business. For example Solinum Oy sold hosting, training and programming services, and their own software was a mere calendar application (Solinum Oy website). Tailored software requires close co-operation with end customers, and thus business operations based on tailored software are not scalable, and multiple sales partners are not necessary. Companies operating with self-made tailored software are fairly independent and do not require a large number of partners to assist them.

Of the 18 companies which did not have a partner program, four had a product and a position in the markets which would seem to enable a partner program. Closest to a partner program-type organization was Vertex Systems Oy, which had five sales units of its own abroad on three continents and 18 sales representatives in 13 countries (Vertex Systems website). Vertex Systems provides software products for technical design and data management, the products are mainly used by machinery and equipment manufacturers in metalworking, building and furniture industry, process industry and energy production as well as the corresponding engineering companies. The company was established in 1977 and their primary focus was in Europe and North America. (Vertex Systems website). Also Nethawk Oyj had products which were scalable, and they had set up a sales network which was present in 60 countries. (Nethawk Oyj website). The products offered by Nethawk were targeted partly to the same companies and were of the same nature as the products of Comptel. However, Nethawk had not set up a public partner program for reasons unknown. The companies are described in the table on the following page, along with the probable reasons for not having a partner program.

Table 8 Large Finnish software companies not having a partner program

Company name	Business field	Probable reason for not having a program
Affecto Genimap Oy	Spatial data management	Locally oriented service
Cadi Oy	Products based on the products of other software firms	Products based on products of other software firms + tailored software
Eget oy	Online gaming software sold to customers	(no obvious reason)
Emce Solution Partner Oy	Provides total solutions	Own software in minor role
Flander Oy	Testing and quality assurance	Tailored software
Insta Oy	Programming to customer needs	Tailored software
Ixonos	Programming to customer needs	Tailored software
Medi-It Oy	System management & training	Own software in minor role
Nethawk Oy	Testing software for network operators	(no obvious reason)
Opus Capita Oy	ERP <sup>10</sup> software	High service content
Plenware Group Oy	Customer service oriented	Tailored software
Saraware Oy	Programming to customer needs	Tailored software
Solinum Oy	Programming to customer needs	Own software in minor role
Solita Oy	Services and total solutions	Own software in minor role
Solteq Oyj	Provides total solutions	Own software in minor role
Sulake Labs Oy	Chat world <i>Habbo Hotel</i>	Running the service is central, not the distribution of the product
Vertex Systems Oy	Engineering & data management software	High service content
Wap Oneline Oy	Mobile service platform	(no obvious reason)

Large and established firms are more likely to have partner programs than smaller software firms, because they have had time to develop their sales channels and also to

<sup>10</sup> ERP refers to Electronic Resource Planning

establish the required number of partnerships. This would indicate that less than one third of Finnish software firms have a partner program, when even the firms with a turnover below 5m€ are taken into account.

### ***5.1.2 For what purposes***

Thirteen Finnish software companies were perceived to have a partner program. Ten of these had announced the different functions for which they are looking partners for. The most commonly offered partnerships were technology- and sales partnerships. Both of these were offered in 8 of the 10 cases. Technology partnership usually means that the core company makes its software compatible with the software or equipment of the technology partner. For example, Basware had technology partnerships with SAP, Microsoft and Oracle. In practice this means that Basware's software is can operate with and within the software products of these three technology partners. It is questionable if this type of technology partnerships true partnerships in the sense of reciprocity and equality, or if they are just licensing relationships. The other type of partnership offered, sales partnership, referred to sales channel partnerships, covering also services in some cases.

The second most common type of partnerships was consulting partnership. This kind of partnership option was present in companies that offer software that is in some way central to the everyday operation of the client corporation such as mobile banking solutions, retail software or supply chain management software. Consulting partnership was offered by the core company in 6 of the 10 cases. Consulting partners help the end-customer to build up a total solution from the products and services of different suppliers. Often consulting partners also offer other services, such as system integration.

Complementing partners were sought after by five companies. Complementing partners refer to partners who produce software that in some way complements the software offered by the core company. Training partners were sought after in only three of the cases. Training partners train the end-customers personnel to use the software, or the machines where the software is implemented in. Training partners may also train other partners in the channel. Other types of offered partnerships were system integrators, research & development and OEM partners. The term OEM (Original Equipment Manufacturer) partner refers to partners who install the provided software ready to their product, such as cash machines and cars for example.

### ***5.1.3 Motivation***

There are several factors influencing the downstream networking decisions of companies. Perhaps the most important are the requirements the products set: some

products may be simply sold whereas others require for example system integration and maintenance services. Other factors affecting the networking decisions are for example the internationalization stage of the company, available intra-firm resources and the structure of the branch. (Ruokonen et al 2006, 61). As in depth knowledge about the factors affecting networking decision could only be gained with interviews, this question was approached from the viewpoint of the three interviewed companies: Mirasys, Comptel and Basware.

Most Comptel's products could be delivered only with complementary products and services. In such a case it is natural to develop close relationships and partnerships with the suppliers of these products and services. Comptel's partnering took place both vertically and horizontally, and some partners had qualities of both directions. (Vainio 2005, 1080). The situation was similar at Mirasys. The situation, in which the end-client would want to change the software of his surveillance system, was most likely a situation in which a completely new system was being set up or the old, perhaps even VCR<sup>11</sup>-based, CCTV system was being renewed thoroughly. Most common example of a CCTV system would be a surveillance camera system of a large building. In these situations the end-client also needed other products and services than the plain software, such as hardware and installation services. The market of the surveillance solutions was constructed so that the end customers were being served by providers of total solutions who purchased their hardware and software from distributors. Mirasys did no direct sales to end customers, as in their opinion they reached good market coverage through distributors and competing with distributors might have lead to a channel conflict.

The level of know-how that the selling of the software required was one of the major reasons in all three cases for the creation of the partner program. The core companies wanted to be sure that the partners' level of knowledge was up-to-date, and some products could not be sold at all if the sellers didn't have thorough knowledge about the software. In software business it is common that the companies are selling their products through channels, but the products these three companies are selling require expertise and commitment from the partners.

*“We realized that our software was attractive enough for partners to sell. It requires certain expertise so that it can't be sold in bookstores. This expertise creates revenue for the partner which makes it worth their while. It has also requirements to the partner: they need to learn how to sell and implement the software.”*

(Jaakko Elovaara, Basware).

Mirasys was a long way from their customer surface, and they didn't even know all resellers that were selling and installing their products. With the training provided in the partner program Mirasys tried to ensure that the partners knew enough about the product in order to target it to the right market segments and to sell well. Training of the

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<sup>11</sup> VCR refers to Video Cassette Recorder

partners was planned to reduce the number of contacts to the distributors and to Mirasys, and through this they were hoping to be able to reduce the number of people working at their technical support.

Partnerships with similar companies from the same industry, aiming at strengthening the focal firm's core know-how as Santangelo (2005) depicted, were not included in the partner programs. In the case companies this type of relationships had not previously stayed as mere relationships, the two complementing companies had merged or one had acquired the other forming a single corporation instead of an alliance. Basware had recently acquired a company producing travel invoice software to complement their electronic invoice processing software. Peik Schulman (from Comptel) pointed out, that developing deep strategic alliances with other companies in the software industry is too slow as at the moment companies are fiercely making acquisitions. The economic slowdown in the IT-branch and the existence of too many software companies has dramatically cut growth, and now companies are growing through acquisitions (Gao & Iyer 2006, 120).

## **5.2 Partner selection process**

Forming a partnership includes acceptance from both parties. In this chapter the partner selection process is therefore observed from both the core company's and the partner's viewpoint. After this the decision to end a partnership is discussed in the third part.

### ***5.2.1 Selecting partners***

Partner selection is one of the most critical tasks in the establishment of alliances and the choosing the right partner has been identified as a precondition for alliance success (Varis 2002, 1). The first partner selection for the program takes place when the partner program is initiated. It is most likely the core company has already established partnerships prior to the establishment of the program, and thus they are facing the question of which partnership should be included in the program and which not. According to the interviewees in the three case companies, their old partners hardly noticed the difference when the partner programs were initiated. The old partners were automatically included in the program, except those partnerships that did not fit the program categorically, such as unique partnerships in fields that were not in the program. According to Eilles, Bartels and Brunsmann (2004) the core company should include as large proportion of its partnerships in the program, as leaving individual relationships outside the program and managing them as individual relationships causes inefficiencies and may cause friction among partners in- and outside the program. Mirasys used the opportunity of establishing a partner program to push some of their

value-added resellers from buying straight from Mirasys to buying from their distributors as was the standard way of operating. All the partners buying directly from Mirasys were granted partner status. The partner situation at Comptel was so fluctuating, that it was easy to switch into a partner program.

After the initiation phase of the program, all companies used multiple channels for screening of potential partners. Mirasys was just starting to implement their partner program, and they were relying on the recommendations of their distributors in their partner selection process. At the time of the interview they did not have other plans of how to continue the partner search, as their program required the distributors to act as middleman in the channel. As little trade as possible was conducted by bypassing the distributors. Mirasys faced resistance in implementing the partner program from some of their distributors who feared that they would be cut off if Mirasys strengthened the connections with their resellers. So far no direct incentives were given to the distributors for the selection of resellers to become partners, but both the resellers and the distributors would naturally benefit from the increased sales.

In previous studies on alliances (Gulati 1998, 294) it has been noted that in the instances in which firms independently initiated new alliances, they turned to their existing relationships first for potential partners or sought referrals from them on potential partners. This way of seeking partners was common also for the case companies studied in this research. Basware and Comptel mainly used their technology partners in partner search, as well as their own sales channels and business intelligence teams. The companies hadn't restricted the channels through which they were searching partners; they were using all that was available. All three companies had potential partners contacting them also on their own initiative, and this was regarded as the best way of getting in contact with partner candidates. A potential partner contacting the company usually meant that the candidate had already done some research and was most likely to have a plan of how to sell the products and also believed in their capability to sell. The costs of acquiring specialized technological skills and creating networks to be able to sell customized and complicated products may be prohibitive and economically irrational for the partner (Burgel & Murray 2000, 53), but all candidates do not understand this. The backgrounds of this type of potential partners were always checked and they went through the normal evaluation process. Comptel was especially careful in selecting this type of partners, as they feared that there might for example be a plot to undermine some of their established partner relationships. The branch where Comptel operates was going through restructuring when the interview was conducted, and many new potential partners were emerging while mobile phone network operators were outsourcing their functions. Many new companies were being created to serve only one or mainly one network operator. It was not in Comptel's benefits to become closely tied to a partner that actually operated only with one end-customer, and thus they were being extra-careful in selecting their partners at the time.

Currently Comptel is in most cases the initiator in their partnering process, they scan possible companies and judge with whom they could have a profitable partnership, and then proposed a partnership to the firm. Having several partners and being a part of several partners value proposition was of great importance to them, as the end customer decides from which system integrator they want to buy the solution, and which partners they want to have in or out of the deal.

Only one of the interviewed companies had a detailed and structured procedure of evaluating potential partners. This resembled the Balanced Scorecard –procedure in which points are given on the basis of how well the candidate fills the requirements. This has been suggested also by Cavusgil et al. (1995) for complicated partner evaluation processes. The results of this procedure were then followed no matter how awkward it might have looked. Another company had developed a clear process of evaluating partners, but it was more based on ideas and verbal evaluations than systematic point giving. The third relied on recommendations from other actors in the sales channel in selecting their partners.

Sales partnering is often seen as a fast and efficient way of entering a market, as the partners have local knowledge and a ready contact base (Varis et al. 2005, 26). All case companies required that their partners had already established their position at the markets they were operating in. No newcomers were accepted to the program, however, Peik Schulman from Comptel pointed out that this could be possible if some new technology emerged rapidly in the market and the newcomers would have expertise in this.

Comptel and Basware had both formalized their partner evaluation process after the initiation phase. This included evaluating the product selection the partner had, their competencies, networks and the core company's need for the particular partner. As Duysters (1999) suggests, it is important that the new partners fit the whole partner program. This was mainly visible in the selection process through the gained market coverage: the core companies did not want to have too many partners in one market.

### **5.2.2 *Getting chosen***

When asked how the companies tried to be an attractive partner, the most important issue that always came up was the product. An attractive product was seen as the basis. The companies also made efforts to make sales easier for the partners: they offered trainings, joined marketing and other support from the core company of the program. Both Mirasys and Basware had a sales incentive program. Basware offered a sales competition where five best selling firms were rewarded. The competition was run twice a year. They had also built different revenue levels: the more you sell the better revenue you get. On top of this, they also rewarded their partners for closing important deals. Mirasys had a more simple rewarding system: achieving certain sales targets

meant a small monetary reward for the partner. The clarity of the revenue logic of the program was regarded as important in being an attractive partner.

Basware gathered feedback from their partners regularly, and they made small improvements in their partner program one every quarter based on this feedback. All interviewed case companies gave weight to having clear rules with the partners, being honest and playing fair. It has been noted also by researchers, that a good reputation as a partner is a significant asset (Hoffmann 2005, 133).

Some of the partners of Comptel had connections with competitors of Comptel, which made the partnering sometimes difficult. The partners could have tried to use exclusive deals with Comptel as a tactical move to knock Comptel out from a deal. Exclusive deals – where Comptel would be represented by a single partner in a market or where Comptel would be the partner's only software provider – were made extremely seldom as Comptel's products could be offered to end-clients by several partners simultaneously, and thus the probability of getting chosen to a deal were much better with several partners than if they had an exclusive deal with just one partner.

### ***5.2.3 Dissolution of a partnership***

Network relationships are not free. All relationships require investments of management time and financial resources. As resources are scarce, the firm should try to develop an optimal set of relationships. (Möller & Halinen 1999, 423). Therefore it is worthwhile to get rid of unsatisfactory partnerships.

. None of the case companies aimed solely at having a large number of partners. All were aiming at developing deeper and more profound relationships with their present and future partners, and all were also willing to discontinue an alliance if it proved unsuccessful instead of letting the partner stay enlisted as a partner even as non-active. Comptel and Basware both used the opportunity of starting the program to clean up their partner portfolios of partnerships that weren't operating at all or as wished

Basware made yearly business plans with each of their partners. If no business plan was made, no further investments were made into the relationship by Basware and also the partner's sales dropped. These partnerships turned into non-active and usually the partner contracts were terminated sooner or later.

## **5.3 Structure of the program**

It was expected from the basis of the theory that in partner programs the partners would be divided not only in different categories, but also in different levels. This proved to be true, however, only in two of the cases. One of the firms is Comptel, and in their partner program the firm's level is defined on the basis of commitment, business volume and

partnership maturity. Their three different levels are marketing alliance, channel alliance and strategic alliance. When alliance manager in the company in question was interviewed, it turned out that the first two levels of the program (marketing alliance and channel alliance) were almost similar and could be united in near future. Comptel has a total of 38 partners in their partner program. Aldata Solutions was the other firm with a level division; they had a total of 67 partners in their program. Stonesoftware and Basware had more partners than the previous two, 163 and 54, but they had no level differentiation in their programs. It was rather surprising to find out that the increasing number of partners does not automatically lead to a level division in the partner program. In one of the interviewed companies, level differentiation was seen as a possible source of conflict in partner relations as it might evoke envy among partners, and for this reason they had left level division out of their program structure.

In the following table the popularity of level division in the most populated partner programs is displayed. None of the partner programs with fewer members than 17 did not have level divisions in them. These partner programs are not presented here in this table.

Table 9 Popularity of level division in partner programs

<b>Core company</b>	<b>Number of partners</b>	<b>Level division</b>
<b>Stonesoft</b>	163	no
<b>F-Secure</b>	136	yes: Silver, Gold
<b>Aldata Solution</b>	67	yes: (names not available)
<b>Basware</b>	54	no
<b>Comptel</b>	38	yes: Marketing, channel, strategic alliance
<b>Mirasys</b>	<20	no
<b>SSH Communications Security</b>	17	no

Mirasys saw the division of partners into different levels as a possible source for conflict, and did not want to build a level-structure into their program. They stated that as the number of partners grew the need for a level division would be reassessed. Currently they had less than 20 partners within the program. The small number of partners was also one of the reasons why Basware had not built a level structure to their program. In their program all partners were treated as equal, though some partners did get a better provision based on their previous sales, as described later in the following chapters. The level division seems to be a rarity in partner programs. It is however used by multinationals such as Microsoft who have thousands of partners.

In all the companies interviewed, the management of partner programs was situated within the marketing department in the core company. In Comptel the control of the partner program had just shifted from sales to marketing and at Mirasys the sales and

marketing departments were just in the process of being united. The companies did not have an alliance manager at the board of directors, but the marketing manager was told to be very close to the partner program.

The partner programs are a new phenomenon. Mirasys had started their program in 2005, and Comptel and Basware had renewed their programs to the current state in 2003. Basware had only recently started to put more effort to the partner program as they had noticed that the program was working and a good method to get more sales forces on the field. Also Comptel was aiming at getting better results with their program than they were doing now, it was to be one of their sources for future growth. All three companies regarded partner program as an essential part in their sales strategy. This was indicated by the fact that all three companies were accelerating the speed of partner program implementation and the number of partners was expected to grow almost exponentially.

In the three case companies the partner program was focused solely in the management of the sales channel. It can, however, be used in controlling other types of partnerships as well. To highlight the plural forms a partner program may have, an example outside the case companies is demonstrated.

F-Secure is a globally operating Finnish software company producing software and services to protect consumers and businesses against computer viruses and other threats from the Internet and mobile networks (F-secure website). F-Secure has the most complicated structure in the partner program among the firms studied in this research, and therefore it is worth demonstrating here. They have categorised their partners and have established a partner program, but their definition of the partner program differs from the definition used in this research. As F-Secure has several partners in each of the partner categories and they are treated in a standardized and regulated manner, their whole partner management fits the definition of partner program used in this research, rather than only the sales partners classification that they use. F-secure's definition of a partner program is depicted with a grey rectangle in the following figure, whereas the definition used in this study includes all partner types in the figure in the partner program. The figure is drawn based on information provided by the company on their website.

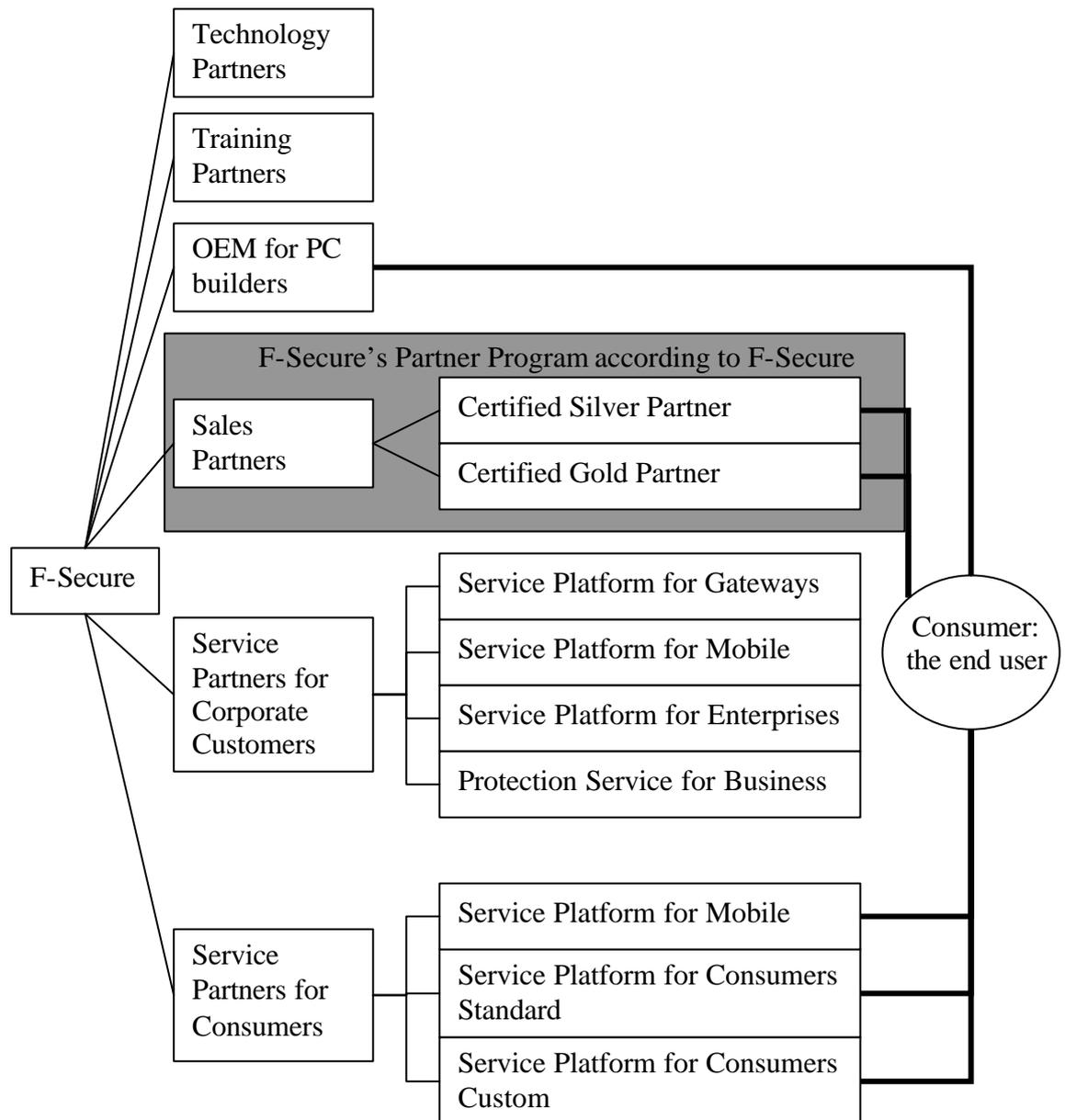


Figure 14 F-Secure's partner categorization

The partners are divided into different groups according to their corporate type, service logic and end-customer segment. One partner may serve several types of end-customers, and thus belong to several groups. F-Secure has both corporate and consumer customers. For consumers F-Secure products are available from their own internet store, ready installed in machines, from their service partners and from their sales network, as displayed in the figure. The different channels leading to end customers are drawn with thick lines.

### 5.3.1 *Partner program inclusion*

All three case companies had technology partners. The technology partner's role was similar in all three cases; the purpose of the partnership was to make the products of the core company compatible with the products of the technology partners. All of the technology partners were bigger than the core company that was interviewed; therefore it is more accurate to say that the companies in the focus of this study were members of the partner programs of their technology partners rather than the other way around. For the same reason, these partnerships were also excluded from the partner programs of the case companies. Mirasys saw a clear need for building a partner program –like internal process model for the systematic handling of technology partnerships. This arrangement would not be visible to the partners, it would be used only internally.

Partner program was not in any case the only sales channel. Mirasys had retailers that weren't in the program, Comptel did a lot of case-by-case –teamings and all three also had global alliances that were so significant that they were handled separately. All the companies had also partnerships in other fields than sales, but these partnerings were so case dependant that no program was built to organize them. Partners outside the partner program included for example companies that supplied additional features to the software of the core company, companies that installed the software on a PC to be delivered as a turn-key package. The partnerships were outside their partner program because of their uniqueness in terms of field of activity or the importance or scope of the partnership. Even some sales partnerships could be excluded from the program as Basware had done: they had excluded partners that covered several continents and not just individual countries as most partners did. Excluded partnerships could be thought as to form another class of partnerships, where the bulk of partnerships were included in the partner program and the unique ones categorized outside the program.

Mirasys had four different types of partnerships in total. They had their partner program and other partnerships in the sales channel, the second type was the major software manufacturers with whose products Mirasys had to make compatible products; then there were the hardware assemblers for their turn-key deliveries. The fourth type of partners was the manufacturers of CCTV hardware, such as cameras and monitors. Only selected sales partners were included in the program.

Comptel had four different product lines, all of which have slightly different requirements for the partners that are selling them. The partners could also be classified by the role they had in the sales: go-to-market –partners, channel partners, co-selling partners and system integrators. It is to be noted however, that as the deals Comptel closes are few in number (17 deals in 2005) and huge in value (even 5-10m€), the cases are most often handled as individual cases and the roles of different partners may vary from one case to another. Mr. Schulman told in the interview that one of the reasons for creating the partner program at Comptel was that they needed a clearer way to control the process of managing partnerships. Comptel's partner program is not static; it is more

a process management tool. More than the other case firms, Comptel operated at the second level of the network model by Möller & Halinen (1999) where the firm is seen as an actor in a network and it creates its position through business relationships (model depicted in table 5, p.24 ). The company has to be able to rapidly shift its network position and navigate along the network to be able to reach customer cases.

### *5.3.2 Sales channel structures*

Basware and Comptel both had their own sales network in addition to their sales partners. Basware was able to take care of the whole product delivery to the end-client themselves without any partners, but the nature of most of Comptel's products was such that they always needed a partner to complete the deal –the partners supplied necessary services or products. In both of these firms, the decision of whether to go to a market with their own sales organization or with partners depended on the market situation. If the market was already crowded with firms that could be turned into partners, no sales unit of their own was set up.

In a study conducted in 2004 in the Finnish Infocom sector, one of the findings was that the seeking of new marketing capabilities was not connected to how good or weak the companies perceived their own marketing capabilities (Varis et al. 2004). In the case companies in this research, the partner program and a sales organization of their own were built to complement each other, not to replace each other. In both companies the partner program was regarded as a faster way for growth than building up their own sales organization, still they wanted to keep some customer contact to themselves.

Both companies (Basware and Comptel) had found themselves in a situation where they were competing against their partners on a deal. In these cases their own sales always withdrew, leaving the field open for their partner. In the cases where Comptel received their lead independently through their own sales channel, they automatically contacted their partners and asked for assistance as the products could not be delivered without partners' complementary services and products. This was also seen as good relationship management and as one way of creating satisfaction and commitment to the partner. Basware also had a sales channel of their own. In situations where Basware was competing on a deal with a partner, they always withdrew their own tender for the benefit of the partner to avoid conflict. In both of the companies the policies were clearly stated and also announced to the partners.

Keeping multiple partners in the same market or having a sales agent of one's own functioning at the market in addition to the partners, prevents the partners from behaving opportunistically and forming a hold-up situation (Jaakko Elovaara). This creates safety for the core company.

In the theoretical part of this study it was predicted that partner programs would mainly be used in vertical networks in the network classification model of Achrol &

Kotler (1999)<sup>12</sup>. One of the case companies proved to be an exception: in several markets Comptel's products are available directly from their own sales network and from their partners. This is done to gain as much visibility on the markets as possible. In the network model of Achrol & Kotler Comptel's networks would be classified as opportunity networks: networks aimed at grabbing emerging market opportunities. The partnering decisions that Comptel made varied from one customer case to another. It was surprising to note that Comptel was able to construct and maintain a partner program in such an unstable operating environment.

## 5.4 Controlling the program

Comptel was the only case company that had different levels for their partners. The levels were marketing, channel and strategic partner levels. The marketing partner level and the channel partner level had grown to be almost equal, whereas the difference to the strategic partner level was remarkable. The partners were selected to their strategic partner –level on the same basis as companies were selected to become partners. Strategic partners were seen as the easiest way of offering the products to the customers. Most strategic partner relationships had developed from earlier relationships. When Comptel was a new company at the market, they were contacted by large companies because they had an extraordinary product. This type of big market players were accepted as strategic partners straight away. Currently Comptel is the initiator in the partnering process and no company is accepted as a strategic partner straight away.

Building up the partner program involves very similar processes as the construction of an investment portfolio, such as answering questions: do new relationships need to be created; which relationships should be developed and which maintained and are there any that should be broken or discarded? (Zolkiewski & Turnbull 2002, 578).

As it is within the stock market, previous performance does not guarantee future success. Occasionally, a successful partnership can be derailed by changing external conditions such as recession or an external event. (Maheshawari et al. 2006, 283). The future possibilities should also be evaluated, as relationships and network-specific assets learned and developed over time, are what create a competitive advantage (Ojasalo 2004, 199). Optimal partnership success can be dynamic: what is possible for a partnership to achieve may change over time as business conditions change (Maheshawari et al. 2006, 282). In one of the case companies the partners were monitored by grouping them on different lists. Strategic partners were grouped in their own list. On their 'focus' list they had enlisted partners with whom they wanted to have a better and deeper relationship. These partners were seen as possible future strategic partners. The 'warm' list included possible partners the company was interested in, and

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<sup>12</sup> Described in chapter 3.2.2 on page 27.

with whom they wanted to try to have a relationship with. The ‘cold’ list included companies that they did not want to have anything to do with, such as direct competitors, companies with a bad reputation or companies with whom they had bad experiences. These lists were reviewed from time to time and partners moved from one list to another.

At Comptel the managers of the sales area had a key role in deciding with whom to partner and with whom not. In the situations where Comptel brought customer cases to partners, the account manager in charge of the case had the key role in deciding about the case-by-case teaming. If some additional features to products were to be acquired through partners, the people in charge of that software could also influence who to partner with. So far this type of partnerships did not belong to the partner program.

#### ***5.4.1 Goals for co-operation***

Since the partner program is built up by the core company, the goal of the program and the network is defined to be the goal set by that company. The core company initiates and builds up the program with the goal in mind, and the program would not even exist without this goal. (Ojasalo 2004, 198). The goal of the program serves the core company, but successful long-term management of the program and the relationships in it require aiming at a win-win –situation. (Ojasalo 2004). In the case companies the overall goal for the program was extremely simple: gain more sales. The benefit from this to the partner was purely monetary; they would get their share of the profits.

The three case companies had certain priority areas where they wanted to strengthen their partner network and gain better market presence, they were not implementing the program with equal power everywhere. One of the companies wanted to implement the partner program more to a certain type of partners, and the other saw certain geographical markets as essential for the partner program. Basware faced local markets, and implemented different marketing strategies to different countries, and in this also the implementation of their partner program took different forms. In some countries they were present through their own sales organization, and on other markets they were represented only through partners. Often this was due to the market structure of the target country: sometimes there were no acceptable partner candidates present at the markets.

#### ***5.4.2 Revenue logic***

All the case companies gained most of their revenue from sales of products. All the companies offered training for the partners so that they could also take care of the after sales services. Only Comptel sold licenses for more profound support services, while

the everyday small support tasks were given to the partners free of charge. If the partner would take care of these services, they would get the whole charge for themselves. This was also used for luring companies to become partners; the case company would give them tools for making more revenue, a milking cow. And as stated before, most of this training was free of charge. The main incentive for the partners in all of the programs was additional income which consisted of increased sales due to provided training, and the after sales services as described above.

Basware's different partners had different product portfolios they were selling. The contents were determined in the yearly business plan that was made together with the partner. As partners grew and gained a larger customer basis they also took more products to their portfolio.

Having clear and transparent revenue logic in the program was regarded as important for the company's reputation and attractiveness as a partner.

#### **5.4.3 *Communication with partners***

Partner programs set rules regarding the way a group of partners should be dealt with. Some groups can be given extensive access to technology information, managers and clients. Other groups may be more at a distance. The most important managers may receive regular visits from the top management, whereas lower management may take care of the less important partners. (Duysters 1999, 186).

The partner programs were controlled globally, but when a business opportunity emerged that required more local knowledge, the contact was given to a local team of the core company. The local team was also responsible for partner screening. Mirasys didn't have local teams –there all partnerships were controlled globally.

The case companies had partner managers acting as key account managers with selected partners. They had yearly meetings for the partners, where the partners would get the latest news from the core company, meet each other and network, and receive training from the core company.

All companies stated that trade fairs were an important meeting opportunity with the partners, and all had joint marketing with the partners at the fairs. The interviewees had also negative experiences from the fairs, as they posed a challenge to relationship management when several partners that were competing in some markets encountered each other and the core company was to maintain working relationships with both of them.

Both Comptel and Basware maintained an extranet for the partners. In the case of Mirasys this was not yet established. All three companies had a regular one-way communication channel to the partners, such as a newsletter or a magazine.

Customers and suppliers are the two most important types of linkages possessed by innovative firms. When it comes to software firms, customer linkages are overall the

most important type of linkage, presumably due to the fact that software has to be developed in close cooperation with the users as product requirements can rarely be specified at the outset. (Segelod & Jordan 2004, 9). Both Basware and Comptel maintained a connection with the end customer though the sales went through the partner. Due to the nature of the security surveillance business, this was not possible for Mirasys in all of the cases. Mirasys had contact with the end customer only in the most demanding cases, where their expertise was needed in setting up or maintaining the system.

The strategic partners of Comptel had direct connections to their board of directors. In two other companies the partners always communicated through the marketing department.

Basware was trying to keep their partner processes as formalized as possible. These processes included training, marketing, controlling the partners, sales competitions and of course the initiation of the relationship. Jaakko Elovaara from Basware stated that each channel manager (key account manager) is a person of his own, and may conduct the connections with the partner as he or she wishes.

#### ***5.4.4 Sales training***

Complicated products require certain level of expertise from the partners, and it therefore represents a barrier to involving intermediaries and the attendant cost of sales support can be managed so that it becomes an attraction for the partners. (Burgel & Murray 2000, 54). This indicates that the more complicated and customizable products the company is selling, the more training it needs provide for partners and that the cost of these trainings should be made low for the partners.

All case companies required that their partners participate in the training the core company provided to support the sales. The training of the partners was regarded of key importance in the program. With education the core company could cut off some of the transaction costs generated by their customer support as the partners would have fewer questions and fewer problems they themselves couldn't solve. The question of after-sales service was of greatest importance to Mirasys, as it was the smallest of the case companies and thus suffers most from scarce resources. Mirasys also regarded training as good relationship management, as they trained the partners to take care of the after-sales services and support, which brings revenue for the partners but not for Mirasys.

Much of the training provided by the case companies was sales training. Basware regarded the training as most critical for succesful sales. A partner not participating to the training was clearly signalling their unwillingness to continue with the partnership. Soon such partners would often report smaller sales and the relationship would first hibernate and then be ended. As the costs of acquiring specialized technological skills needed to deal with the products may be prohibitive and economically irrational for the

partner (Burgel & Murray 2000, 53), most of the training in all three case companies was free for the partner, although Basware had a no-show –payment: if a partner had listed for the training but did not cancel or show up, there would be a fee.

The training was regarded as an excellent tool for providing satisfaction for the partners. With education the partners could also sell more and build better relationships with the end customers.

#### ***5.4.5 Partner satisfaction***

To be able to develop a network, a firm has to be able to mobilize other actors and give them a reason to participate. A firm that has new and interesting resources to offer – products or services, know-how, access to technology etc – can easily attract qualified partners in the network. (Möller & Halinen 1992, 423). Also, a good reputation is regarded as a significant asset (Hoffmann 2005, 133).

All three case companies had developed ways of delivering benefits to their partners in addition to the monetary compensation they received from sales. Basware was seeking opportunities for their partners to network with each other and they also offered them support such as customer cases when a company was entering a new market. On top of this they had a sales competition, in which the rewards were non-monetary such as skiing in the Alps or a Formula 1 –weekend somewhere. Comptel bought customer cases to their partners thus helping them to gain more business.

Often, informal social contracts serve a more critical role in developing long-term commitment. Most importantly, trust and managerial judgment can provide a more flexible means to ensure alliance success over the long run. (Frankel, Whipple & Frayer 1996, 49). The case companies took efforts to build social connections with their partners to be able to use also social control (discussed in chapter 3.5.3). This proved to be a challenge with larger companies, where the contact persons could change easily. Often the quality of the relationship depended on the opinions of the partner’s contact person. Buono (1997, 263) noted, that a company should prevent a loss of social connections in personnel rotation from their own side by keeping several people in touch with a single partner and rotating them deliberately from time to time.

#### ***5.4.6 Evolution of the programs***

The partner programs are a relatively new concept, and it is clear that they need further development. The main challenge the companies are facing is the loyalty and commitment of the partners. The interviewed companies all had developed ways of delivering non-monetary value to the partners.

Building and maintaining commitment and trust were raised as the main challenges of the management of a partner program. Basware did not see the role of the product as an important element in this; rather the relationship management was in key role. One of the interviewees stated that

*“Getting committed partners demands a lot from people too. You need a passionate salesman, you have to be a strong person and be able to kick that partner as if it was your own employee, but in principle you can’t do that –so you have to be able to justify it extremely well.”*

More of an organizational challenge was providing the partners with enough training and support material.

Basware and Comptel had started their partner programs in 2003. As they had already established their programs, they had reached a stage where they needed to clean up the partner portfolio of unwanted partnerships. With a working partnership portfolio it is possible to control the partnerships more effectively and get more out of them (Zablaf, Johnston & Bellenger 2005). Both companies were building deeper relationships with their partners and making better use of their partner program. Comptel had only recently transferred the management of their partner program from the sales unit to the marketing division to get a better long-term view on the partnerships and to be better able to build the relationships. The marketing division had long-term goals unlike the sales unit, in which the view horizon is most often only in the next closed deal. As part of their increased efforts to get more out of their partner program, Basware had hired top-level managers who were specialized in partner program management.

The marketing director interviewed told that Mirasys was considering building up a partner program with also other types of partners than sales channel partners, not so much to certify the partners but to make the internal processes related to partner management more clear and smooth. They were also hoping to be able to do more co-operative marketing with their partners.

Partnering was regarded as the sufficient level of network integration at Comptel. They had no desires to deconstruct their company or to develop even more profound strategic relationships, as the markets were in so fast transition that they feared they would be left behind if they spent their time setting up tighter bonds with another company.

## **5.5 Performance advantages**

With successful partnerships it is possible for companies to grow quickly as they gain access to resources outside their own boundaries. They may get more sales forces to their use, access to new networks and be connected with needed complementary services (Varis, Kuivalainen & Saarenketo 2005). The most significant goal for the

partner programs in the three case companies was to increase sales. Comptel mentioned that with partner program they were able to get more visibility in the market, which is extremely important for a small company operating globally. All companies naturally mentioned that their sales power increased with new partners, and all were regarding the partner program as a significant tool for future growth.

It is possible to cut transaction costs if the processes relating to partner management are repeatable from one partner to another. Mirasys was the only company that mentioned this straight, possibly because it was the smallest company and thus its resources are the most scarce. Also other companies mentioned scale benefits, but did not present savings as one of the program's aims. Mirasys had the desire to be able to cut resources from being in touch with the partners, and to keep their distributors and partners happy and satisfied. At the moment their value-added resellers kept their technical support team busy with questions, of which most could have been dealt by the reseller themselves if only they had some training. One of the aims of the program was to provide this training so that the resellers could solve more issues on the spot and thus provide better service.

It has been estimated that more than half of corporate alliances are unsuccessful. Dissatisfaction with the alliance relationship is one of the major reasons cited for the failure of alliances. A partner's dissatisfaction can result from outcome variables (e.g. financial performance and relational variables (e.g. the degree of commitment or competence displayed by a partner to the alliance)). (Shamdasani 1995, 6). When asked, the case companies claimed that they were satisfied with most of their partner relations. The companies had gotten rid of most of their old partners that they were not satisfied with.

## 6 CONCLUSIONS

Partner programs are a recently emerged phenomenon, and they form a relatively unstudied branch among the research concentrated on partnerships. This research focused on the partner programs of some Finnish software firms. The research objective was approached with the following five research questions:

- 1) For what type of software companies is it reasonable to set up a partner program?
- 2) What types of partners should be included in the program?
- 3) What affects the structure of the program?
- 4) How are partner programs managed?
- 5) What benefits do companies perceive to gain with partner programs?

In this final chapter the results of the conclusions of the study are presented in the same order as the research questions.

The overall motivation for a partner program was approached with the first research question. Based on the results obtained in this study, it appears that controlling partnerships with a partner program is a viable alternative for a software firm, if the firm has an **attractive product**, the possibility to build the partnerships on a **win-win – model, numerous similar partners** which allow themselves to be handled as groups, a **desire to expand their markets** and if their product and intra-firm capabilities allow this, and the **capability of designing their partner management processes** in such a way that they can be repeated without significant new effort. These five reasons are explained in more detail in the following chapter.

The product should be attractive and have extensive market potential, which the partners can convert to money. In addition to the traditional provision based reward, the partner may be given the chance to offer additional services during the purchasing phase of the process. The partner may offer complementary products or services, perhaps even a total solution. Also after-sales services can be an attractive source of income for the partner. The core company's operations relating to the product have to be scalable, so that the number of users on the markets can be rapidly increased with little to no investments made by the core company. It appears that mainly companies that have well productized their offering are able to do this, whereas companies producing only tailored software are not.

In order for to have a stable and long-term relationship both parties have to be able to benefit from it (Ojasalo 2004, 196). The core company may give up a proportion of the revenues and some of the control of their business, and receive other benefits such as access to resources, market coverage and market visibility, which should result in increased sales. The partnerships have to be built on a win-win model, in which both parties benefit –most often financially in the end. Equal setting generates stability and commitment and this way helps to build a long-lasting relationship.

Partner related processes have to be repeatable from one partner to another. This requires that the core company has numerous similar partners which allow themselves

to be handled as groups. It is worthwhile to implement a partner program if the number of partners is expected to increase dramatically, as for example in the case of market expansion. In such a situation the core company needs to have a desire to expand its markets. Also, their product and the intra-firm capabilities should allow this, scalability and easy localization being the most important features of both the product and the business model.

Perhaps the most important prerequisite for the partner program is the capability of designing the partner management processes in such a way that they can be repeated without a significant new effort. Stability and continuity are important in inter-firm relationships. As the possible malfunction of the partner program may not be quickly repaired, the program has to be ready and functioning for both parties from its creation. This often requires previous personal experience from the market and partner management, which can be developed in-house or recruited to the firm.

A partner program is not a suitable solution for all software firms. Even if the above mentioned preconditions are fulfilled, the company should not automatically start to build a partner program. There are several disadvantages in extensive partnership activity. The company loses some of its freedom for actions as it is bound to the expectations of its partners. At the same time the company loses some of the control it has on the sales, as switching partners is not easy if the ties have been built strong. (Håkansson & Snehota 1995a). Channel costs can be relatively low in the software industry, which, along with the additional profits that can be retained by not giving mark-ups to distributors, make direct channels an option for relatively small firms. (McNaughton 2002, 188). Partner program becomes an alternative once the firm reaches a certain size. None of the companies studied in this research who had a partner program had less than 17 partners. This number may be considered as a minimum number of partners for a partner program, if true economies of scale are to be reached in partner management processes.

The second research question, “*What types of partners should be included in the program?*“, approached the issue of which actors from the core company’s operating horizon should be included in the program. The partner program should include those partner types of which there are numerous partners and where the character of the relationships allows the partners to be handled in bundles. The partner program is most likely to be used mainly to manage sales channel partnerships and technology partnerships, as these types of partnerships are the most common ones for the Finnish software firms. It is assumed that in most Finnish software firms a partner program does not allow itself to be adapted to other types of partnerships, because there is not a large enough number of partners for it to be reasonable. It is not reasonable to forcibly control all partnerships through a partner program. Partnerships, which are of unique nature or of strategic importance, should be excluded from the program and handled as individual relationships. Still, even with some partners excluded from the program, arrangements

resembling a partner program can be used inside the core company in order to make the management processes more clear and controllable.

The third research question, “*What affects the structure of the program?*” focused on the classification of the partners within the program. From the theoretical basis it was expected that the partners would be divided into different categories (such as technology partners, sales partners and consulting partners) and into different levels (such as silver, gold and platinum levels). It was shown that level differentiation is rare in partner programs of the Finnish software firms and does not directly follow the increasing number of partners. Partner categorisation can be aligned with the sales channel structure, if more than one type of partners is included in the partner program. Partner categorization and level differentiation may also be used as a method of internally managing the partner portfolio, without informing the partner in question. It may be concluded, that the *number of partners has a minor role in deciding the structure of the partner program*, and that the different roles of partners play a significantly more important part in determining the structure. Implementing a structure brings clarity to chaos, and dividing partners into different categories can be used at least internally to manage partners. Regarding the structure of the program, Basware had an interesting solution. Basware did not have a level differentiation in their partner program, but the partners could gain different levels of revenue: the more they sold the better commission they got from the sales.

The fourth research question, “*How are partner programs managed?*” focused on the core idea of partner programs: the efficient managing of a large number of partners. Training can effectively be used to fulfill this task in managing sales channel partnerships. Training provides an arena for contacting the partners and for the partners to contact each other and to network. Efficient training should result in sales partners’ increased sales and maintenance skills. Training sales partners reduces their need to contact the core company in minor issues, and this creates savings also for the core company and enhances the quality of the service offered to customers. Training provides an excellent method of control, which can be more profound than one-way communication to the partner companies. Non-monetary incentives (such as training) create commitment to the relationship, and these should be used in managing the partners. The main challenges to the program according to the three interviewed case companies are creating and maintaining trust and commitment among the partners.

Partner programs can effectively be used for market expansion, as the effort put in managing the partners should not increase dramatically when the number of partners increases. When searching for new partners, previously known potential partners were screened through relatively fast, and the core company needed to expand their network horizon. The case companies used all possible means in finding new partners, for example partner searching agencies, company listings and newspaper articles. Enhanced visibility on the market increases the number of interested partners and also the possibility of the candidates contacting the core company directly. The most fertile

channels for searching sales partners appear to be technology partners who operate with the same group of companies. Technology partners are often so well known key market players that no effort has to be made in finding them.

The fifth research question, “*What benefits do companies perceive to gain with partner programs?*”, questioned the benefits of creating a partner program to manage partners. Besides increased sales, the companies perceived they had better and more wide-spread market coverage and visibility through the partner program. They could reduce the load on their staff in their technical support as the partners were better trained, and the training was perceived to result in enhanced relationships with the end customers.

13 of the 31 biggest Finnish software firms had a partner program. As large firms are more probable to have more numerous partnerships and a need for partner program than small ones, it is likely that less than one third of Finnish software firms in total have a partner program. This proves, that partner programs are widely used by software companies in organizing their partnerships, and this is an argument for further studying and developing partner programs.

Partner programs have so far not been studied extensively. The main questions relevant in a partner program are the same as in individual partnerships, such as questions about commitment, trust and the depth of partnerships. What makes partner program different from the management of individual partnerships, is the categorization of partners into different groups and possibly into different levels. It would be worthwhile to investigate how the categorization could be conducted, and if it could be used to motivate the partners. Such research requires that the partner programs have been in use for a longer time than the ones studied in this research, and it also requires studying of the behaviour of the partner companies. Hopefully the ground work done by this study gives a good foundation for conducting future research on partner programs.

## 7 SUMMARY

The purpose of this study was to examine the partner programs of Finnish software firms. Partner program was defined as *published partnership activity, in which the partnerships are handled mainly in a standardized manner in groups and not as individual cases*. Numerous partners are divided in different categories on the basis of the functions they provide or on the level of partnership they possess. In a partner program the focal firm classifies its partners in various groups and sets rules regarding the way a group of partners should be dealt with (Duysters 1999, 182).

Before this study only few studies about the partner programs of Finnish software firms had been made, even though partner programs may be extremely helpful in partnership portfolio management by simplifying it a great deal. Software industry was an interesting industry to study, as networking is extensive there and the industry is also very fast developing and has not been studied thoroughly. Besides, most previous research on partnerships has concentrated on the management problems associated with bilateral relationships (Hoffmann 2007, 828), and research about business network management is still in its infancy (Ojasalo 2004, 195). This study contributed to this research thread.

The purpose of this study –to examine the partner programs of Finnish software firms - was approached according to a research structure originating from a research structure proposed by Gulati in 1998 in his studies on social networks within business alliances. The purpose was approached with the following research questions:

- 1) For what type of software companies is it reasonable to set up a partner program?
- 2) What types of partners should be included in the program?
- 3) What affects the structure of the program?
- 4) How are partner programs managed?
- 5) What benefits do companies perceive to gain with partner programs?

The theoretical framework, empirical results and conclusions were structured according to these research questions. Before these chapters the Finnish software industry was described through software products, software companies and the structure of the industry.

The products of software industry can be roughly divided into software products sold most often separately, embedded software sold often within devices and customized software which is tailor-made to each case separately. The nature of the product affects a great deal to the selection of the business model. In this study, a classification made by Rajala and Westerlund in 2007 was used. They divided the business models of software companies to four main categories based on the level of homogeneity of offering and the degree of involvement in customer relationships. (2007, 120). The question of partnering is closely linked with the selection of the business model. In principle, the more homogenous the product and processes related to it, the more possible it is to use numerous partners in the sales channels.

Networking in the software industry was approached through a network theories explaining the positioning of the partner program in the network environment of software companies. In the same chapter previous relevant studies about networking were covered. They clearly showed that networking is done in the software and related industries mainly downstream in the sales channel. The core companies do not necessarily regard their own marketing capabilities as inferior, but partnering provides them an easy and fast way to get more resources to sales and marketing.

Partnering is done extensively in software industry, as it offers possibilities for companies to rapidly expand outside their company boundaries (Varis, Kuivalainen & Saarenketo 2005, 21). Several researchers claim, that successful management of partnerships may be a competitive advantage (see eg. Ritter, Wilkinson & Johnston 2003). Managing partnerships as networks or as a portfolio may give an opportunity to capture more value when compared to managing individual relationships. When relationships can be segmented into reasonable homogeneous sets, the management is facing a traditional portfolio management problem. It must assess the demands of the various customer groups and develop organized ways of handling the relationships in an efficient fashion. (Möller & Halinen 1999, 424). A partner program can be of assistance in this task.

There are efficiencies available in managing the relationships consistently, applying repeatable processes and comparable performance metrics. (Eilles, Bartels and Brunsmann 2004, 31). In this study these efficiencies were approached with the help of transaction cost economics. Theories developed on the basis of transaction cost economics divide costs into four separate groups related to transacting: 1) search costs, 2) contracting costs, 3) monitoring costs and 4) enforcement costs. Costs can be reduced by repeating processes, but also by enhancing relationships with partners. (Dyer 1997, 536). Deep and stable relationships require trust and commitment from the parties, which creates a contradiction with the flexibility to adjust to market changes in the diversified software market. On the other hand, numerous partners may help the core company to adjust to the changes and to be able to stay at the frontline of change. The core company may strengthen the ties with some companies and weaken the ties with others when necessary.

This study used both quantitative and qualitative methods. Quantitative methods were used in the first phase of the study to analyze the contents of Finnish software companies' web pages. Content analysis is convenient for studying systems and institutional processes (Krippendorff 1980) and thereby it was also most suitable for studying partner programs. In the second phase three case companies – Basware, Comptel and Mirasys—were analyzed with qualitative methods. Qualitative research is suitable for this study as only very little is known about partner programs, and this study is exploratory from nature (Ghauri, Grønhaug & Kristianslund 1995, 85).

The study showed that partner programs are common in the software industry, and they are also a relatively new phenomenon. Companies have had similar arrangements

also before, but only recently have Finnish software companies started to take a more systematic approach to partner management.

Based on the results obtained in this study, it appears that controlling partnerships with a partner program is a viable alternative for a software firm, if the firm has an **attractive product**, the possibility to build the partnerships on a **win-win –model**, **numerous similar partners** which allow themselves to be handled as groups, a **desire to expand their markets** and if their product and intra-firm capabilities allow this, and the **capability of designing their partner management processes** in such a way that they can be repeated without significant new effort.

The partner program should include those partner types of which there are numerous partners and where the character of the relationships allows the partners to be handled in bundles. It is not reasonable to use partner program to control all partnerships in the partner portfolio of the core company. The partner program is most likely to be used mainly to manage sales channel partnerships and technology partnerships, as these types of partnerships are the most common ones for the Finnish software firms. The three case companies divided their partners to groups mainly based on their role in the channel. Level differentiation was not common, but partnerships of unique importance or nature were mainly excluded from the partner program thus creating a new class of partnerships.

The most important method used by the case companies to manage the large number of partners was the training of the channel partners. Training events provide an arena for meeting and instructing the partners in large quantities and for the partners to contact each other and to network. This is one of the benefits the partners get from the program, and it is known that diffusion of knowledge over the network enhances the competitive advantage of the whole network. (Duysters 1999, 185).

Partner programs can be effectively used for market expansion, as the effort put in managing the partners should not increase dramatically when the number of partners increases. Besides increased sales, the companies perceived they had better and more wide-spread market coverage and visibility through the partner program. They could reduce the load on their staff in their technical support as the partners were better trained, and the training was perceived to result in enhanced relationships with the end customers.

In total the study has tried to give a picture of the partner programs of Finnish software firms: why do they exist, what features do they have and when should a company have one.

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### **Case Interviews:**

- Woitsch, Pertti, Marketing Manager, Mirasys Oy. Interview 18.12.2006 (54min)
- Schulman, Peik, Alliance Manager, Comptel Oyj. Interview 5.1.2007 (48min)
- Elovaara, Jaakko, Alliance Manager, Basware Oyj. Interview 5.1.2007 (50min)

## APPENDIX 1 PARTNER SELECTION CRITERIA LIST

A list of partner selection criteria as gathered from the theoretical framework of this study.

- Company history and financial situation
- Reputation
- Target markets and industry focus
- Partner's own product types and references
- Volatility of product/service mix
- Complementarity of products
- Capabilities and resources
- Quality of management team
- Business culture
- Cultural fit
- Personal chemistry
- Potential of the personnel
- Existing contacts with customers and competitors
- Knowledge of the selected market area
- Percentage of business accounted by other partners
- Complementing network
- Future potential of the partner
- Expected short- and mid-term revenue
- Willingness to invest in training
- Willingness to commit advertising funds
- Relationships with other players within the industry
- Strategic importance

## APPENDIX 2 COMPARISON CHART OF THE INTERVIEWS

	<b>Mirasys</b>	<b>Comptel</b>	<b>Basware</b>
Interviewee	Pertti Woitsch	Peik Schulman	Jaakko Elovaara
Title	Vice President, Marketing	Alliance Director	Vice President Global Operations
Position of the interviewee in the management of the partner program	1 <sup>st</sup> in charge	2 <sup>nd</sup> in charge	1 <sup>st</sup> in charge
Duration of the interview	54min	48min	40min
Date of the interview	18.12.2006	5.1.2007	5.1.2007
Interview conducted according to the script made by the interviewer	yes	no	yes
Extensive material of the partner program available online	yes	yes	no
Additional material given to the interviewer	no	PowerPoint slides per e-mail	PowerPoint slides per e-mail
Additional questions asked after the interview	Sent 2.4.2007, answered 15.4.2007	no	no
Additional presentation medium used by the interviewee	Drawings	Drawings, PowerPoint	PowerPoint

## APPENDIX 3 INTERVIEW QUESTIONS

### **Background**

1. That is your position in the company and what is your role in terms of the partner program?
2. How long have you been in the company?
3. When was the partner program initiated?
4. What reasons made the company to initiate the program?
5. When the program was initiated, what happened to the existing partnerships?

### **Features of the partner program**

6. How are partners sought?
7. How are partners selected?
8. What size partners does the company have?
9. How many partners are there in the program in total?
10. How are partners divided in the program?
11. Does the company have partners outside the program? What type of partners?
12. Are there different levels in the program?
13. How do you keep in touch with the partners?
14. How much do the partners switch?
15. What is the revenue logic in the program for the company and for the partners?
16. Do partnerships change by time? How?

### **Benefits of the program**

17. With how large proportion of your partnerships you are satisfied with?
18. What category of partnerships is the most difficult in terms of partnership management?
19. How standardized is the dealing with the partners?
20. How does the company try to be a desired partner?

### **Management of the program**

21. Do you see your company is in control of its partner network?
22. Do you calculate the costs generated by the program?
23. Which actors can influence to the selection of partners?
24. How is the partner program managed? What boards or organs do you have for the task?
25. What goals have you set for the partner program?
26. What type of conflicts have you had in the program? Have you agreed on resolution techniques in beforehand?

### **Future aspects**

27. What do you see as challenging in the creation and maintenance of the program?
28. How is the partner program going to be developed in the future?
  
29. Is there something essential about partner programs that was not dealt with in this interview?
30. Would you like to add something?