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**SELECTION AND DEVELOPMENT OF STRATEGIC PARTNERSHIPS WITH INDEPENDENT SOFTWARE VENDORS IN CONTEMPORARY ENVIRONMENT**

Master's Thesis, 2022

Examiners

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## TIIVISTELMÄ

<b>Tutkielman nimi:</b>	Strategisten kumppanisuhteiden valinta ja kehittäminen ohjelmistotoimittajien kanssa modernissa toimintaympäristössä
<b>Hakusanat:</b>	toimittajakumppanuus, strateginen kumppanuus, toimittajayhteistyö, toimittajasuhteiden kehittäminen, toimittajan valinta, valintakriteerit
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Ohjelmistoteollisuus läpikäy yhtä historian suurimmista muutoksista, joka vaikuttaa laajasti sekä ohjelmistojen hankinnan, kehittämisen että ylläpidon toteutustapaan. Tämän tutkimuksen tavoitteena on selvittää mitä kriteerejä nykyaikaisessa toimintaympäristössä käytetään valittaessa strategisia kumppaneita tai arvioitaessa strategisten kumppanuuksien kehittämisinvestointeja. Lisäksi tutkitaan, kuinka nämä valinta- ja kehittämiskriteerit ovat muuttuneet ajan myötä verrattuna perinteisempään IT-toimialan ympäristöön. Tutkimus on luonteeltaan kvalitatiivinen ja se suoritetaan case-tutkimuksena. Empiirinen osa koostuu yhteensä 14 semistrukturoidusta haastattelusta, joihin osallistui henkilöstöä case-yrityksestä ja heidän asiakkaidensa joukosta.

Tulokset osoittavat, että tärkeimmät kriteerit strategisten kumppanuuksien valinnassa ja kehittämisessä ovat luottamus, avoimuus sekä kumppanin tuottama laatu ja arvo. Lisäksi henkilökemia kaikilla kumppanuuden tasoilla on tärkeää. Nykyaikaisessa IT-ympäristössä hinnan merkitys on vähentynyt ja katse siirtynyt enemmän kohti toimitettua arvoa. Ketteryys, joustavuus ja kyky toimia osana arvoverkkoa tai monitoimittajaympäristöä ovat aiempaa tärkeämpiä. Case-yrityksen johto voi hyödyntää näitä tuloksia liiketoiminnan kehittämisessä tai tehdessään päätöksiä kehitysinvestoinneista.

## ABSTRACT

<b>Title:</b>	Selection and development of strategic partnerships with independent software vendors in contemporary environment
<b>Keywords:</b>	partnership, strategic partnership, collaboration, supplier development, supplier selection, partnership criteria
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Information technology and software industry are undergoing one of the greatest revolutions in history which will irreversibly change how software is purchased, developed and maintained. This study aims to examine what are the criteria for selection and development of strategic partnerships with independent software vendors in modern business environment. In addition, emphasis is put on how these selection and development criteria have changed over time when compared to a more traditional setting. Nature of this study is qualitative, and it is conducted as single-case descriptive case study. Empirical part consists of a total of 14 semi-structured interviews from participants working for case company or its clients.

Results indicate that the most important criteria for the selection and development on strategic partnerships are trust, openness, and quality and value delivered. Furthermore, personal chemistry between all partnership levels is important. In modern IT-environment, the weightage of price has diminished, and focus shifted more towards value delivered. Agility, flexibility and ability to operate in a value network of multivendor environments have greater importance than before. Case company management can utilize these results when making decisions or allocating resources between different business development initiatives.

## ACKNOWLEDGEMENTS

As I'm wrapping up my studies here at LUT University, it is but natural to contemplate the past few years a bit. Being my second degree, studying itself was much easier this time. I also feel that spending some time working between degrees was hands down an excellent choice. Experiences from working life provide context and understanding that helps one to ingest ideas and theories we study in a more formal setting – and vice versa. This thesis project on the other hand was... well, let us say as demanding as ever.

First and foremost, I would like to express gratitude to professor Anni-Kaisa Kähkönen who provided guidance and invaluable help whenever needed. Also, a big shout-out to other professors and teachers at LUT University as well. Secondly, a special thank you to each of you who I got a chance to interview, as well as, to my employer CGI Inc. and to M.Sc. Kalle Räike who acted as instructor. Your time, answers and insights are greatly appreciated. It goes without saying that I am also in debt to those near me for their continuous support.

I feel like I am done for any studying, at least for the time being. Luckily, I know this feeling will pass and, in the not-so-distant future, I will again be looking for ways to learn more and study further. Until then, cheers!

Tampere, March 6<sup>th</sup>, 2022

Joonas Paavola

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# 1 Introduction

Over the past two decades, and especially during latest years, the field of Information Technology has been changing rapidly. This change spans all the way from hardware-related technological breakthroughs to how software is implemented and eventually to purchase models with which this software is acquired in a business setting. As a result, cloud computing in its various forms has established itself as a prominent platform to offer, host and develop software services to both consumers and businesses alike. While more quickly adapted by consumer-facing solutions, also business critical software is now moving to cloud as modern cloud solutions are robust and mature enough to offer same user experience and reliability as their traditional counterparts (Anderson et al. 2020). Reports predict that the trend of cloudification will not only continue but speed up as enterprise infrastructures evolve to incorporate more cloud in the search of new IT architectures and next-generation opportunities in digital business. Spending on cloud systems and services is expected to grow from \$63 billion in 2020 to \$81 billion by 2022. (McArthur et al. 2021) (Faith et al. 2020)

Cloud software is typically purchased with a Software-as-a-Service (SaaS) model where the business software is owned, hosted and managed by external providers and delivered to buyer as a ready-to-use service. This differs from the more traditional on-premises model, in which the enumerated tasks were on the account of the buying firm itself. (Benlian, Hess 2011) Using SaaS, the role and focus of in-house personnel gradually becomes less technical and more business oriented. This includes a paradigm shift to put emphasis on co-operation with both internal and external stakeholders, the selection of most appropriate providers for fulfilling firm's needs and maintaining and developing relationships with external parties. (Loukis et al. 2019) At the same time, competencies required from all parties to deliver expected services change.

Due to the change in how software is purchased, partnerships become increasingly important in running business operations and creating value. Right partnership selection, investments in supplier development and fostering relations can thus be seen essential. (Lambert, Schwieterman 2012) It is generally accepted that strategic collaboration with suppliers is mandatory to achieve competitive advantage, efficiency and profits. (Frohlich, Westbrook 2001) (Banchuen

et al. 2017) (Simatupang, Sridharan 2002) Furthermore, strategic collaboration can help companies diminish risks and uncertainty. (Nagati, Rebolledo 2013) (Park et al. 2010)

The choice of strategic partnership can be everything but straightforward and hold long-lasting positive or negative implications as every company has both a need and a situation, which must be properly understood, and aligned with a right offering, to achieve solid co-operation (Heikkila 2002). Assessment of match and mismatch between a company and their supplier is important as the extent to which customer requirements and supplier capabilities overlap is a key figure in overall feasibility of collaboration (Huang et al. 2003). To overcome these challenges, various sets of criteria are used when assessing potential partnerships, as well as, when evaluating whether or how to invest in collaboration. Having preset criteria for partner selection and partnership development is nothing new and has been relevant in the past too. (Ellram 1990) (Ghodsypour, O'Brien 1998) However, the content and specifics of such criteria can be expected to evolve dynamically as technical improvements and novel purchase models shape the business landscape.

Due to topicality, and to enable supplying organizations to develop and enhance relevant competencies, it is important to explore the topic of strategic partnership selection criteria in contemporary IT environment. Understanding what skills are required and valued in cloud-based setting, and when using Software-as-a-Service solutions, is also the key to ensure these skills are available on the market for customers to make use of. (Abd Elmonem et al. 2016) Furthermore, there is value in knowing the current shortcomings and future avenues around the presented topic, so independent software vendors can make correct development efforts proactively. Current reports suggest that market for experienced cloud transformation experts will increase in the future (Meinardi et al. 2019).

## **1.1 Background of the study**

In the context of supply management, partnership or partnership sourcing refers to a long-term commitment between a customer and a supplier. This commitment is based on clear and mutually agreed objectives, as well as, on trust and honesty. Fundamental idea is that partners



share both risks and rewards of their joint activities and have common goals of top-of-the-art capability and competitiveness. Also, acceleration of innovation, elimination of waste and market expansion are among expected relationship outcomes. As the term commitment implies, there is a contractual bond between two parties – However, partnership includes not only fulfilment of contractual obligations but continuing investments to co-operation and improvement (Goffin et al. 2006).

During the 1980s and 1990s, the strategic importance of supply activities increased remarkably in companies and led to change commonly referred to as shift from purchasing to supply management (Davis 1993). This perspective suggests that competitive advantage is not an intrinsic property residing in a single company but rather comprises of linkages and relationships a company can establish with external organizations (Lewis 1995).

The process of partnership formation has been described in various publications and in varying detail. Like any business relation, inter-company partnerships have a lifecycle with various stages. In a frequently cited model, development and evolution of supply partnerships is divided into five phases: preliminary phase, identify potential partners, screen and select, establish relationship, evaluate relationship (Ellram 1991). Another model with three major elements of drivers, facilitators and management components, has been presented by Lambert, Emmelhainz and Gartner (1999), whereas factors influencing supplier partnerships were described in an article by Stuart (1993). Depending on viewpoint, these models can somewhat differ from one another but the importance of selecting the right partner has, however, been recognized as the cornerstone of establishing a well-functioning partnership (Cavusgil, Evirgen 1997) (Buono 1997).

As a phenomenon, supplier relations have received attention in the literature and partnerships have been studied in several contexts, although focusing more on the traditional manufacturing industry with physical production facilities and tangible products. (Varis, Salminen 2000) Academic interest in this area is natural for supply management has become a strategic issue during the past decades (Johnson et al. 2006). Past research has covered a wide variety of topics from different partnership aspects to partnership benefits, success factors and reasons, and finally, partner selection criteria. (Lorange et al. 1992) (Ellram 1990)

Though the body of academic knowledge is solid, characteristics of quickly changing and complex field of information technology and software business create a unique partner selection framework of which we still have but a limited understanding. (Ye, Agrawal 2003) Rapidly evolving IT and software market pressure companies to act and partner quickly, which can fundamentally affect the partner selection criteria and their applicability. (Osei-Bryson, Ngwenyama 2006) Thus, there is a clear need for further research in the given context.

Information technology and software industry are undergoing one of the greatest revolutions in history which will irreversibly change how software is purchased, developed and maintained. More complex technical environment and continuing trend to focus on one's core competencies create a necessity for companies to seek value through collaboration rather than alone. This shifts firms' focus from technical aspects towards a more business-oriented mindset with less administration and development, and more coordination and cooperation (Loukis et al. 2019). In depicted environment, understanding the formation of buyer-supplier partnerships becomes crucial.

## **1.2 Objectives and research questions**

Due to issues discussed above and considering the significance and implications of a well-functioning partnership between supplier and customer, this study seeks out to examine what the criteria for selection and development of strategic partnerships with independent software vendors are in a modern setting. Focus is put on long-lasting partnership and criteria used to both select and develop such a relationship. On the technical side, modern setting refers to contemporary environment where cloud-based business models and purchasing Software-as-a-Service solutions are becoming more and more prominent.

In addition, this study aims to unravel how this selection and development criteria has changed over time when compared to a more traditional environment. It is also empirically examined if certain criterion or set of criteria have proven to be more challenging to fulfil than others, and what are the future avenues we are travelling towards. The main research question of this study, along with supporting sub-questions, are presented below in Table 1.

Table 1. Research questions.

Main research question	
MQ 1	What are the contemporary criteria for the selection and development of strategic partnerships with independent software vendors in cloud-based business environments and with Software-as-a-Service as purchase model?

Sub-questions	
SQ 1	How has the selection and development criteria changed when compared to criteria prominently used in a more traditional software environment?
SQ 2	What kind of criteria has proven to be the most challenging to fulfil when selecting or developing strategic partnerships?
SQ 3	In the future, what new is estimated to be included in the criteria used in selection or development of strategic partnerships with independent software vendors?

### 1.3 Conceptual framework and definitions of key concepts

The idea of conceptual framework is to familiarize readers to theoretical perspectives of this study and describe their linkage to research topic. Below some key concepts and terminology of this research are presented. Theoretical part will revolve around these concepts and on studying the nature of strategic partnerships and respective screening and selection process. Brief overview of this framework helps to understand the basics before diving more thoroughly into theoretical part and earlier literature.

Strategic partnership selection and development criteria can be divided into supplier-buyer relationship types, partner classification and the process of screening and selecting a suitable partner. Furthermore, present is the role of supply management as a source of strategic competitive advantage in companies.

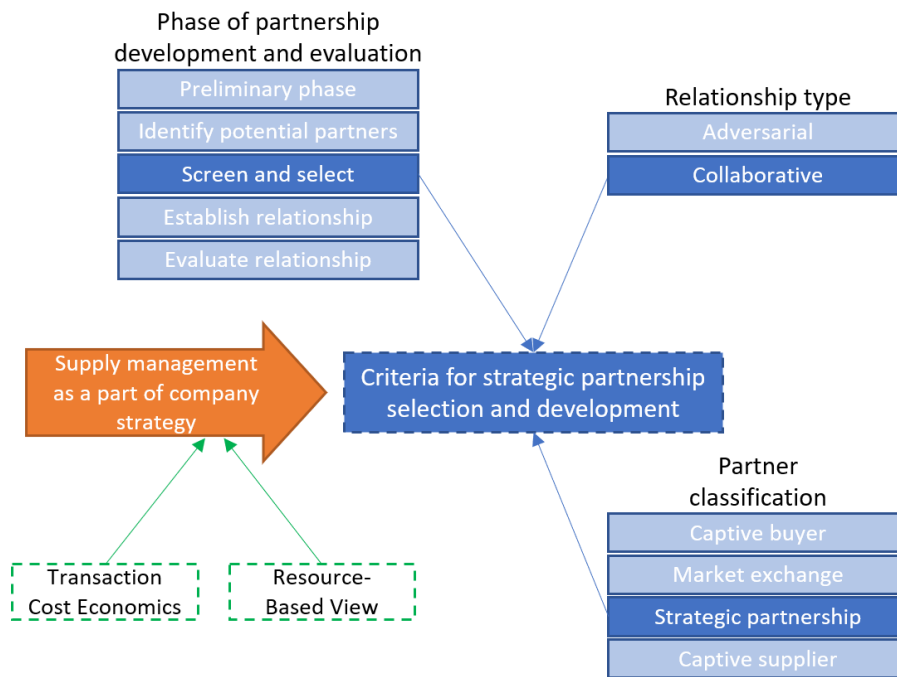


Figure 1. Conceptual framework.

One major decision in every organization is the type of relationship to have with other firms. Depending on the depth and nature of relationship, there are multiple ways this can be set up. In the context of supply management, types of relationships are usually seen as collaborative or adversarial, also known as arm's length away relationships. (Parker, Hartley 1997) By definition, **collaboration**, or partnership, entails an agreement where buyer and supplier make a commitment over an extended period and aim to share information, as well as risks and rewards of the relationship. (Ellram 1991) On the other hand, Cox et al. (2003) define arm's length away relationships to consist merely of the level of contact necessary to place and fulfil an order and do payments.

**Role of supply management in company strategy** has risen over the course of time. What was once considered and implemented as reactive procurement has today developed into supply management with strategic impact in best practice companies. (Reck, Long 1988) It has been recognized that supply decisions can have an impact on firm performance and purchasing function may significantly contribute to firm's overall success (Carter, Narasimhan 1996). Supply management's role is further strengthened by Cox and Lamming (1997) who define it as *"The strategic management of external and internal resources and relational competencies in the fulfilment of commitments to customers"*.

**Strategic partnership** is an arrangement involving high level of trust, commitment, coordination and interdependence from both its parties. This deep relationship aims to fulfil strategic goals while creating value and profitability to all parties, and to customer's customers. (Tari-gan, Siagian 2021) In most definitions, a partnership is considered strategic when it involves core business or program activities from both parties (Ashman 2001). Normally, strategic partnership contains inherent incentives motivating parties to collaborate efficiently (Pinney, Re-gelbrugge 1999).

**Partnership screening and selection** is a phase in partnership evaluation and development. Being an important step in successful partnering, it focuses on areas, such as strategic fit, cul-tural fit, organizational fit and capabilities fit. The details of partner selection are difficult to solve and assess if not broken down to comprehensible sub-areas, which are then investigated individually. Literature knows several decision-support models for partner selection in the context of supply management. (Wu, Barnes 2012)

In the context of supply management, **transaction cost economics**, or TCE, is a theoretical framework forming the basis for strategic decision-making. It is also a solid background for researching supplier strategies and decisions affecting supplier relationships. Theory of trans-action costs suggests that the optimal organization structure is the one achieving economic efficiency via minimizing costs of exchange as each transaction, whether being internal or ex-ternal, produces coordination costs (Williamson 1979).

Resources, capabilities and competencies have a significant role in strategic management and supply decisions, especially when seeking suppliers that would be suitable partners or coun-terparts in a long-term collaborative relationship. (Gulati et al. 2000) (Lakemond et al. 2004) **Resource-based view**, or RBV, is a theory connecting these resources to value creation and collaboration between organizations. It suggests that superior performance is an outcome of having access to both tangible and intangible resources with value to given company. (Medcof 2001) These resources must manifest VRIN attributes, id est, be valuable, rare, inimitable and non-substitutable. (Rothaermel 2012)

## **1.4 Structure of the study**

This study consists of five main chapters and their respective sub-chapters. At the end, appendices and a list of references are presented.

First chapter gives reader an overview of the topic and sheds light to the importance and background of research. Main concepts, research questions and objectives and conceptual framework are presented. Second chapter focuses on theoretical aspects and on exploring the current literature related to supplier partnerships, partnership selection, supplier development and related criteria. Aim of theoretical walkthrough is to understand reasons for strategic partnership formation and fostering, as well as the criteria used for partnership-decisions in studied setting.

Chapters three and four are the main empirical parts of this study. Third chapter walks reader through the case company, research methodology, data collection and analysis and assessment of reliability and validity. Chapter four looks more closely on the actual empirical results, and the process of analyzing these. Exploration of empirical data is used to gain insight on the criteria used for selection and development of strategic partnerships with independent software vendors in contemporary setting.

Fifth and final chapter concludes empirical findings and aims to answer main research question and sub-questions. Additionally, suggestions and implications for future research are presented.

## **2 Selection and development of strategic partnerships**

In this chapter, theoretical part of study is presented focusing on the chosen main concepts. Relationship types and partner classification are discussed first after which partnership screening and selection is investigated in more detail. Regarding established relevant theories, both transaction cost economics and resource-based view are covered in the latter part of this chapter. Finally, criteria for strategic partnership selection and development are gathered from literature.

### **2.1 Collaborative supplier relationships**

History of inter-organizational linkages resides in adversarial relations where one party seeks to achieve gains, reduced costs or profit improvements for example, on the expense of their suppliers and buyers. (Duffy 2008) This adversarial model is known to have limitations and academics have noted that moving costs up or down in the supply chain does not make companies more competitive as all costs eventually make their way to the final marketplace. (Christopher 1999) Today, firms in all fields are increasingly engaging in cooperation to improve efficiency of operations, and the whole supply chain. (Spekman et al. 1998) Partnership, which usually manifests characteristics like long-term contracts, increased trust, extensive sharing of information and only limited business activities with competitors, is proven to bring mutual benefits to all parties involved. (Cohen, Agrawal 1999)

Joint problem solving and planning, and flexibility in relation to adjustments are essential elements of collaborative relationship. In short-term trade, scope of transaction is willingly and deliberately limited to remove unnecessary flexibility from the equation but in a partnership, flexibility is a bilateral, explicit or implicit, expectation needed to adapt and make changes in everyday management. As circumstances change and unforeseen events can happen, partners must accept and share responsibility on alterations in practices and policies. (Claro, Claro 2010)

Critical supplier relationships of a company are often complex and include not only several people, but a range of services and products offered. This creates uncertainty to the assessment of economic consequences. Also, companies can exercise only limited control over suppliers for each party eventually pursues their own business agenda and logic in relation to partners and customers. Substantial interventions to buyer-supplier relationships can have complicated consequences and intrinsic ambiguity of such relation cannot be escaped. (Gadde, Snehota 2000) Open and efficient interaction between parties can be seen essential in a functioning partnership.

Ellram and Hendrick (1995) note that academics and practitioners have advocated the creation and adaption of partnerships, and the espoused benefits they can bring. It is also widely acknowledged that most firms have already achieved some level of cooperation and coordination with their suppliers and customers. (Spekman et al. 1998) However, according to Lemke et al. (2003) little empirical work has been published regarding the attributes of such relationships, and their exact nature is still only poorly known. Olsen and Ellram (1997) also point out that existing research is sparse and may not provide a coherent picture of relationships compared to other relational forms.

## **2.2 Partner classification**

Commonly, there is a need to reduce the number of suppliers in companies. (Bemelmans et al. 2012) (Gadde, Snehota 2000) Smaller supply base enables better and more effective communication, makes the supply process more efficient and enhances the control and assessment of suppliers. (Goffin et al. 1997) Corey (1978) pointed out that, generally, the number of suppliers a company has should be reduced to make them a more important customer and more attractive in the eyes of suppliers. On the other hand, there should also be enough competition between suppliers and thus a suitable number of suppliers should be maintained. The extent to which any company can, however, create new strategic partnerships is limited considering the investment they require. Steele and Court (1996) argue that it is unlikely for one buyer to be able to cope with more than three active partnerships at any time.



Bensaou (1999) studied external conditions of a company and, as a result, presented a portfolio model to depict buyer-supplier relationships. This model is based on empirical investigation of automobile industry in United States of America and Japan and suggests that four types of relationships exist based on the amount of investment from each party. Investment was the parameter found to correlate the strongest to the type of partnership.

The categories in Bensaou’s (1999) model are called captive buyer, captive supplier, market exchange and strategic partnership. Figure below illustrates this division in a four-field diagram. Vertical axis in the diagram illustrates the buyer’s specific investment, and horizontal one supplier’s specific investment. Investments refer to both tangible and intangible investments, which can, on both sides, include things like facilities, compatible information systems, training of staff and process customization, to name a few (Wasti et al. 2006).

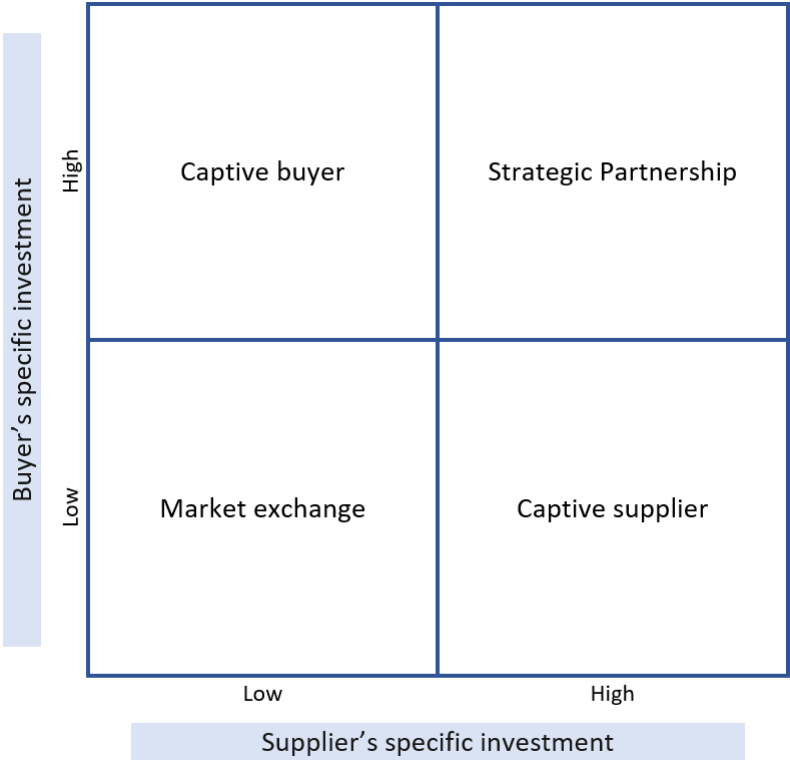


Figure 2. Buyer-supplier relationships. Adapted from Bensaou (1999).

Captive buyer and captive supplier are asymmetric relationships where the respective party makes more investments in the relationship, and thus their counterpart has the upper hand. Under such circumstances the party in power position can force upon biased contracts that

are more beneficial for them than others. Typically, resulting relationship climate is distant and the level of trust low. (Tangpong et al. 2015)

Captive buyer relationship often includes products that have experienced little to no development during past years and same applies to their price and operational processes. Suppliers' market often consists of a few strong players and is concentrated to those advanced in technology or a process in their field. Finding a suitable replacer would be difficult for buyers. (Klein 2005) Captive supplier relationship, on the other hand, is characterized by rapid change. It is typical in industries where new technology constantly forces suppliers to innovate and develop their offering further, which requires heavy upfront capital investments. Relatively high number of competing suppliers give buyers plethora of choice for substitutes. (Claus, Spieth 2016)

Market exchange is a symmetric relationship and more equal than the previous two. These relationships include highly standardized products and well-established mature technology. Only limited amount of customization, further development or innovation takes place. Compared to other relationship types, market exchange requires the least or no investments. Switching costs for buyers are low, as is the bargaining power for suppliers. (Bensaou 1999) (Wasti et al. 2006)

Sharing research and development efforts, as well as collaboration within several parts of value chain is characteristic to strategic partnerships. Being the last type identified by Bensaou, this relationship type is based on collaboration, long-term investments from both parties and communication. Strategic partnerships often occur with products or in markets where fast-paced environment requires constant innovation and investment or where there is a necessity for strong technical or engineering capabilities (Lee, Drake 2010). High investments create risks on both sides which then are mitigated with collaboration and co-creation of value. Profitability or the overall ability to do business can be highly dependent on the other partnership party, id est, if one were to fail, it would severely affect the business of both companies. (Dwyer et al. 1987)

Aside from general aspects, strategic partnership also affects managerial decisions and behavior. In addition to continuous communication, face-to-face meetings, sharing of reports, creation of common rules and standards and integrated operational procedures are typical parts of a close relationship. (Narain, Singh 2012) Since asset specificity is high, guest engineers or other subject matter experts commonly pay visits to one another to better understand and adapt to the other party's business. Capability to make quick decisions is emphasized, as is the ability to solve tensions through discussion rather than confrontation. (Bensaou 1999) In strategic partnerships, uncertainty is handled via creating an environment which has capabilities to react and adapt quickly.

Not one type of relationship is known to be superior to others, and it is generally agreed that different suppliers require different types of relationships. Success can be found from all relationships, and it is linked to being able to identify characteristics of ongoing exchange and take correct managerial actions to facilitate the relationship. (Lilliecreutz, Ydreskog 2001) Strategic partnerships are known to create value but are also costly to develop, nurture and upkeep. They also possess risks given the specialized investments and time and effort required. (Elmuti, Kathawala 2001) Only when appropriate relationship type for the existing conditions has been chosen can parties enjoy benefits of success.

### **2.3 Partnership screening and selection**

Prior to Ellram's (1991) work on guidelines for development and implementation of purchasing partnerships, not many academics had thoroughly described the path and tasks necessary to reach a successful and functioning partnership. Hahn et al. (1990) had proposed a conceptual model for supplier development, which could, if correctly implemented, result in a functioning purchase partnership. Leenders and Blenkhorn (1988) had in their book described an 11-phase process of implementing what they called reverse marketing. This, at the time novel, philosophy was based on the idea of purchasing function taking a more proactive approach when seeking out and assessing suitable suppliers. While it might not indubitably lead to purchasing partnership, one could still emerge should right balance of risks and rewards for both parties be achieved.

Aim of the whole partner selection process, and especially when screening potential alternatives and making selections, is to ensure the presence of known purchasing partnerships success factors. As described by Spekman (1988), Bertrand (1986) and Landeros and Monczka (1989), and later synthesized by Ellram (1991), these factors revolve around partner contribution, personnel issues and overall interaction. Partner of choice should provide added value when compared to other suppliers and be a feasible match when assessing the total costs of partnering. Criteria of mutual trust and openness go without saying, like does the necessity of communication taking place at many levels and functions between firms.

Based on previous research and case studies, Ellram (1991) presented a normative guide describing an approach to follow when creating new purchasing partnerships. This model consists of five steps, but it should be noted that the nature of the whole partnering process is iterative. Ellram's five phase model can be seen below. Third step of screening and selection suitable partner is on the focus on this study.

**1. Preliminary Phase**

- Establish Strategic Need
- Form Team
- Confirm Top Management Support

**2. Identify Potential Partners**

- Determine Selection Criteria
- Identify Potential Partners

**3. Screen and Select**

- Contact Potential Partners
- Evaluate Partners
- Decision

**4. Establish Relationship**

- Document Expectations and Contacts
- Provide High Attention Level
- Give Prompt Feedback

**5. Evaluate Relationship**

- Continue at Current Level
- Expand and Build Relationship
- Reduce or Dissolve Interaction

As Ellram's model was created for situations, and at the time, in which purchase of physical goods was more prominent, it does not fully translate to acquisition of services. However, the

underlying principles are still valid. The ultimate choice should be based on the general fit of supplier, where the availability and quality of acquired services is also considered. (Chai et al. 2013) One should not put too much emphasis on any single attractive aspect but to holistically and systematically analyze compatibility. (Rezaei et al. 2016) For example, a firm could provide good quality at excellent prices but be built on an unstable culture or workforce utilization. Top level understanding and commitment are key elements to success. (Baily et al. 2008)

Screening of potential partners takes input from previous steps and evaluates of list of possible alternatives. Previously established criteria are used to rate each candidate. (Ellram 1990) In addition to externally evaluating suppliers by their characteristics, this step typically involves visits and face-to-face meetings to familiarize the two parties and find out if a given supplier's interest in long-term business is sincere. Since aligned criteria is used among all candidates, the results are comparable and can easily be utilized in decision making. (Beil 2010)

Ellram (1991) puts emphasis on the mutual trust, commitment and sharing as building blocks of a strong ongoing relationship. As partnership will only work if it is beneficial to both parties, selection process should ensure expectation are clarified and other relevant factors, such as, cultural or lingual differences are managed well. Actual interactions between parties should occur on all levels, not just on managerial side. It is typical, that partnerships start with a smaller prototype or proof-of-concept work to showcase needed skills and express intrest. (Taylor 2020)

In a situation where no single supplier provides added value compared to others, there are enough quality suppliers available in the market thus firm does not necessarily need to invest in a relationship. In such scenarios, return on investment would be low as there are no gains on forming a partnership. (Biong et al. 1997) Preceding steps above are shown in a sequence of events, but it should be noted that there is some overlap between them. Especially interaction can be found between steps 2 and 3 if screening and selection yields unsatisfactory results during the first try.

## 2.4 Transaction cost economics

In 1937 Coase published his work discussing the existence of organizations. According to Coase, the main reason why establishing a firm is profitable lies in the existence of a cost using a price mechanism. These costs are called transaction costs and the aim for every organization is to find the governance structure with lowest total sum. Every transaction a firm makes has a cost and, as Williamson (1979) later specified, these costs can be either external (market costs) or internal (bureaucracy costs).

Ellram and Billington (2001) defined transaction costs as costs of running the system. Many academics have also further studied the details and classification of these costs, as well as determinants on their level. (Williamson 1975) (Williamson 1985) (Dyer 1997) Multiple choices are made when assessing transaction costs making them subjective rather than objective.

Transaction cost economics states that any firm's main governance structures are markets and hierarchies, and the most efficient one is chosen. TCE thus examines both markets and hierarchies, also known as vertical integration, in a combined fashion. (Williamson 2009) Basic logic of Coase (1937) is that if transaction costs derived from the use of market are greater than the costs of hierarchy, activities should be organized in-house, and vice versa. Hierarchy can also be considered as a failure of free market to handle transactions and exchange efficiently. (Ellram, Billington 2001)

In the context of supply management, transaction cost economics forms the basis for several strategic decisions, for example, make-or-buy decisions and decisions regarding relationship type with external parties. Costs of doing business can be managed with organizational arrangements, of which one is forming value-creating networks or engaging into collaboration. In this study, transaction cost economics is combined with resource-based view to discuss and supplier relationships and collaboration.

### 2.4.1 Classification and level of transaction costs

Williamson (1985) classifies transaction costs to categories of *ex ante* and *ex post*, or pre-contractual and post-contractual, respectively. Examples of former are costs of finding information, writing contracts and negotiation while typical latter ones are settling disputes and executing contractual obligations like reporting and general administration. Dyer (1997) also made a distinction between search costs, monitoring costs and enforcement costs. It should be noted that each of these costs can be quite low on occasions but also, in a more complex situation, become rather expensive.

Level of transaction costs depends upon several factors, that can be thought of as characteristics of a contractual relationship. According to Williamson (1979) these are

- The frequency of transactions
- Uncertainty (both internal and external)
- The level of transaction specific investments

Frequency is the volume of transactions between parties. Contractual relationships always create a cost and with high volumes and recurring exchange, costs from a specialized governance structure can be justified. (Williamson 1985)

Uncertainty is described as the inability to predict unforeseen events. This leads to contracts being incomplete by nature and thus making creation of contractual relationships more difficult. Such contingencies can create opportunism, in other words, give one party an incentive to favorably interpret contractual terms. Uncertainty can be either internal or external, also known as behavioral or environmental, respectively. (Ellram, Billington 2001) It should be noted that two exchanging parties always have interests that overlap only partially and thus disagreement costs are likely in contractual relationship. (Ketokivi, Mahoney 2017)

External uncertainty deals with uncertainty in the market in which buying company operates. For example, markets with high technology are prone to rapid changes causing unpredictable and significant fluctuations in demand. (Ellram, Billington 2001) Williamson (1979) argued that likelihood of vertical integration increases in markets where high environmental uncertainty

exists. Idea on internal uncertainty, on the other hand, states that organizations do not really know what they want, or the transaction itself is of such nature that contracting parties have no assurance that their counterpart has fulfilled agreed upon obligations. As a result, organizations can encounter difficulties in assessing whether a relationship meets expectations.

Specificity refers to specialized investments made by one or both parties to accommodate exchange. Specificity can take many forms like site specificity (e.g. a dedicated production facility), physical asset specificity (e.g. special tools) and human asset specificity (e.g. knowhow and experience). Important factor of specificity is that it creates dependency which can be unilateral or bilateral. Independent of starting point, Williamson (1993) noted that mutual dependency tends to form over time. Purely unilateral dependency tends to be rare in situations where asset specificity exists. However, dependency in a relationship is normally at least somewhat asymmetric. (Ketokivi, Mahoney 2017) If there is total absence of specificity, markets are fully competitive in a sense that no buyer is dependent on any supplier, and vice versa.

Dependency can create a situation where one party sees an opportunity to take advantage of the other (Goldberg 1976). Williamson (1985), however, took a viewpoint that exploiting one's exchange partner is ill-advised and could have adverse consequences on transaction and partnership efficiency. Then again, if a customer were to terminate a contract to supplier who has made specific investments, they would have to find another supplier willing to make same investments or make those themselves.

A simple transaction has low frequency, low uncertainty and low asset specificity and is therefore often efficiently handled through free markets between a supplier and buyer. TCE explains why these straightforward transactions are done by market exchange but also provides insight to organizing complex trade. (Ketokivi, Mahoney 2017)

#### **2.4.2 Relationship continuum**

If neither markets nor hierarchy is seen as a feasible option for the buying firm, problem of transaction costs can be solved using a contractual approach placed between free markets



and vertical integration. (John, Weitz 1988) This usually happens when markets are uncertain or the level of asset specificity involved is high, but there is a simultaneous a need for outsourcing. (Ellram, Billington 2001) These contractual structures are a combination of vertical integration and free market forces, and relay on collaboration between two or more organizations. Depending on the author, depicted structure can be called a hybrid or a partnership (Blomqvist et al. 2002) (Williamson 1975).

Relationship continuum as seen by transaction cost economics is presented in the figure below. It spans from the integrated approach on the left-hand side to free markets on the right. It should be noted that in each type or cluster, there is also variance in possible ways or organization. For example, in this model partnership is divided into four distinct types from preferred supplier to strategic alliance, where former is closest to free market transactions and latter can already express some characteristics of hierarchy.

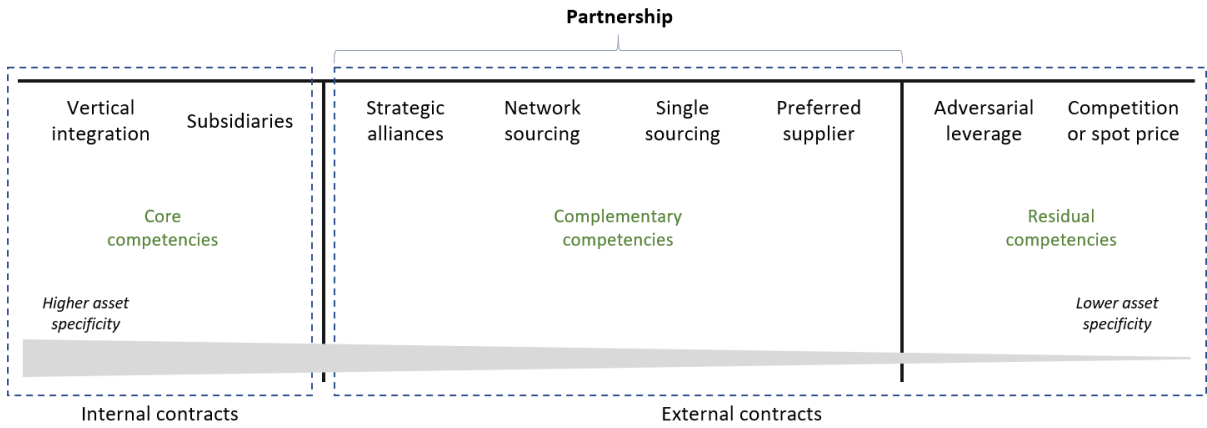


Figure 3. Relationship continuum in transaction cost economics.

Transaction cost economics see partnerships as a way to reap benefits from combining both economics of scale and scope. It can, at its best, yield many benefits of markets and hierarchy but at the same time be a challenging structure to govern. (Blomqvist et al. 2002) According to TCE, if partnership parties can create a solution with proper incentives on both sides there is a potential to create major mutual surplus.

As a governance structure, Blomqvist et al. (2002) found partnerships beneficial because they help parties to focus on core competencies in the value chain, provide an ability to coordinate

disperse knowledge and add trust and share risks and information. In the context of TCE, partnerships have also been found to improve quality and shorten time-to-market in new product development (Goldsmith, Adams 1999).

Information technology is a field with rapid technological development, need for specialized knowhow and capabilities, and uncertainty of future development avenues, which does not favor autonomous endeavors. Possibility to share risks and information further encourages to pursue inter-organizational co-operation. In this context, and from the wider viewpoint of supply management, transaction cost economics forms the theoretical bedrock for strategic decisions concerning buyer-supplier relationship types. In this study, TCE is applied to understand these relationship types, in which scenarios organizations pursue relations and thus what is expected and valued in partnerships in regard to qualities, capabilities, attitudes and more.

## **2.5 Resource-based view**

Aim of every company is to become and remain competitive in their respective market environment. Resource-based view emerged in the 1980s and 1990s from the work of Wernerfelt (1984), Prahalad and Hamel (1997), Barney (1991) and others, and it aims to help organizations understand the business elements required for a long-term competitive advantage. Model emphasizes that edge over competitors raises from internal sources, company's own resource pool that is, rather than from external environment. This gives organizational resources a substantial explanatory effect when comparing differences in organizational performance.

According to RBV, firms are collections or bundles of resources, and the way these resources are exploited is the key to growth and success. The type, magnitude and nature of resources and capabilities are significant determinants when assessing profitability. (Amit, Schoemaker 1993) It should be noted that advantage is achieved and sustained over time through the acquisition of and control over resources. (Eisenhardt, Martin 2000) In other words, these

advantage providing resources need not be fully owned by given company if it, nonetheless, has control over them.

### **2.5.1 Definitions of resource and capability**

Literature knows several definitions to resources and capabilities in the context of RBV. Some of these definitions have an incline towards traditional manufacturing industry while others are more general in nature. According to Amit and Schoemaker (1993), resources refer to stocks of available factors that are owned or controlled by a firm, thus comprising of knowhow, financial and physical assets and human capital, for example. Wernerfelt (1984) calls a resource anything that could be thought of as a strength or weakness of a firm, while Teece et al. (1997) argue that resources are firm-specific assets difficult if not impossible to imitate. Firm-specific asset is sometimes also used as a synonym for resource.

Some academics see resources being either tangible or intangible (Foss, Eriksen 1995), while others use a more granular approach of physical capital, human capital and organizational capital. In the latter, clarifying examples could be physical technology, facilities and equipment, location and access to raw materials; training, experience, intelligence, relationships and insight residing in a firm; and finally, formal organizational structure, controlling and planning activities, coordination systems and informal structures, respectively. (Grant 1991)

RBV promotes resources as the source of a firm's capabilities and capabilities, consequently, as the source of competitive advantage. Capabilities are, according to one definition, capacity for a team of resources to perform an activity or task (Grant 1991), and are always seen as intangible (Foss, Eriksen 1995). Capabilities emerge as a result of development and of exchange of information utilizing human capital resources. Organization manifests capabilities if it can be seen to have a capacity to deploy combinations of resources in order to reach a desired outcome. (Amit, Schoemaker 1993) Since capabilities develop over time and through complex processes and interactions, they are more difficult to acquire or imitate than tangible resources.

## 2.5.2 VRIN criteria and competitive advantage

Basic premise of resource-based view is that having resources that create value and are unique produces competitive advantage (Medcof 2001). Barney (1991) further defined that the resources critical in value creation must express VRIN attributes, in other words, be valuable, rare, inimitable and nonsubstitutable. RBV model with its key points is presented in the figure below.

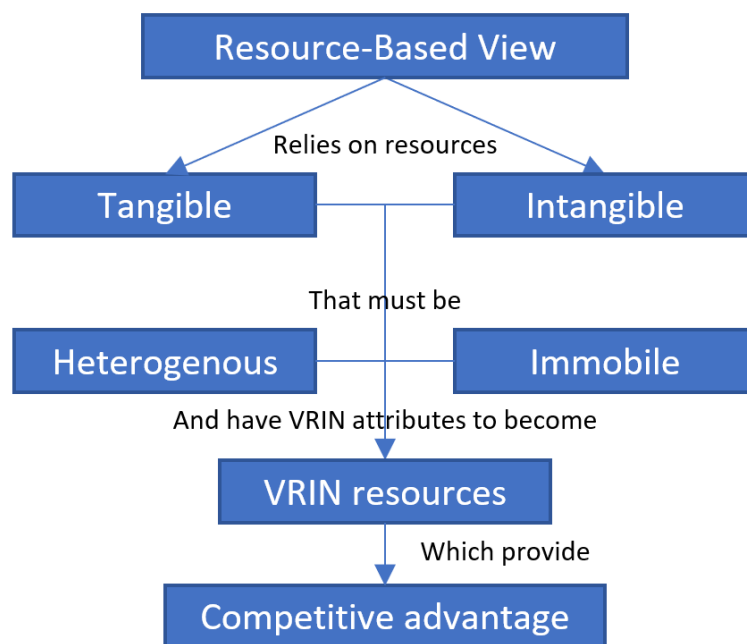


Figure 4. Key points of resource-based view. Adapted from Rothaermel (2012).

Resources in this model can be split into two types: tangible and intangible. The first are quantifiable like equipment, capital, infrastructure or similar while the latter does not have a physical presence. Examples of intangible but valuable resources are brands and trademarks, intellectual property and knowhow. Tangible assets can, normally, be easily acquired by competitors and thus provide less competitive edge in the long run. Intangible resources are difficult to separate from one company and are the primary source of sustainable advantage. (Prahalad, Hamel 1997)

Underlying assumption in RBV is that competitive heterogeneity exists between companies. If all companies had the same resources or access to a similar resource pool, no one could

employ different business strategies to outperform others. Because of heterogeneity this is not the case, but companies can outrank one another by implementing differing strategic approaches. (Madhani 2010) Second assumption in presented model states that resources are immobile and cannot move freely between companies. Immobility is more closely related to intangible resources (such as organizational culture or processes supporting innovation) but applies to some tangible assets as well. (Barney 1991)

Sources of competitive advantage go beyond heterogeneity and immobility as VRIN attributes play an essential role in enabling competitive advantage. A brief overview of these is presented below. (Barney 1991) (Barney 1986)

- **Valuable** means that resource must provide strategic value, id est, help a company to exploit market opportunities or avert threats. If a resource does not add or enhance value, there is no point in possessing it.
- **Rare** means resources must be unique or rare to offer competitive advantage. If a resource is possessed by multiple firms in the same market, it cannot provide advantage to a single party.
- **Inimitability** refers to infeasibility or impossibility of making copies or imitating the given resource. Competitive edge only raises from resources that cannot be easily acquired.
- **Non-substitutable** implies that resource cannot be substituted with an alternative that might be better available. Same performance will not be achieved by replacing resource with similar ones.

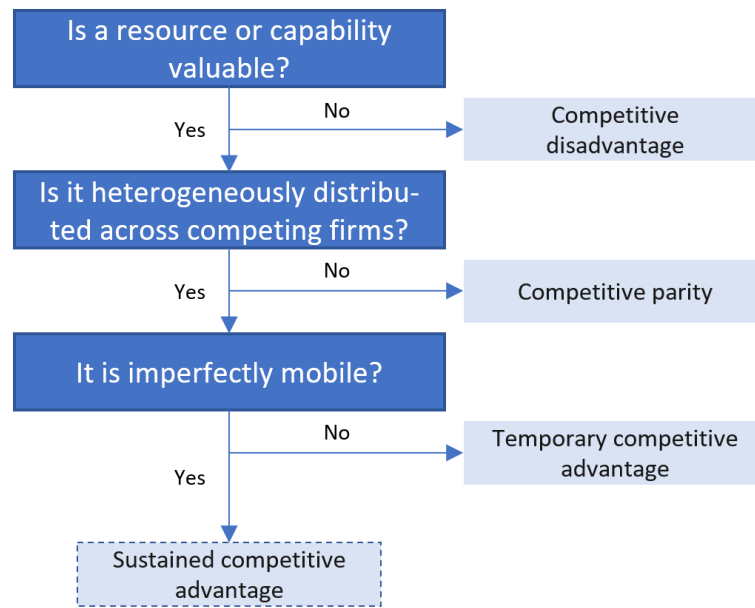


Figure 5. Identification of resources and capabilities. Adapted from Mata et al. (1995).

Valuable resources can be used to implement novel strategies and, consequently, to achieve gains in efficiency and effectiveness. (Barney 1991) They can, however, also be used to improve customer satisfaction, reduce costs or, in general, improve one's performance in respect to competitors. (Bogner, Thomas 1994) (Peteraf 1993) The figure above depicts three most important questions asked to identify the impact a resource has. If answer to all three questions is positive, competitive advantage is likely to be gained.

### 2.5.3 Make-or-buy decisions and collaboration

Resource-based view has real-life implications in areas of make-or-buy decisions, inter-company collaboration, supplier selection and supplier relationships. Gulati et al. (2000) argue that, from the resource-based perspective, a network of relationships forms an essential source of value-generating resources. This viewpoint is aligned with Lakemond et al. (2004) who suggested that value is created in a network and not only by a single company. Core competencies each stakeholder brings are the key in this process.

Make-or-buy decision is one of the fundamental questions in every company. This decision depends on the extent to which new ventures are specific to or can be covered with current

capabilities, and what are the costs of developing new ones. (Conner 1991) In the figure below, RBV's approach to make-or-buy decision is depicted.

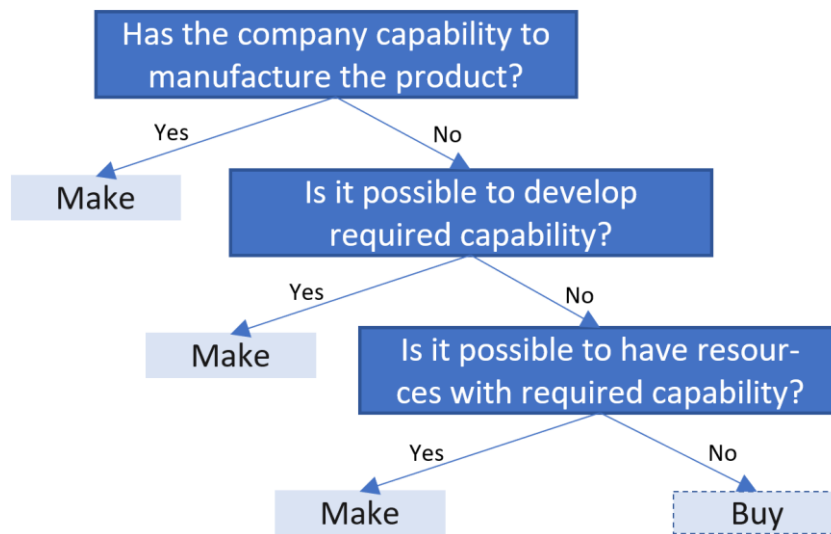


Figure 6. Approach to make-or-buy decisions. Adapted from Cousins et al. (2008).

RBV sees firms in a positive light, as entities capable of combining resources to efficiently produce knowhow and value unavailable in the market. Therefore, it is natural to first look inside a company to see if the required capability already exists or whether it can be developed with relative ease. (Hodgson 1998) Since companies cannot not feasibly possess all capabilities, they might at one point require, they can try to acquire another company already possessing these or purchase what is needed from an external party. Choice between the two is dependent on the costs of developing or acquiring needed assets. (Cousins et al. 2008) From a supplier's perspective, it is important to understand what variety of resources and capabilities is needed in targeted contemporary market. Supplier should develop the type of offering customers find valid and make sure they can provide goods and services their customers perceive to have VRIN attributes.

As mentioned, resource-based view states that resources, or access to resources, are pivotal elements in value creation, and that modern-day value is created in networks rather than by a single actor. In this work, RBV's approach is the foundation for understanding why companies create partnerships and what they expect and aim for while doing so. It explains

collaboration between organizations by connecting resources to value creation and is therefore a valid viewpoint when discussing supplier selection and development criteria.

## **2.6 Criteria for strategic partnership selection and development**

### **2.6.1 Partnership selection**

Previous literature recognizes several ingredients essential in making a partnership successful. According to Steele and Court (1996), most important factor is the genuine commitment from the top of both or all participating organizations. They also note that, in ideal situation, partnership arrangements should have been discussed on the highest level already in the early stages of negotiation. All parties should understand what is expected, in principle and in detail, and have enough skilled resources available to carry out work efficiently. Partnership is not a straightforward process but will include problems, so patience and joint proactive approach are needed. Open communication across all levels, willingness to undertake more than just contracted in writing and goodwill trust are keys to success.

In their article, Lambert et al. (1999) presented a high-level model describing partnering process and, in this model, three main elements were recognized: drivers, facilitators and management components. While drivers and facilitators establish the potential for the emergence of partnership, it is the management components that guide how partnership itself is achieved. This implies that managerial aspects and management viewpoints are prevalent also among selection criteria. While the nature of business obviously affects criteria used, service business puts emphasis on the immaterial criteria, such as, width of knowledge base, complementary capabilities and reliability (Varis, Salminen 2000).

In fast-moving markets, pressure to partner quickly and efficiently becomes imminent. This differentiates modern service industries from the more traditional ones involving physical goods, production facilities et cetera. Varis et al. (2000) argued that earlier developed partnership models do not sufficiently consider the specific characteristics of modern and rapidly changing service business, such as infocom market. Wilson (1995) notes that turbulent



environment makes it hard to test and try potential partners and thus the pre-existing reputation of being trustworthy and well-performing become valuable measures in evaluation.

In the age of modern network economy, the idea of companies acting autonomously in the market is long gone even though older managerial tools related to partner selection could so assume (Duysters et al. 1999). In their article, Duysters et al. (1999) argue that in addition to standard selection criteria, also the strategic network positioning of potential partner should be considered. Furthermore, they suggest that it is not sufficient to only focus on fit between two parties but the fit in supplier's alliance portfolio should also be considered.

Varis et al. (2000) had, in their publication, listed partner selection criteria examined from more traditional academic literature. Adaptation of their list can be seen in the table below.

Table 2. Partner selection criteria. Adapted from Varis et al. (2000).

Author(s)	Partnering focus	Selection criteria utilized
Lasserre (1984)	Technology transfer	<b>Strategic fit:</b> Strategic vision, Strategic importance of the project, Pressures <b>Resource fit:</b> Previous experience in joint ventures, Technology, Managerial and financial resources, Commitment
Ellram (1990)	Supplier partnership	<b>Financial Issues:</b> Economic performance and financial stability <b>Organisational and Strategy Issues:</b> Feeling of trust, Strategic fit, Organisational structure <b>Technology Issues:</b> Assessment of manufacturing facilities, design capabilities etc. <b>Other Factors:</b> Safety record, Business references
Cavusgil, Yeoh, Mitri (1995)	Foreign distributors	Financial and company strengths, Product factors, Marketing skills, Commitment, Facilitating factors
Dacin, Hitt, Levittas (1997)	International alliances	Financial assets, Complementarity of capabilities, Unique competencies, Industry attractiveness, Cost of alternatives, Market knowledge-/access, Intangible assets, Managerial capabilities, Capabilities to provide quality product/service, Willingness to share expertise, Partner's ability to acquire your firm's special skills, Previous alliance experience, Technical capabilities
Cavusgil, Evirgen (1997)	International marketing	<b>Partner related criteria:</b> Partner characteristics, Compatibility, Motivation, Commitment, Reliability, Property rights protection <b>Task related criteria:</b> Financial resources, Marketing resources, Customer service, R&D technical resources, Organisational resources, Production resources

Selecting a supplier partner creates a multi-criteria decision-making problem affected by several trade-offs (Amid et al. 2009). Ho et al. (2010) found the most popular selection criteria to be quality, delivery and price or cost, in this order. In their paper, 78 supplier evaluation and selection studies between 2000 and 2008 were reviewed.

Early in the 1960s, Dickson (1966) gathered a total of 23 meaningful supplier selection factors from academic literature and asked purchasing managers from various companies to rate them according to each factor’s relative importance in four distinct purchasing scenarios. Results from this survey are depicted in the table below. It should be noted, that at the time of Dickson’s work, described scenarios were more inclined towards manufacturing than services.

Table 3. Selection factors and their relative importance. Adapted from Dickson (1966).

Number	Factor	Relative importance
1	Quality	Extreme importance
2	Delivery	
3	Performance history	Considerable importance
4	Warranties & claims policies	
5	Production facilities and capacity	
6	Price	
7	Technical capability	
8	Financial position	
9	Procedural compliance	Average importance
10	Communication system	
11	Reputation and position in the industry	
12	Desire for business	
13	Management and organization	
14	Operating controls	
15	Repair service	
16	Attitude	
17	Impression	
18	Packaging ability	
19	Labor relations record	
20	Geographical location	
21	Amount of past business	
22	Training aids	
23	Reciprocal arrangements	Slight importance

Dickson was aware that the item or service being purchased has an influence on the relative importance of selection criteria. Table below describes five most importance factors in selection problem in Dickson’s purchase scenario regarding the purchase of computers.

Table 4. Most important criteria in selected situation. Adapted from Dickson (1966).

Importance rank	Case: Purchase of computers
1	Quality
2	Technical capability
3	Delivery
4	Production capacity
5	Performance history

Observations above confirm that price is not a consistently important factor in selection process. Furthermore, while some criteria might be important in one setting, its relative importance could be lower in another settings, depending on the context. Three universally important factors in selecting a supplier partner are recognized as ability to meet quality standards, ability to deliver agreed upon products on time and supplier’s performance history. (Dickson 1966)

Based on Dickson’s work, Cheraghi et al. (2011) later drew generalizations about the relative importance on various factors in supplier selection; the more complex the nature of products or services being purchased, the more criteria are likely to be considered, and, in these cases, price is typically quite unimportant. Conversely, when buying simple items, price tends to be the primary factor considered. Thus, the nature of acquisition has a major influence on criteria used when selecting a supplier, and it is unlikely any one set of criteria could be appropriate for all scenarios.

Dickson’s work was revisited by Weber et al. (1991) who went through a total of 76 articles published between 1966 and 1990 and categorized them according to Dickson’s 23 vendor selection criteria. Cheraghi et al. (2011) later revisited the subject again and extended the review interval from 1990 to 2001. Their update, based on reviewing more than 100 research papers, was that there has been a significant change in relative importance of various critical success factors during past decades. Increased competition, global markets and internet-based novel technologies combined have changed the importance of pre-existing factors while simultaneously introducing new criteria to partnership selection process. Cheraghi et al. (2011) further suggest that future selection criteria will continue to include basic measures of excellence, such as quality, delivery, price and service level, but also expand with non-

traditional and evolving metrics of just-in-time communication, process improvement and supply chain management abilities.

Table below summarizes the past and present ranking of supplier selection criteria as reported by Weber et al. (1991) and Cheraghi et al. (2011) It should be noted that Weber et al. and Cheraghi et al. based their research solely on academic literature while Dickson's work had foundations in surveying purchase agents. Therefore, the two were based on different populations.

Presented summary shows that four major entrants of reliability, flexibility, consistency and long-term relationship have made it to the list of critical success factors in supplier selection. On the other hand, some of the factors previously included have become futile in due time.

Table 5. The present and past ranking of certain supplier selection criteria.

Rank in the study by Cheraghi et al. (2011)	Rank in the study by Weber et al. (1991)	Criterion
1	3	Quality
2	2	Delivery
3	1	Price
4	10	Repair service
5	5	Technical capability
6	4	Production facilities and capacity
7	9	Financial position
8	7	Management and organization
9	New	Reliability
10	New	Flexibility
11	8	Attitude
12	13	Communication system
13	10	Performance history
14	6	Geographical location
15	New	Consistency
16	New	Long-term relationship
17	14	Procedural compliance
18	12	Impression
19	13	Reciprocal arrangements
20	New	Process improvement
21	New	Product development
22	New	Inventory costs
23	New	Just-in-time
24	New	Quality standards
25	New	Integrity
26	New	Professionalism
27	New	Research
28	New	Cultural
29	8	Reputation and position in the industry
30	13	Labor relations record
Passé	11	Operating controls
Passé	11	Packaging ability
Passé	13	Training aids
Passé	14	Desire for business
Passé	15	Amount of past business
Passé	15	Warranties and claim policies

*Note:* In the table, New indicates that particular criterion was not present in the original list by Dickson (1966). Passé indicates that given criterion was present in Dickson's study but was no longer found relevant by Cheraghi (2011).

Criteria for supplier and partnership selection should be defined in company's sourcing strategy. Normally, the selection is balanced and optimized between minimum costs, maximum

quality and maximum service which can end up with the following list of examples of selection criteria (Lintukangas 2019):

- Infrastructure, organization and financial position of supplier
- Resources and capabilities of supplier
- Capacity and delivery times
- Quality standards
- Price – cost balance
- Advanced technology
- Development potential of a supplier
- Reliability
- Sustainability and set of values
- Business idea
- Location
- Commitments

It has been studied, and widely agreed, that while there are some established operational performance related supplier selection criteria, such as cost, quality, delivery and flexibility (De Meyer et al. 1989), constantly evolving and more demanding business environments call for an ever-wider range of criteria (Cagliano et al. 2004). Furthermore, Sarkis et al. (2007) noted that dynamic nature of existing conditions likely ends up with supplier selection criteria changing over time. Thus, selection of best supplier becomes more and more difficult and complex.

In their article, Wu et al. (2010) suggested a three-level quantitative model for the selection of most suitable partnering criteria in any field of industry. While their focus was set on agile supply chains, the general level criteria categories presented are applicable to all industries as the industry specific differentiation only takes place in lower hierarchy levels. In the table below, these general level criteria categories are presented.

Table 6. General level criteria categories as presented by Wu et al. (2010).

General level criteria categories
Production and logistics management
Partnership management
Financial capability
Technology and knowledge management
Marketing capability
Industrial and organizational competitiveness
Human resource management

Moen (2010) studied strategic partnership selection criteria among newly established high-tech firms entering international markets. This type of companies often pursue partnerships as they have limited resources in regard to time, capital and capabilities. The top partner-related criteria found are trust between top management levels, financial resources, complementarity of resource contributions and relatedness of partner business and reputation. Full list of criteria described by Moen, accompanied with division into important and less important criteria can be seen in the table below.

Table 7. Partner selection criteria importance according to Moen (2010).

Number	Importance	Partner selection criteria
1	Important	Trust between top management teams (personal chemistry)
2		Relatedness of partner business, complementary resources
3		Access to links with major buyers, networks, and distribution channels
4		Access to local market knowledge
5		Reputation
6		Financial status, sharing of financial risk
7	Less important	Firm size
8		Past experience with partner
9		Access to local cultural knowledge
10		Access to product-specific knowledge
11		Access to local regulatory knowledge
12		Access to technology
13		Access to materials/natural resources
14		Access to labour
15		International experience
16		Government negotiation ability

It should be noted that Moen's focus is inclined towards partnerships in alliances and thus some criterion, such as access to local market knowledge and access to links with major buyers, networks and distribution channels gain high importance.

Geringer (1991) summarized available partner selection criteria in his work and ended up identifying a set of different selection criteria he later split into two categories: task-related selection criteria and partner-related selection criteria. Former focuses on operational skills and latter on variables influencing partner's ability to cooperate in effective and efficient manner while in a partnership. Moen (2010) notes that empirical evidence shows partner-related criteria being generally ranked higher than task-related criteria.

### **2.6.2 Partnership and supplier development**

Contemporary business environment puts emphasis on focusing on one's core competencies and companies nowadays rely, even on extreme levels, on their suppliers to deliver services and goods. Starting to make something internally would require substantial investments and changing a supplier tends to be costly. In addition, alternative suppliers might not always even exist, at least not in a favourable geography. (Wagner 2006) The need to pay attention to company's suppliers is obvious and continues also after they have first been assessed and selected. Here is where supplier development comes into play.

If a supplier delivers subpar results, a feasible option for buying company is to invest in supplier development activities. to support given supplier in meeting agreed upon standards. For reasons mentioned earlier, supplier development is often a better choice than other alternatives. (Krause et al. 2000)

Criteria set used to evaluate whether an investment in supplier development is feasible partly overlap with those used when first selecting a supplier. According to Krause and Ellram (1997), two-way communication, cross-functional teams and top-management involvement are the most critical elements when diving into supplier development. Supporting the viewpoint, Nieminen (2016) highlights close collaboration and the need for guidance and support from



the buying company to achieve success in development efforts. Quality, not the amount, of shared information should also be placed on the spotlight (Beske et al. 2014).

As supplier selection, supplier development is also an investment from the buying company and thus analogical set of criteria should be utilized when screening and selecting the most suitable suppliers for development activities. The selection process is multi-criteria decision problem including both qualitative and quantitative factors. (Dalvi, Kant 2015) Ruhrmann et al. (2014) see realibility, quality and flexibility being essential characteristics for an organization to be selected in supplier development activities. According to Li et al. (2012) and Govindan et al. (2010), supplier’s past performance and gain in competitive advantage are the most significant criteria to consider.

In their review article, Dalvi et al. (2015) listed and analyzed a set of academical literature on supplier development and summarized the most important criteria cited. The ten most important criteria they found are summarized in the following table in the order of occurrence.

Table 8. Supplier development criteria. Adapted from Dalvi et al. (2015).

Number	Supplier development criterion
1	Supplier’s past performance
2	Competitive advantage
3	Length of buyer-supplier relationship
4	Long-term benefits
5	Delivery performance
6	Quality improvement
7	Cost savings
8	Profitability
9	Supplier’s capability improvement
10	Supplier’s performance improvement

As theory regarding partnership selection and development presents, some valued aspects of partnership are timeless despite the fact they have been studied during different decades and by academics with a focus on differing fields of industry. Criteria like trust, ability to communicate clearly and precisely and quality deliverables do not seem to go out of vogue. When analyzing utilized sets of criteria over time, qualitative aspects also seem to be prevalent in selection and development, not only price, for example.

Operating environments change rapidly, especially in turbulent fields such as information technology sector. This change brings along new selection and development criteria but some higher-level partner related qualities, like knowhow and competence remain even though their specific content evolves. This is aligned with resource-based view which suggests that access to resources, knowhow for example, is a key in creating value.

### **3 Research Design**

This chapter presents the methodology, case description and the process of collecting and analyzing data. Reliability and validity of this research are also considered.

#### **3.1 Methodology**

The empirical part of this research is conducted using qualitative research methodology, case study to be more exact. Qualitative method is a good fit to presented research design as it aims to create understanding and interpret rather than generalize. While quantitative method focuses on measurement and crunching of numerical data, qualitative approach is more interested in practice and thus well suitable for studying business phenomena. Possible insights are applicable in the given context and provide value to case company. (Koskinen et al. 2005)

Case study is a method used often in business and economics to investigate a single of a few selected cases. These are typically companies, their divisions, sub-units or similar. As phenomena, company functions, processes and relations are among common case study topics. (Yin 2014) Real-life context, exploratory mindset and finding answers to “how” and “why” are typical characteristics of a case study. As the study takes place in real-life environment, researcher seldom has extensive control over the studied events. Data for case studies can originate from various sources and it is considered good practice to use multiple sources if plausible. (Thomas 2021)

This work is of descriptive case study type and presents a complete description of the studied phenomenon in its real-life context. Furthermore, case design chosen is a single-case design examined from holistic perspective. Because study was conducted to a single company, it was clearly single-case design. There was a single unit of analysis, the selection and development criteria of strategic partnerships, thus the perspective can be defined as a holistic one.

Voss (2002) further separates case studies to retrospective and current cases. This study is a current case focusing on a contemporary phenomenon. However, as is common with current

cases, some historical data is also included. In this case, historical data comes in the form of traditional partnership selection and development criteria gathered from existing academic literature.

### **3.2 Data collection and data analysis**

For this study, data is collected with semi-structured interviews. Semi-structured interviews consist of a list of themes and questions covering the research topic. The order of questions may vary depending on the flow of the conversation, and additional questions can be asked where seen fit. (Saunders et al. 2019) Semi-structured interviews provide the flexibility needed to thoroughly understand the studied phenomenon. Individual points can be followed upon, and clarifying questions presented, even though the same base set of questions is asked from every interviewee. (Lee, Lings 2008)

Empirical part surveyed viewpoints and opinions relevant to contemporary partnership selection criteria directly from those working on the supplier-vendor interface. Total of 9 employees from case company and additional 5 people from case company's clients were interviewed. Interviewees were selected so that they represent different organizational positions and seniority levels to provide a wider and more comprehensive perspective of the topic. Anonymity of all interviewees is preserved and thus no identifying information is presented. Also, interview results do not contain any information, insider knowledge, key performance indicators, financial figures or similar that could be considered sensitive. This allows open and in-depth discussion during interviews, and means it is possible to publish all relevant findings.

To improve the reliability of the study, organizational positions of case company interviewees are presented in the figure below. All interviewees from client side operate on a management or senior management level in their respective companies.

Table 9. List of case company interviewees and their positions.

Interviewee	Position of the interviewee
A	Project Manager
B	Service Manager
C	Director, Consulting Services
D	Director, Consulting Expert
E	Senior Consultant
F	Director, Consulting Services
G	Delivery Manager
H	Director, Business Development
I	Consultant

Interviews were conducted in September 2021. Each interview lasted for around 30-45 minutes and was conducted over Microsoft Teams platform. Interviews were recorded with the permission of interviewees and later partially transcribed to collect and interpret results.

Interview questions were separated into three themes: strategic partnerships, criteria for the selection and development of strategic partnerships and the future of applied criteria. First theme explored the nature, significance and characteristics of strategic partnerships in the context of contemporary IT industry, as well as traits that enable or hinder partnership success. Second theme discussed selection and development criteria in more detail and how these have changes over time. Third theme consisted of a future outlook and possible avenues for the evolution of these criteria. All interview questions and themes can be found from Appendix 1.

Interview responses were transcribed literally except for background questions which were left out of transcription. After transcription, question specific answers were grouped together by question. Resulting data was read through to gain familiarity with answers. After first read-through, answers were read again and labeled according to topics, themes or patterns found. Notes were written among text to highlight quotes or direct answers to interview questions, and to make first summarizations of findings. Transcription, labeling and notes were done manually. Labeling and notes made provided the basis for final classification and summarization of data, which aggregated results and allowed them to be presented in a more clear and focused manner. Results, labels and noted were checked to ensure reliability.

To support interviews and allow further analysis, partnership selection criteria was also collected from existing academic literature. This approach is aligned with Yin's (2014) research guidelines, which state that case studies should use multiple data sources to improve validity and reliability. Analysis between empirical results and academic literature was conducted by comparing older and contemporary partnership selection criteria and noting differences if present.

Literature and empirical findings, as well as results from analysis are presented in a tabular form. Study was carried out using good scientific practice meaning all data was collected and analyzed systematically, and conclusions were made and reported in consistent and objective manner.

### **3.3 Reliability and validity**

Research validity explores how well, and to which extent, the collected data covers the real area of investigation. In other words, validity points out if research measured what it was supposed to measure. (Ghauri et al. 2020) High research validity compliments the justifiability of conclusions. Reliability concerns whether results can be reproduced when the research is repeated under the same conditions. Alias how consistently selected method measures something. (Taherdoost 2016)

To ensure reliability multiple interviews were conducted when making this research. Furthermore, representatives from both customer and supplier side were interviewed to evade any skewness in provided answers. All interviewees are professionals in their field and have extensive experience from working in the customer-supplier interface. This helps to provide a wide perspective to research topic.

Interviews were conducted in Finnish, recorded to allow later analysis and then partly transcribed when summarizing results. Transcription might affect the reliability of results as it can be prone to semantic errors. All interviewees had Finnish as their native language thus having the interview itself in this language enabled a more in-depth and natural conversations.

Study was made in one case company so any findings reflect the current situation only in this environment and, as a principle cannot be directly generalized to other companies, industries or contexts. The process of data collection and analysis is described in detail in this study to provide readers with a good understanding of the setting and methods used, and to allow them to personally evaluate both reliability and validity. It should be noted that bias or noise in researcher's own thinking could affect the reliability of research (Kahneman 2013).

### **3.4 Case description**

CGI Group Inc. is a multinational company specialized in information technology consulting, outsourcing, development and systems integrations. Operating in Finland, CGI Suomi Oy is a fully owned subsidiary of CGI Group Inc. and responsible for local operations, supporting both private and public organizations. CGI focuses on large scale clients and aims to be a strategic partner of choice known for innovative approach and its position as digital solutions forerunner. (CGI Group Inc. 2020) In fiscal year 2020, CGI Suomi Oy made a turnover of about €416 million with EBITDA and profitability being 15,4% and 12,4%, respectively. It employed some 3000 people around all of Finland.

Research assignment is carried out in retail business unit, which belongs to commercial division in CGI's organization structure. Retail is a technology agnostic unit with a strong focus on domestic retail and hospitality clients. Their strategy emphasizes client proximity, support for digital transformation and cloudification of services. Retail provides jobs for some 100 members, both in Finland and offshore. (CGI Group Inc. 2021)

Retail business unit works in a very competitive market as Finnish retail industry is basically run by only a handful of major companies. On the supplier side, there are several established and rising service and solution providers, each trying to close profitable deals with customers. Currently, retail unit focuses on some 20-30 key clients with some of whom they already have long-lasting mutually beneficial relationships. CGI's retail offering is based on the idea of providing Retail-as-a-Service, in other words, covering all aspects of digital retailing from cloud and marketing to ERP solutions, micro services, analytics and data management.

This study concentrates only on the customers and viewpoint of CGI Suomi Oy's retail business unit, thus having a focus on specific industry and on the technologies and products delivered by this unit. Furthermore, aligned with CGI's overall strategy, customer base analyzed comprises of large-scale Finnish clients. It should be noted that, depending on the field of industry and targeted customer segment, results of an otherwise similar study could differ from what is presented here.

### **3.5 Definition of traditional and contemporary**

Considering the topic and scope of this research, a point of reference should be defined when discussing modern or past criteria in partnership selection and development. The roots of non-local or distributed computing can be traced back to 1950s when birth of mainframe and terminal design allowed more and more people to access technology which, at the time, cost millions of dollars. However, back then this technology was only accessed by the military industry and research communities and was still far behind of what we currently refer to as the cloud. (Zhang et al. 2010)

The term "cloud computing" was first coined by Compaq in 1996. Shortly after, in 1999, Salesforce was the first company to offer their applications over the internet and as Software as a Service. (Regalado 2011) This created an arms race with major players like Google, Microsoft and Amazon rapidly expanding their offering and creating new services we currently know as Platform as a Service, Infrastructure as a Service and more. Late 2006, Amazon Web Services launched their Elastic Compute Cloud, or EC<sup>2</sup>, a service which allowed people, both private and business that is, to rent virtual computers and run their code and applications online whenever needed. This launch was soon followed by Google, who published first version of their now famous Google Docs service. (Hayes 2008)

In some sense cloud computing is only rebranding of internet. This definition would date the split on traditional and contemporary criteria in 1980s. However, because modern business



applications explicitly utilize Software as a Service ideology and cloud, the existence of internet is not the defining factor but merely a prerequisite.

In this research, the divider between traditional and contemporary is set to the era when Software as a Service and cloud computing emerged, or more precisely, in the middle of 1990s. Partnership selection and development criteria published before that are considered traditional and, respectively, criteria from publications from the later years of 1990s and this millenia are considered modern.

## 4 Empirical findings

This chapter presents analysis and results of the study, building upon conducted interviews. First, a summarization of strategic partnership selection criteria gathered from interviews is presented. Second and third part of analysis go through how partner selection and development criteria has changed over time, and what is or has been challenging in meeting criteria and expectations. Finally, future avenues of strategic partnership criteria are discussed, along with what changes or additions our respondents feel would be beneficial to both partnership parties.

Before diving into main topics, each respondent was asked to describe the strategic importance of a well-functioning client-supplier partnership in contemporary IT business environment. Majority of interviewees saw the importance as being significant, substantial or even crucial to company operations, especially regarding business-critical assets or services. Well-functioning partnership is perceived to improve efficiency on both sides by enabling one to focus on core competencies. In addition, reduction of risks, enhanced ability to respond to external change and better understanding of complex phenomena were mentioned as concrete benefits.

Interviewees pointed out several characteristics and traits a strategic supplier partner should manifest to enable a successful relationship. Discussed attributes can in most cases be applied to both partnership parties alike, as well as to partnership as a concept. One respondent summarized the essential by saying:

*“Partnership is about mutual trust. When you show commitment, you receive commitment. In an optimal setup, strategic partnership evolves into a symbiosis, at which point the whole client team lives and breathes customer's business goals together with the customer.”*

Table 10 below presents the summarized strategic partnership selection and development criteria gathered from interviews.

Table 10. Strategic partnership selection criteria gathered from interviews.

Number	Criterion
1	Trust and openness
2	Quality and value delivered
3	Personal chemistry in all levels of partnership
4	Industry knowledge
5	Technical expertize
6	Agility and flexibility
7	Ability to operate in value network or multivendor environment
8	Local presence
9	Long-term commitment
10	Alignment of company size, values and operating model

During interviews, it came clear that a strategic partnership is built upon mutual trust and personal chemistry between individuals working with each other. Long-term commitment and dedication were seen as foundational elements in partnerships. If a supplier has time for customers, customers usually have time for supplier as well. Some respondents noted that the core partnerships elements of trust and long-term dedication have not changed despite the turbulence seen in technology.

Modern technological environment is vastly complex and usually offers multiple alternative approaches to any given problem. Hence, supplier should not focus too tightly on a specific technology or product but aim to understand client’s business goals and suggest the most appropriate solutions. This calls for openness, honesty, good and direct touchpoints and willingness to share strategic and operational goals on both sides. Bureaucracy, lack of agility, being considered oldfashioned, lying, micromanagement and not sharing risks were noted as barriers to partnerships. One respondent also stated that ambitions and goals of strategic and operational management should be aligned to enable partnerships.

Relationship management and functionality of processes require the right personnel to match on client and supplier interface. Relevant technical knowhow, understanding of customer business and willingness to listen and understand are key elements. It was stated on multiple occasions that even though companies agree upon various contracts on paper, it is the individuals in everyday working life that make or break the partnership as strategic partnerships

cannot exist without expertise and quality. Quality applies to both sides in terms of delivering what is promised and admitting one's mistakes if need be. Interviewees highlighted that it is human to make mistakes, but these should be admitted and solved quickly in trusting partnerships.

CGI has recently updated its strategy, and two of the focus areas included are *growing with the right clients and strong relationships* and *providing business relevant offering based on modern technology*. First cornerstone is well aligned with theory and interview responses, both of which put emphasis on partnership as a foundation for the emergence of other benefits. However, the second pillar in CGI's strategy mostly focuses on technological aspects by promising business relevant goods and services built with the latest tools. This omits, for example openness, honesty, curiosity and interpersonal chemistry that were highlighted as characteristics enabling a well-functioning partnership. This is, on the other hand, understandable, since a certain technological skillset or a list of development frameworks offered is simpler to define and quantify than more abstract softer aspects.

#### **4.1 Change in partner selection and development criteria**

Discussions with interviewees brought up how the information explosion has changed partner selection and development. Nowadays, customers have better than ever possibilities to gather and analyze information themselves. The added value of partnership therefore takes the form of filtering or summarizing available information to knowledge and insights.

Modern environment has also affected strategic partnership formation in other ways. As technical landscape has grown and there are evermore competing solutions available, the world of IT is no longer product centric. Compared to the age of traditional tailored on-premises solutions, customers have endless possibilities to pick and switch services and providers. Fragmentation is also seen as fewer turnkey deliveries and with suppliers having difficulties in justifying why customers should settle with a single provider.

Respondents felt that novel purchase models like Software-as-a-Service are not drivers but rather implications of underlying technical improvements. Cloud-based technologies have enabled companies to realistically pursue what has not been possible before. For example, one interviewee mentioned that any client company can today have a realtime reporting solution fetching data from Finland, Central Europe, Oceania and Caribbean. This enables unprecedented transparency. Same interviewee expects this trend to continue and believes companies want to further widen this transparency to cover all aspects of value chains and networks.

Modern strategic partners are expected to thrive in multivendor networks and with parties from different backgrounds and cultures. However, this should not come with the expense of local presence, noted one respondent. As technology is no longer a barrier in, for example value chain level reporting, partners' organizational ability to implement this transparency becomes more important.

From the viewpoint of a customer organization outsourcing all or most of its IT services, changes in technology do not play such an important role. One interviewee had observed that the technical element of their corporate systems is rather insignificant if business' needs are satisfied. It was added that novel technologies always raise a question of continuity though, and this is something a strategic partner ought to be able to address. Another respondent said that traditional tailoring work in software deliveries is decreasing but fully generic software is still only purchased for certain purposes like financial administration or human resources management. From a wider perspective, selection and development criteria is shifting from being able to tailor software to understanding client business and needs.

Modern environment has brought B2C behaviour to the world formerly dominated by B2B ideology, at least according to some interviewees. It was added that this change has a very concrete nature. Traditionally, B2B software solutions and interactions have been different from that of B2C but these two are closing in on one another. One interviewee pondered that:

*“From IT point of view, it is fair to ask whether we produce services that would fulfil what is expected from B2C applications? Why should business users settle with less than what they are used to in their personal lives?”*

Today, strategic partners are expected to deliver enterprise-level reliability combined with usability and customer-centricity prominent in B2C applications. Also, willingness to serve and set high quality targets have become more important. Respondents felt that current environment does not tolerate division between B2B and B2C like before but expects seamlessness in all operations.

Interviewees were asked if they recognize some criterion or criteria that has emerged with the change in environment, or if they see some previously prominent criteria as no longer applicable or even not valued. One interesting aspect mentioned by respondents was the more professional approach to purchasing activities and making business. Although not a criterion itself, especially bigger clients tend to use third party purchasing consultants when acquiring core corporate software today. This was not considered a common practice some twenty or thirty year ago and calls for similar roles and expertise also on the supplier side. Also, modern contracts can be more beneficial towards customers due to increased professionalism and experience in buying.

Overall, respondents considered contemporary partnership criteria stricter than what they used to be. Agility and flexibility are valued, required knowhow on business and technology is wider and deeper than before and all parties furthermore need to be able to operate as a part of a value-creating network. It was on various occasions mentioned, that personal chemistry and right attitude have become more important than contractual details. Suppliers' pressure to find the right talent was seen as immense as key individuals need not only know both business and technology but have an intrinsic passion to continuously learn new and face challenges.

From customer's point of view, interviewees considered modern IT landscape to be more challenging in terms of choosing the right commitments. As the number of choices grows, so does the complexity and confusion. It was mentioned that fundamental elements of a strategic partnership do not, however, change with technology. Today, suppliers are expected to discuss and share their reasoning behind decisions, and for example which alternatives was the selected solution compared with. This calls for open corporate culture but creates trust in return.

More than one respondent felt that traditional IT suppliers should shift more towards high value offerings, such as management consulting and advisory. Previously, IT companies have tended to focus solely on technology and are perceived as entities offering only implementation and support. Business aspects, need to understand client operations, use of knowledge management, as well as demand for, for example growth hacking have brought previously less-familiar capabilities also to traditional IT vendors and integrators. It was said that today even those doing the actual programming are, and need to be, more consultative and multi-skilled than in the past. As the skillset requirements widen, so does the significance of softer aspects like communication and interaction.

It would be easy to state that modern criteria are the same than traditional but more of everything is needed. Discussions with interviewees revealed this not to be the case, though, especially regarding price and cost-effectiveness, both of which have previously been major elements in partner selection and development.

Modern purchasers are well-informed and usually familiar with what they are seeking. Therefore, the role traditional overviews and introductory sessions has diminished, and subject matter experts are involved in the purchase process from early on. One respondent referred to an example case where client's executives had already made their choice in technology and wanted to meet supplier teams to ensure the right match in terms of personnel and corporate culture was made. From interview responses it also came clear that much of relevant criteria is now focusing on people and not companies. It is not interesting if a company has a certified process or whether they have delivered quality in the past but if client can utilize the selected skilled individuals in their endeavours.

Finally, cost-effectiveness is seen to take a more value-centric approach in modern environment. Price is negotiated commonly only when the choice of partner is already made, at least in principle. Also, negotiations do not revolve around a certain number or figure but focus on asking what is achieved through investment, what value is received or how do we proceed after the initial investment is made. Concretely, change is seen in partner selection where IT vendors not only communicate with CIOs or CDOs but to an increasing extent also with CFOs or other members of client's senior management.

## 4.2 Challenges in meeting expectations

Interviewees had encountered challenges in meeting customers' expectations, or in finding suppliers that meet expectations regarding applied partner selection and development criteria. For many, it was easier to pinpoint issues rather than clearly identify criteria that would have typically been simple to fulfill. Generally, it was noted that difficulties in fulfilling set criteria seemed to be directly proportional to environmental and technical complexity at hand. Interviewees felt that predetermined or formal criteria, such as supplier having a certified quality system for example, were mostly standard industry practice and thus did not raise issues. On the other hand, it was discussed whether these formal certifications are meaningful, or if their existence even has an affect to everyday operations.

Interviewees working in supplier-vendor interface described it difficult to truly create an understanding of one's characteristics when selecting a new partner. Whether a partner possesses required traits or capabilities or matches criteria can usually be seen in the long term and via living up to, or even exceeding expectations. Decision-making in the first parts of partnership was said to be mostly based on gut feeling, previous experiences and overall impressions. This ambiguity and uncertainty meant that some interviewees had had challenges in finding true strategic partnership.

Respondents mentioned the lack of openness and reciprocity to be major hurdles in partnership formation since siloed information inevitably affects judgement and leads to poor decision-making. It was highlighted that differences in values and actions between strategic and operative management had led to misinterpretations, unequal division of risks and profits, as well as to poor resource utilization and planning. These issues had then generated others while leaving their mark on mutual co-operation. Several interviewees told that reputation travels fast and if a certain corporate division, or even team, has failed in the past, it takes substantial efforts to reach future partnership discussions. This applies even though negative experiences would be from an independent corporate subsidiary and would have included different people. It was seen crucial to openly state doubts or shortcomings since reputational damage can close doors in many fronts.



CGI is major multinational corporation even though its country-specific operations are based on self-contained organizations following a common operating model and code of conduct. Some respondents saw a large-scale supplier being suitable strategic partner only to other large businesses and had found it difficult to establish a working relationship with smaller clients. It was said that the operating models and company sizes should at least somewhat match in a working partnership. It was furthermore argued, that even though any given company is not likely to partner with every division or business unit of a major supplier, organizational setup and processes tend to increase and stiffen with size.

Finally, respondents brought up that finding partners with the right or wide enough skillset had been a source for challenges. Following, it was recognized that modern technological landscape and business environment require more specialized knowhow than before. Inadequate knowledge was not considered a core issue itself but only if accompanied with side effects like dishonesty or inability to react to feedback. Finding the right industry knowledge or specialized capabilities in, for example change management had also forced customers to reconsider partner selection and development.

Interviewees attending strategic steering meetings or management reviews reported to have found that translating stated intentions and goals to concrete actions is one of the most common problems encountered with strategic partners. Furthermore, few supplier partners have had the ability to create innovations or bring up meaningful new technologies truly aligned with client business.

#### **4.3 Future avenues of strategic partnership criteria**

Future avenues and aspects of strategic partnership criteria were discussed with interviewees. Despite the group of respondents including individuals representing several companies and industries, five clear and distinctive topics emerged when asked how respondent feel selection and development criteria will evolve with time. These categories are

1. Commitment and perseverance
2. Local presence
3. Industry knowledge
4. Agility and time to market
5. Fragmentation of service providers

More perseverance will be required from supplier side in the future, along with the ability to listen and deeply understand client's situation, business environment, visions, painpoints and doubts. Suppliers will need to guide and steer clients to the right direction, while remembering the unique viewpoints of each. This calls for trust, openness and mutual co-operation, as well as minimizing all non-value-adding administration and middle-management layers.

Several respondents envision that future work will include cross-functional teams mixing people from different companies, binded together with a common set of goals. It was highlighted that in such a scenario it is no longer important who is working for which company but that teams always have the right skillset and personnel available. Furthermore, this would lead to company-level reference projects to lose weightage since it is not relevant whether a supplier has delivered something as a company but whether the specific individuals are available. In other words, future strategic partnerships would have a more people-centric focus.

People-centricity is aligned with local presence brought up by interviewees. Although not mentioned by all respondents, clients are, in varying degrees, frustrated in long-distance support provided from nearshore or offshore. In an ideal future, clients would have their trusted key players available and present in client location when necessary. While being in line with creating cross-functional and multitalented teams, this would be against the current approach of cutting expenses where possible. One respondent coined this by saying:

*“Customers want to feel like they have their own trusted professional with them at all times. The type of key person who knows how customer operates and is integrated to their own staff.”*

Traditionally, IT-industry, and especially the domain of corporate core systems, has relied on waterfall projects where considerable amount of time is invested in creating requirement

definition documents with fixed scope and features. This has led to rigid structures with little to no room for changes. Furthermore, described approach often leads to confrontation of a tech-savvy supplier and business-understanding client.

Knowledge of client industry is something a modern IT-supplier is expected to have, and interviewees saw this to continue in the future. One respondent noted that suppliers can seldom be more knowledgeable in client business than client's key decision makers themselves, but they should nevertheless understand the fundamentals, global trends and key logics in each field they operate. Several respondents said they cannot image a future where industry knowledge would not be important. This implies that a product or a technology cannot be set first in the future, but supplier should always approach clients with business benefits in mind. All interviewees felt that picturing future and pinpointing upcoming trends has become considerably more difficult and fuzzier with the complex technical environment. Today, it can be considered normal to discard halfway done projects or ideas should unexpected circumstances appear. This leads to agility being more important, both today and in the future. Global pandemic being a concrete example, respondents saw clients likely to put more emphasis on supplier's ability to prepare for the unforeseen. Also, as the technological landscape grows complex, supplier partners are expected to be able to interpret and communicate this change to their clients in understandable fashion.

As with all strategic activities, time to market plays an important role. Criteria-wise, many interviewees said they would expect future criteria to favour partners with agility and capability to design, deliver and implement ideas quickly while also being able to scale up or down all services without delay. This possesses a challenge for suppliers since the first characteristic is typically associated with smaller companies while the latter requires more depth and width in suppliers' resources. It was commonly added that the pace of change is not likely to slow down.

The nature of strategic partnerships is changing according to respondents. In the future, clients will no longer ask a single partner to deliver turnkey services or expect a any one partner to take holistic responsibility of buyer's core IT systems. This entails a more fragmented software landscape and calls for improved supply and value network management skills.

Purchasing best of breed solutions from multiple vendors and collecting the most suitable knowhow available, on the other hand aligns well with dissipating company boundaries. One interviewee expects strategic partnerships to arise in different levels, such as management consulting, cloud operations, infrastructure services, software deliveries and similar. Project work delivered by just a single vendor will decrease. Another respondent noted that this change will likely lead to lesser number of strategic partnerships since a true strategic partner should be involved in multiple aspects of business and supportive functions.

Managing strategic partnerships is seen to become vaguer during years to come. On one side, interviewees saw the need and reason to go through roadmaps and development plans with partners exceeding certain threshold but on the other side, co-operation is seen to take the form of renting skilled labor to client companies instead of undertaking traditional project assignments. Two respondents contemplated whether a strategic partnership could emerge between an individual subject matter expert and customer company. This would expand the current definition of strategic partnership but support the role and future significance of individuals.

Regarding future, each interviewee was asked what they believe are the driving forces behind the change in strategic partnership selection criteria. Furthermore, interviewees were asked if they can recognize a certain timeframe or a cycle in which this set of criteria is expected to change.

Partnership criteria was seen to evolve as new global megatrends emerge and change the business landscape. Companies typically follow trusted business journals, conferencies and research agencies closely, and take note on what is forecasted. Advancements in technology and new innovations also drive change and therefore can affect partnership criteria. One respondent saw that whoever can embrace a global trend in technology and make it tempting in a local setting, has a solid source of competitive advantage. A few respondents brought up the need to change the way decisions are made in their organization, and how organizational governance should be organized in general. They see that it is futile to only demand agility and flexibility in technology if other organizational processes remain rigid or traditional. Therefore,

technological change can also create a need to change possible selection criteria related to suppliers' internal operations.

Respondents with longer experience in the field of IT remarked the cyclic nature of industry. Disruption was generally assumed to continue in the future but none of the respondents could be sure where the industry would stand in five years time. However, cyclic behaviour, for example in terms of insourcing or outsourcing, was expected to continue and influence how change happens. Also, cycle time was expected to decrease as business environment and culture grow even more hectic with time.

Strategic partnerships are traditionally formed between companies of considerable size. Nonetheless, modern startups and smaller companies were seen as forces driving change in how bigger corporations operate and what is expected and required from them to be eligible for partnership considerations. Future selection and development criteria could encompass criteria combining attributes from small startups and established corporations.

Finally, all interviewees were inquired what would be the focal point they would put their effort on to create more meaningful and mutually beneficial strategic partnerships. Once again, creating trust, showing commitment and investing in open communication were mentioned by most respondents. This theme was present in almost all answers from one viewpoint or another and highlights the importance of one's reputation, interpersonal chemistry and operative model. Trust and reputation were present in the criteria found from existing academic literature and it is safe to assume these to be the single most important considerations in the context of this study.

Investments in human resources were also brought up during discussions. Personnel were seen as the most important asset companies have in IT industry. Growth cannot occur without investments and therefore supporting personnel training has an important role. Benchmarking and sharing past success and failures was mentioned by two interviewees with a note that nowadays focus is too strongly put on talking about how something has backfired. One respondent pointed out that most of metrics currently used to follow if a partnership is going well or not are subjective. It would be beneficial to create more objective benchmarking

methods to monitor how or if partnership is evolving over time. This would also tell if relationships truly were strategic partnerships or not.

Development in contractual and purchase models was discussed with one interviewee in more detail. It was mentioned that the criterion of agility should also cover how product or services are purchased. It was contemplated whether strategic partnership could be built upon a purchase model where the supplier fees would be based on client's business outcomes. In such a scenario supplier partner would have a true incentive to help their clients to succeed.

## 5 Discussion and conclusions

During the past decades, the field of Information Technology has experienced unprecedented change. This change has covered all industry areas from hardware-related aspects to novel technological advancements and changed how businesses in the field operate and interact with one another. Partnerships have become and are becoming increasingly important in value-creation and continuous operations. As selecting the right strategic partner has a greater business impact than before, supplying companies are eager to study strategic partnership formation and explore what characteristics are valued and sought-after in contemporary IT environment.

### 5.1 Answers to the research questions

In this chapter, answers to main research question and subquestions are summarized. Findings from both theoretical and empirical parts are included in summarization.

**MQ 1:** *What are the contemporary criteria for the selection and development of strategic partnerships with independent software vendors in cloud-based business environments and with Software-as-a-Service as purchase model?*

Several contemporary criteria for the selection and development of strategic partnerships were identified. In table 11, criteria gathered from empirical part are presented along with criteria summarized from the existing academic literature.

Table 11. Contemporary criteria for the selection and development of strategic partnerships. Summarized from empirical results and existing literature.

Rank	Empirical results	From Cheraghi et al. (2011)	From Moen (2010)	From Dalvi (2015)
1	Trust and openness	Quality	Trust between top management (personal chemistry)	Supplier's past performance
2	Quality and value delivered	Delivery	Relatedness of partner business, complementary resources	Competitive advantage
3	Personal chemistry in all partnership levels	Price	Access to links with major buyers, networks, and distribution channels	Length of buyer-supplier relationship
4	Industry knowledge	Repair service	Access to local market knowledge	Long-term benefits
5	Technical expertise	Technical capability	Reputation	Delivery performance
6	Agility and flexibility	Production facilities and capacity	Financial status, sharing of financial risk	Quality improvement
7	Ability to operate in value network or multivendor environment	Financial position	Firm size	Cost savings
8	Local presence	Management and organization	Past experience with partner	Profitability
9	Long-term commitment	Reliability	Access to local cultural knowledge	Supplier's capability improvement
10	Alignment of company size, values and operating model	Flexibility	Access to product-specific knowledge	Supplier's performance improvement

It can be concluded that trust and previous experiences with given vendor are valued both in academic literature and interview responses. It is worth noticing that academic literature mentions the importance of personal chemistry only between top management while respondents in interviews expanded it to cover all levels of co-operation. Quality and value delivered are pinpointed in both empirical evidence and literature, also in the form of assessing realized quality improvements as a criterion for future development investments. The prevalence of quality and value are not surprising as they are fundamental elements in defining goods and services. If a supplier partner cannot meet agreed upon quality standards, conform to delivery timetables or meet value related expectations, a relationship cannot emerge.



Technical expertise is present in summarization from academic literature and in interview results. In this context, product-specific knowledge can also reasonably be expected to refer to skills in certain technology. Agility and flexibility were only mentioned by Cheraghi et al. (2011) in literature but received more emphasis in the empirical part. Maybe the aspect of being agile and flexible is particularly important in the field of information technology, or maybe their relative importance has grown during the past few years. Modern information technology sector is a service industry, where the width of one's knowledge base is stressed. In interview responses this can be seen through the high importance received by industry knowledge and technical capability.

Knowledge of local markets and culture were listed as criteria in all sources studied. This also applies to company size, management and operating model. However, company values were mentioned only in interviews; perhaps due to social and environmental awareness which have gained significant popularity over the last years. Long-term commitment can only be a selection criterion in the form of declaration of intent but is, on the other hand present in development criteria both in the form of relationship length and benefits created.

None of the interview respondents mentioned production facilities or capacity or repair service, presumable because these are not relevant criteria in the studied context. During interviews, ability to operate in a value network and multivendor environments was mentioned as a top list criterion but among academics only Moen (2010) referred to similar aspects by listing access to links with major buyer networks and distribution channels as criterion. These wordings approach the same entity but from a different viewpoint. It can be reasoned that if a supplier can provide their customers with access to supplier and delivery networks, they also manifest capabilities in operating in such constructions.

Interviewees did not consider supplier's financial status or sharing of financial risks as criteria like academic literature does. Empirical results do however state that for a strategic relationship to emerge, parties must be able to formulate how they receive value from such co-operation, and it is a fundamental assumption that risks, and rewards are both shared. Therefore, interviewees saw these aspects not as criterion but prerequisites to even enter further into partnership formation.

**SQ 1:** *How has the selection and development criteria changed when compared to criteria prominently used in a more traditional software environment?*

Tables 12 and 13 below present the traditional criteria for the selection and development of strategic partnerships. Criteria listed was gathered from existing academic literature.

Table 12. Traditional criteria for the selection and development of strategic partnerships according to Weber et al. (1991) and Dickson (1966).

Rank	Weber et al. (1991)	Dickson (1966)
1	Price	Quality
2	Delivery	Delivery
3	Quality	Performance history
4	Production facilities and capacity	Warranties & claims policies
5	Technical capability	Production facilities and capacity
6	Geographical location	Price
7	Management and organization	Technical capability
8	Attitude, Reputation and position in the industry	Financial position
9	Financial position	Procedural compliance
10	Performance history	Communication system

Table 13. Traditional criteria for the selection and development of strategic partnerships according to Ellram (1990). Criteria not organized in order of priority.

Criterion
Economic performance and financial stability
Feeling of trust
Strategic fit
Supplier's organisational structure
Assessment of manufacturing facilities
Design capabilities
Safety record
Business references

When comparing contemporary and traditional selection and development criteria, certain differences are evident. Meaning of price has diminished and it has been replaced with value accrued from partnership. In the context of this study, production facilities and capacity are not significant because deliverables in the field of modern IT are mostly immaterial. Geographical location is no longer meaningful in the sense that services can be produced anywhere, but knowledge of local culture and customs is still appreciated.

The content of technical expertise has changed with time but the topic itself holds its importance. This also applies to company management, organization and governance, as well as financial position. Continuity is a key element in the context of core corporate systems, so the significance of financial security is natural.

It can be concluded that some of the material aspects present in traditional criteria are not relevant today. This is due to the nature of IT industry which differs from, for example, manufacturing. In other aspects, many traditional criteria seem universal and are thus valued also today. These criteria can be thought of as being a base layer of sorts: fundamental criteria necessary for the emergence of partnerships. Quality, delivery and performance history as identified by Ellram (1990) are still important, as are being trustworthy and reputable, especially in turbulent environments, as mentioned by Wilson (1995). Performance history, meaning whether a partner delivers what and when it should has been a top criterion from Dickson's (1966) paper until today.

Modern IT industry differs criteria-wise from older industries in promoting softer and more human-centric values like openness, personal chemistry. It also favors organizational capabilities such as agility, flexibility and ability to operate in value networks which help contemporary companies to succeed. Finally, understanding client business has gained importance over time.

**SQ 2:** *What kind of criteria has proven to be the most challenging to fulfil when selecting or developing strategic partnerships?*

Finding strategic partners with the adequate skillset regarding modern technological landscape and business environment had caused issues according to interviewees. Furthermore, acquiring partners with deep enough industry knowledge had turned out to be a problem. Bigger hurdles had emerged if a party was seen to hide or cover up its insufficient knowledge. Interviewees working on the customer side brought up that only few partners they had seen have had the ability to create meaningful innovations using new technologies.

Translating stated intentions to concrete actions had been an issue but usually only in the later stages of partnering. Respondents felt that openness and reciprocity should be focused on to create mutually beneficial partnerships. While not considered as a challenge, interviewees mentioned that division of risks and profits must be considered carefully in partnership formation to ensure productive and working collaboration.

**SQ 3:** *In the future, what new is estimated to be included in the criteria used in selection or development of strategic partnerships with independent software vendors?*

Five distinct themes were seen to gain momentum in the future. These themes are commitment and perseverance, local presence, industry knowledge, agility and time to market, and fragmentation of service providers. While some of these represent criteria present already today, their relative importance was seen to grow. As many respondents envision future work to include cross-functional teams mixing people from different companies, ability to operate in complex and hectic multivendor environment becomes a must.

While not easily defined, respondent considered ability to prepare for the unforeseen to gain importance in the future. This interprets to both agility and flexibility, but also highlights the necessity of communicating and forecasting upcoming trends and changes. Finally, speed and time to market were seen as criteria that will make their way to more ranking documents over the years to come.

## **5.2 Implications for the case company**

Acquired results provide implications on how strategic partnership selection and development criteria has changed over time and along with advancements in technological landscape and purchase models. This study also adds to overall understanding on what is important in strategic partnerships in contemporary IT business environment.

Case company management can utilize results when making decisions or allocating resources between different business development initiatives. On many occasions, business owners

must decide which development initiatives are allocated with scarce resources, or to which aspects of business and corporate relations they should focus on to create tangible results. Having insight on what customers value is a key element in success and enables companies to be more relevant in partnership negotiations or when making proposals. This research can also be used as a source material for strategy work inside case company. When creating strategy and deciding upon future course of operations, it is important to consider various aspects, one of them being what is expected in targeted market segment.

Case company should put effort on ensuring that selection and development criteria mentioned in the results of this study is considered when making future business decisions. They could also consider benchmarking company maturity and capabilities regarding result criteria to their main competitors. Results of this study can be exploited in other companies operating in IT sector and with similar client base.

### **5.3 Limitations and suggestions for further research**

This study has several limitations. Study was conducted by a single person focusing on one case company operating in a specific industry. Case company is a major enterprise in domestic scale and therefore its clients also represent the larger end of the company size spectrum. This can influence what is valued and expected in strategic partnerships, or how strategic partnerships are perceived overall. Case company is an IT supplier and though professionals from client side were also interviewed in the study, approach to this research is that of a supplier.

IT industry is specific business domain with turbulent nature and rapid pace of change. Therefore, acquired results are only applicable to this setting. Study used a single case company and qualitative methodology, so results can not be directly generalized. Case company is stock-listed limited liability enterprise and criteria used to evaluate strategic partnerships and their development might differ in, for example government owned entities.

Future research should examine partnership selection and development criteria further in companies of different sizes and with more comprehensive sampling. Research could also be

expanded to other industries or countries to consider industry specific, or culture related aspects of how strategic partnerships are formed and developed.

Similar research setting could be duplicated again after some years to create a follow-up study on how responses and views evolve with time. It would be especially interesting to study whether future advancements in technology and business trends change selection and development criteria to certain direction.

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## **APPENDICES**

### Appendix 1: Interview questions

#### **General questions**

1. What is your position and job description in the organization?
2. What are your main responsibilities?

#### **Theme 1: Strategic partnerships**

3. What is the strategic impact of a well-functioning supplier-customer partnership to both parties in the modern software industry's business environment?
4. How would you describe the impact the modern business environment has had on the formation of strategic partnerships between supplier and customer in software industry?
5. Which characteristics, capabilities or other factors of a strategic supplier partner enable a well-functioning partnership?
6. Which characteristics, capabilities or other factors of a strategic supplier partner act as barriers to a well-functioning partnership?

#### **Theme 2: Criteria for the selection and development of strategic supplier partners**

7. What are the qualifying criteria for the selection and development of strategic partnerships with independent software vendors in contemporary business environment?
8. To which categories would you divide these modern criteria used for the selection and development of strategic partnerships?
9. What novel selection and development criteria have emerged today when compared to a more traditional business environment? What piece or set of previously prominent criteria is no longer relevant?
10. How has the relative importance, or weight, among applied selection and development criteria changed along the changes in business environment?
11. What kind of challenges or difficulties have you encountered in meeting or realization of selection and development criteria used for strategic partnerships?
12. What kind of selection and development criteria has been easy or straightforward to fulfil?

13. What kind of selection and development criteria has been challenging to fulfil?

**Theme 3: Evolution of selection and development criteria applied**

14. How do you see the selection and development criteria for strategic partnerships will evolve in the future?

15. During which time frame, or driven by what events, do you see the criteria for the selection and development of strategic partnerships will change or evolve?

16. How does your organization assess or define the criteria used in the selection and development of strategic partnerships in modern software industry?

17. Which new criteria, or what changes in pre-existing criteria's relative weights, do you think would help to form mutually beneficial strategic partnerships in modern software industry?

Do you have anything to add?