Managing the challenges of piggybacking into international markets

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1. Introduction

Firms offering knowledge-intensive business services (KIBS), such as computer software providers and engineering consultancies, have burgeoned on international markets in recent years (Ball et al., 2008; Rosenbaum and Madsen, 2012). Such firms ordinarily operate in niche markets (Bradley et al., 2006), typically requiring an international presence to achieve an operational critical mass (McNaughton, 2001). Consequently, many KIBS firms are international new ventures (INVs), which, despite limited resources, enter multiple markets from an early age (Oviatt and McDougall, 1994). Much scholarly attention has been devoted to studying the phenomenon of INVs (Aspelund et al., 2007; Etemad, 2016; Rialp et al., 2005), including the challenges specifically encountered by KIBS INVs (Burgel and Murray, 2000; Zucchella and Kabbara, 2013).

One such challenge concerns entry mode choice. When considering choice of foreign market entry (FME) mode, KIBS INVs have a more limited range of options than their manufacturing counterparts, given that the high degree of customization involved in providing highly tacit, intangible, and largely inseparable service offerings (Becerra et al., 2008) effectively precludes direct exporting as an option (Ball et al., 2008). Similarly, while hierarchical FME modes such as acquisitions may afford superior control over proprietary (knowledge) assets (Sanchez-Peinado and Pla-Barber, 2006), this option is ordinarily not feasible for cash-strapped INVs, particularly firms such as software providers which are highly R&D-intense and subject to long commercialization cycles (Gabrielsson and Kirpalani, 2004; Blomstermo et al., 2006; Sawers et al., 2008). Consequently, many KIBS INVs opt for a form of indirect exporting to share the resources and risks associated with entering foreign markets with an external collaborative partner (Crick, 2009; Zucchella and Kabbara, 2013).
One such collaborative, low-commitment, indirect export form is that of piggybacking – where a smaller firm (the “rider”) rides on the back of a larger firm (the “carrier”) into foreign markets in which the latter is already present (Terpstra and Yu, 1990). As Terpstra and Yu (1990) note, piggybacking may be considered as a special case of non-equity alliance/partnership in that it exhibits two main distinguishing features which do not necessarily characterize alliances/partnerships. First, piggybacking involves an agreement between two producers to expeditiously enter multiple foreign markets. Specifically, piggybacking thus allows riders to penetrate foreign markets using the contacts and reputation of the carrier without having establishment costs, while carriers benefit from offering wider product lines without incurring attendant R&D costs (Moen et al., 2004; Bueno Merino and Grandval, 2012). Piggybacking requires that carriers continually update riders with changes in multiple host markets, while riders are obliged to keep the carriers promptly and sufficiently informed of various product developments which comply with such changes (Payne et al., 2008). As such, successful piggybacking arrangements require that partners are willing to trust one another sufficiently to divulge proprietary knowledge (Becerra et al., 2008; Bueno Merino and Grandval, 2012).

Second, whereas other forms of collaborative partnership typically involve firms of symmetric size (Brouthers et al., 1995), piggybacking arrangements are ordinarily entered into by partners of asymmetric firm size (Merrilees et al., 1998; Bradley et al., 2006). For example, Bueno Merino and Grandval (2012) provide several case illustrations of innovative SMEs riding on the back of the foreign subsidiaries of large industrial groups. By extension, piggybacking partners are likely to exhibit divergent corporate cultures (Sawers et al., 2008). Studies from the general collaborative partnership literature suggest that such interfirm diversity inhibits both trust building (Park and Ungson, 2001) and knowledge sharing (Brown et al., 1988; Park and Ungson, 2001; Moen et al., 2004; Sawers et al., 2008; Suppiah and
Sandhu, 2011), with typically negative consequences for alliance longevity (Parkhe, 1991; Brouthers et al., 1995; Sirmon and Lane, 2004). We may therefore expect that the archetypal asymmetries in size and organizational cultures between partners is likely to have especially deleterious effects on the development of trust and exchange of knowledge in piggybacking arrangements. The challenges of piggybacking are further accentuated as multiple market entry necessitates high degrees of knowledge sharing, and entails differing levels of dependence – the carrier typically enters the agreement to reduce surplus capacity, whereas the rider is dependent on the carrier to access foreign customers, thus having more to lose should the arrangement dissolve; such lopsidedness exacerbates the unstable nature of the arrangement (Terpstra and Yu, 1990).

Unfortunately, despite growing numbers of KIBS INVs (Moen et al., 2004), prior studies tend to either investigate KIBS firm internationalization without considering piggybacking (Gabrielsson and Kirpalani, 2004; Arenius et al., 2006; Ojala and Tyrväinen, 2006) or examine piggybacking from a conceptual perspective (Terpstra and Yu, 1990; Ball et al., 2008). Moreover, the few empirical studies into piggybacking (e.g. Coviello and Martin, 1999; Moen et al., 2004; Bueno Merino and Grandval, 2012) do not consider the actual process of collaboration. For example, both Moen et al. (2004) and Coviello and Martin (1999) provide cases in which subcontractors had piggybacked into foreign markets, while Bueno Merino and Grandval (2012) identify resource complementaries between riders and carriers, but none of the above studies attempt to describe the processes through which such collaboration transpired. Questions thus remain as to how piggybacking partners manage the fundamental tension that interfirm diversity attenuates mutual trust and knowledge transfers across organizational boundaries, which are otherwise preconditions for rendering piggybacking viable. The purpose of the present study, therefore, is to examine piggybacking as a distinct form of FME. In so doing, we explore how variables identified in the general
alliance literature – interfirm diversity, trust, and knowledge sharing (cf. Parkhe, 1991; Simonin, 1999; Sirmon and Lane 2004), may affect the viability of piggybacking in foreign markets. Accordingly, we address the following research question: How do firms manage the challenges of interfirm diversity in order to build mutual trust and share knowledge when piggybacking into international markets?

Given the processual nature of the above research question, we invoke a single longitudinal case study of the interaction of two firms: A service provider (a niche software developer INV) which piggybacks on a partner (a well-established global distributor). We follow the senior management in both firms intermittently over a four-year period, collecting data from questionnaires, participant observations, and in-depth interviews.

Our novel and unexpected findings confirm that despite observed size asymmetries and incongruent organizational cultures, high levels of mutual trust between the senior management teams in the initial stage of collaboration spurred various inter-firm knowledge-sharing initiatives and the attainment of the first espoused shared goal (see section 4.1). However, in the implementation stage, domain conflicts led to middle managers at the carrier deliberately obstructing knowledge flows, ultimately preventing both firms from enjoying collaborative success. Five years later, no further common goals had been achieved.

The present paper makes a number of theoretical and practical contributions. In terms of the former, it offers initial insights into the process of collaboration between piggybacking partners entering international markets, as well as providing a contextualized explanation as to the effective failure of the collaborative venture. Regarding practical contributions, the paper provides guidance to managers considering piggybacking as a FME mode, specifically in terms of how to reconcile inherent interfirm diversity, delineate complementarities, and avoid potentially debilitating conflicts.
The remainder of the article is organized as follows: In the next section, we provide a brief overview of the literature on the foreign entry mode choice for KIBS firms, organizational culture, trust and knowledge-sharing. In section 3, we introduce the case firms and data collection methods, prior to analyzing and discussing the case findings in section 4. The concluding section discusses the study’s implications, its limitations, and areas for further research.

2. Literature review

2.1. Foreign entry mode choice for KIBS firms

Prior studies of KIBS firm internationalization identify three main factors to explain the observed variation in FME choices: Service offering attributes; firm-specific characteristics; and the nature of the industry itself. With regard to service offering characteristics, both Sharma and Johanson (1987) and Coviello and Martin (1999) found that the high degree of tacitness/intangibility characterizing the service offering of engineering consultancies resulted in a preference to internalize foreign market activities to retain control over non-codifiable knowledge, thereby mitigating expropriation risks. Additional service attributes which affect FME choice include the high degree of inseparability characterizing information-intensive firms, which mandates face-to-face contact (Ball et al., 2008) and requirements for close customer support in the exchange of knowledge (Burgel and Murray, 2000; Ojala and Tyrväinen, 2006).

Scholars focusing primarily on firm-specific characteristics typically note that resource scarcity characterizing small, fledgling KIBS INVs effectively precludes hierarchical entry mode options (McNaughton, 2001; Gabrielsson and Kirpalani, 2004). Relatedly, both Arenius et al. (2006) and Ojala and Tyrväinen (2006) report that the need to internationalize rapidly to exploit first-mover knowledge advantages created a preference for direct exporting
through the Internet, whereas other scholars have argued that given their limited prior experience and lack of foreign market contacts, KIBS firms will rely on collaboration with larger, more established partners to enter new markets (Merrilees et al., 1998).

A third group of studies focuses on the nature of the industry itself in order to explain FME choice. For instance, O’Farrell et al. (1998) posit that the highly customized nature of KIBS firm offerings necessitated a high degree of close interaction between the partners, especially on foreign markets characterized by diverse legal requirements, technological volatility, and so forth. Sanchez-Peinado and Pla-Barber (2006) similarly suggest that the inherent high degree of internal and external uncertainty when disseminating non-codifiable knowledge across firm and national boundaries favours hierarchical options.

Given the above, piggybacking may be seen to provide a feasible FME mode option for KIBS. On the one hand, it permits resource-constrained INVs to enter multiple foreign markets without requiring the investments associated with hierarchical entry modes. On the other hand, it allows for close interaction with a host-country partner (Bueno Merino and Grandval, 2012), and thereby the delivery of an inseparable and intangible service offering, which would be infeasible through direct exporting (Ball et al., 2008). However, while piggybacking arrangements provide partners with the incentives to closely and continuously share knowledge (Moen et al., 2004), they constitute a double-edged sword for KIBS firms: they offer a necessary path for realizing relational rents, but carry the omnipresent risk of knowledge misappropriation. The characteristically time-limited nature of piggybacking – either due to firms separating because one replaced the other with a third-party (Terpstra and Yu, 1990) or because carriers subsequently acquired their riders (O’Farrell et al., 1998) - compounds this problem.

2.2. Size and organizational culture
As previously alluded to, interfirm diversity has been identified as an impediment to mutual trust and knowledge sharing across organizational boundaries (Khanna et al., 1998). According to Terpstra and Yu (1990), these differences are likely to assume particular importance in inherently asymmetrical piggybacking arrangements if carriers believe that riders lack the necessary formal structures and routines to enable the timely and effective transfer of knowledge. Other studies, however, reported no significant effect of differential partner sizes on the amount of inter-firm knowledge sharing (Cavusgil et al., 2003).

Other scholars have highlighted the link between size and organizational culture. For example, Simonin (1999) noted that contrary to large companies, small firms typically adhere less to formal structures and rely more on intuition. To assess organizational culture, scholars typically invoke Cameron and Quinn’s (2006) “Organizational Culture Assessment Instrument” (OCAI) to generate a “competing values framework” (CVF). By illustrating the dominant organizational culture type, the CVF can assess the degree of organizational culture alignment between collaborating partners. The CVF has two axes: The internal-external dimension reflects whether an organization has a predominantly internal or external focus, while the informal-formal axis, reflects whether it strives for flexibility/individuality, or alternatively, stability/control. The four archetypal cultures emanating from the intersection of the two dimensions have been labeled adhocracies, markets, hierarchies, and clans. It is proposed that informal/external adhocracies tend to emphasize creativity and adaptability, formal/external market cultures emphasize targets and profits, formal/internal hierarchies emphasize order, efficiency, certainty, stability and control, while informal/internal clan cultures stress cooperation and teamwork (Cameron and Quinn, 2006).

Prior studies report the dangers of integrating two different organizational cultures on knowledge sharing. For instance, Suppiah and Sandhu (2011) found that whereas clans shared knowledge, this was not the case for market cultures and hierarchies. Similarly,
Eckenhofer and Ershova (2011) attributed repeated conflicts to tensions arising from interactions between market and clan cultures. KIBS firms may be intuitively expected to have traits similar to a clan culture. The driving force for such typically small and innovative companies is the development of new services which require close collaboration and knowledge-sharing (Burgel and Murray, 2000), whereas larger carriers would be expected to more resemble market cultures due to a constant focus on the customer and individual sales goals. Accordingly, collaboration between piggybacking partners characterized by different organizational cultures may be problematic.

2.3. Trust and knowledge sharing

There is a wide body of literature attesting to the catalytic role of trust in facilitating knowledge sharing in partnerships (e.g. Ariño et al., 2001; Bradley et al., 2006). Given that trust is multi-dimensional (Seppänen et al. 2007), Mayer and Davis (1999) propose three dimensions to evaluate a partner’s trustworthiness: Integrity (trust in the overall ethical behaviour of the partner), competence (trust in the ability of the partner to fulfil agreed roles), and benevolence (trust that the partner will work in the other’s interests, despite underlying opportunistic tendencies). Each trust dimension encourages knowledge sharing by reducing the perception of risk arising from partner malfeasance (Blomqvist et al., 2008), and accordingly are frequently invoked to investigate the role of trust in knowledge sharing (cf. Bhattacherjee, 2002; Li, 2005; Becerra et al., 2008).

Trust between collaboration partners increases communication and the awareness of shared goals (Seppänen et al., 2007; Blomqvist et al., 2008), enhancing confidence that the knowledge shared will be mutually beneficial (Payne et al., 2008). Other scholars though (cf. Becerra et al., 2008) note the existence of a “dark side” to inter-firm trust, whereby one firm exploits the vulnerability and trusting nature of the other to advance its own interests at the
counterpart’s expense. Awareness of this eventuality will likely reduce partners’ propensity to exchange knowledge.

In sum, the extant literature suggests that while piggybacking may appear to be a compelling FME mode choice of KIBS firms, the inherent size and cultural asymmetries between the partners may serve to stifle the building of trust and sharing of knowledge, which are otherwise preconditions for the viability of piggybacking arrangements in multiple foreign markets. It thus becomes incumbent upon us to examine the collaborative process of a KIBS firm engaged in a piggybacking relationship in international markets.

3. Research Methodology

3.1. Choice of method

Given the exploratory nature of the present study, a single longitudinal case study was utilized to ensure methodological fit (Edmondson and McManus, 2007). Case studies are particularly appropriate when addressing “how” and “why” questions in the formative stages of theory building (Yin, 2003; Gao et al., 2016). Specifically, we adopted an instrumental case study, where the aim is to purposefully select a single case which may be instrumental in addressing our research question (Stake, 1995). The longitudinal aspect enabled us to gain in-depth insights into novel and complex relationships (Eisenhardt and Graebner, 2007; Siggelkow, 2007) during the dynamic process of partner collaboration (Leonard-Barton, 1990). Moreover, case studies are frequently favored in international business settings which are highly contextualized (Michailova, 2011; Welch et al., 2011). As such, case studies have been often used to understand complex processes of knowledge sharing between service firms (Taylor, 2005), including the evolution of collaborative partnerships (Marshall, 2004). Emanating from the research question, the present unit of analysis is the dyadic relation between a rider and a carrier.
3.2. Case selection

Given the significance of case selection in case studies (Eisenhardt and Graebner, 2007), we adopt a multi-level sampling strategy to select the focal case (Fletcher and Plakoyiannaki, 2011). At the first level of the sampling strategy, we purposefully chose the same country of origin (Denmark) for both carrier and rider to assuage eventual national culture effects on piggybacking arrangements (Ariño et al., 2001). At the second level, we purposefully selected the software industry as it embodies both some degree of tangibility of the offering (where knowledge is typically embedded on a disc) and inseparability of its delivery (Moen et al., 2004). The former ensures that a KIBS firm may consider entry into foreign markets, while the latter requires a collaborative approach for a resource-scarce KIBS firm. At the third level, we carefully selected two firms which had entered a piggybacking relationship to serve overseas markets, where the rider was an INV providing niche solutions and the carrier was a well-established firm with a global presence. Our search led us to two firms supplying the pharmaceutical industry which is both global and subject to divergent (and typically ephemeral) regulations across national markets, thus mandating a high degree of knowledge sharing to ensure that the rider’s products were sufficiently adapted to prevailing national regulations.

3.3. Case description

The Danish service provider (SPR) was established in 2002 with the aim of developing innovative software applications within digital documentation for companies in the pharmaceutical industry. The correct documentation is crucial to protect patients, minimize adverse side effects, and so forth, and regulations to these effects are subject to frequent amendment, which may differ from country to country. The burden of proof for satisfactory
documentation lies with the pharmaceutical companies, who must remain constantly compliant with prevailing regulatory requirements in different host markets. Failure to readily retrieve regulation-compliant documentation (specific batch numbers, labeling, ingredients, and so forth) during frequent inspections by regulatory authorities can have dire consequences – pharmaceutical firms risk being issued with public “warning letters”, having licenses withdrawn, or production facilities closed. These requirements have underpinned the trend away from a manual solution toward digital compliance solutions to minimize the nontrivial risk of human error. Within software development, this is referred to as Governance, Risk and Compliance (GRC). While competitors traditionally offered standardized GRC software packages across sectors, SPR offered tailored digital software solutions specific to the pharmaceutical industry.

Although the founders of SPR were internationally-oriented (as suggested by preliminary attempts to develop software in cooperation with potential users in the U.S. and Singapore), ambitions to establish a global presence were effectively thwarted by lack of resources. In 2007, SPR was acquired by a private equity fund with the intention of exploiting SPR’s GRC competences in global markets. Pursuant to this strategy, SPR entered into a piggybacking arrangement in 2011 with an intermediary, INT - a Danish-based consultancy company specializing in the pharmaceutical industry and employing 1,700 workers in 25 countries. To leverage their complementary resources, the carrier (INT) used its network of global clients to promote the SPR’s GRC solutions to its clients. SPR thereby gained access to global clients with modest resources (for example, only 25 employees – compared to INT international sales force comprising in excess of 150 individuals), while INT broadened its range of offerings without incurring the attendant development costs. The viability of the piggybacking arrangement thus hinged crucially on interfirm knowledge transfers, specifically, the need for INT to relay important market and legislative updates to the rider
SPR, which could then articulate its developments in GRC-compliant technology to the clients through INT’s salesforce.

3.4. Data collection and analysis

As noted by Hassett and Paavilainen-Mäntymäki (2013), the choice of a single longitudinal case study requires certain justifications in terms of data collection procedures. The present research project lasted four years. It commenced from the time that we entered the field (at the inception of the partnership in 2012) until gathering our final data in 2016. The data collection procedure comprised three phases: Firstly, following contacts by one of the authors, five senior managers from both SPR and INT individually and anonymously completed surveys into organizational culture (the OCAI) and trust towards their partner. Both surveys were translated into Danish by a native Dane, and later back-translated by a native English speaker fluent in Danish, which failed to reveal any interpretative inconsistencies. OCAI results were then plotted onto the competing values framework (CVF) to illustrate the dominant organizational culture, while trust questions tapped into the partner’s integrity, ability, and benevolence (Mayer and Davis, 1999), for reasons expounded upon in section 2.3.

Secondly, following Leonard-Barton (1990), we supplemented our survey data with direct observations. Specifically, we attended two workshops (involving both top management teams) and three subsequent joint meetings (comprising middle managers and operational personnel). The former events were moderated by a professional facilitator and lasted approximately four hours, during which each team separately discussed how to enhance collaborative knowledge-sharing in light of the survey results. Attendees in the joint meetings discussed progress during the implementation stage.
The third phase of data collection comprised follow-up separate semi-structured interviews in January 2015 with both the CEO and sales director of SPR at company headquarters. The purpose was to shed light on the informants’ experience of the evolution of collaboration with INT. The interview guide comprised themes about knowledge sharing, customer contact, the process of collaboration, and an evaluation of collaborative success. The same back translation procedure reported above was applied. Table 1 summarizes the data collection procedure.

PLEASE INSERT TABLE 1 ABOUT HERE

As such, we triangulate our data by utilizing multiple methods, multiple techniques, and multiple respondents (Jick, 1979) in order to mitigate potential respondent bias and ensure congruence of findings, thereby enhancing the study’s construct- and internal validity (Yin, 2003). Moreover, we invoke both real-time (during joint meetings) and retrospective data collection (during workshops and interviews) which are regarded as important facets of longitudinal case studies (Hassett and Paavilainen-Mäntymäki, 2013).

The interviews and workshops were recorded and subsequently transcribed. Consistent with the case study approach, field notes were compiled after each type of data collection (Yin, 2003). To enhance reliability, the data were stored in a case database, allowing us to sift repeatedly through the data to derive our insights. The interview transcripts were read several times by the different authors in order to arrive at consensus regarding how to reduce the data (i.e. extract information relevant to our research question) via coding. In terms of coding, we invoked the template analysis technique for qualitative data, where we used predetermined (a priori) codes derived from themes from the extant literature (trust, size, organizational culture, and so forth) as well as being open to additional codes which may emerge from the
text analysis (Miles and Huberman, 1994). The flexibility of this approach – combining both planned (a priori) and emergent (in vivo) elements, is well suited to the exploratory nature of the present study, which examines the relevance of familiar concepts/insights in a new empirical context (i.e. piggybacking collaboration) (Herstein et al., 2017). Excerpts from the interviews and workshops are interspersed throughout the findings section to contextualize the emerging themes.

4. Findings and discussion
Consistent with the longitudinal case study approach (cf. Marshall, 2004), our findings are presented chronologically starting with the initial stage of collaboration (section 4.1), followed by the implementation stage (section 4.2). The data pertaining to the initial stage were derived from the first and second phases of data collection, while the data relating to the implementation stage emanated from the third phase.

4.1. The initial stage
The initial stage of collaboration was characterized by close and continual interaction between the top managers from both companies. In preliminary meetings, senior managers clearly delineated and strongly articulated resource complementarity: while the rider (SPR) lacked market knowledge and contacts with global pharmaceutical companies, the carrier (INV) lacked technical knowledge of software applications which could solve these clients’ compliance requirements across different national markets. Recognition of such resource complementarities typically facilitates the exposition of shared values (Das and Teng, 1998).
During the second workshop, the partner firms articulated four common goals for the piggybacking arrangement: (a) to offer one-stop GRC shopping (i.e. turnkey software solutions) for pharmaceuticals; (b) to become market leaders for GRC software in the four
main pharmaceutical clusters in the US, Germany, Switzerland, and China; (c) to open a regional headquarters in Asia with shared representation; and (d) to set up a joint representative office in Silicon Valley (where SPR would establish its new global headquarters).

In the present case, mutual trust scores for the respective top management teams were relatively high compared to similar studies (cf. Li, 2005), though there were slight differences in mapping the three dimensions of trust – integrity, competence and benevolence. Table 2 illustrates that whereas SPR top managers displayed higher confidence in the integrity of INT as a partner than vice versa (9.0 versus 8.6 as measured on a 10-point scale), senior managers at INT had higher levels of trust in the competence (9.3 versus 8.9) and benevolence (9.4 versus 8.8) of SPR, than vice-versa. Our field notes from the workshops point to concerns expressed by the rider’s top managers regarding the carrier’s technical strength: a top SPR manager referred to the INT sales force as being “not particularly technical”, while another “questioned their competence within compliance, selling solutions, and experience with heavy IT”. These concerns may explain the relatively low score for competence trust ascribed by SPR. In general, though, the comments during the workshops were largely positive. For example, one senior SPR manager remarked: “We have always lacked a strong partner – we will undoubtedly have this in [INT]”. Similarly, one of their counterparts from INT proclaimed: “I have really high expectations of [SPR’s] software. There is undoubtedly great potential here – I am really looking forward to cooperating with them”.

This overall high level of mutual trust facilitated various knowledge-sharing initiatives in the initial stage, including establishing a steering group to promote mutual understanding during quarterly meetings and encouraging socialization activities where key individuals (jointly termed “cooperation ambassadors”) were selected for exchange visits. Furthermore, SPR employees were exposed to the sales and marketing practices of INT, while INT sales
personnel gained insights and certifications into software development via SPR technical courses, coaching seminars, and product demonstrations. SPR managers noted a transition over time in the attitude of the operational personnel from a pre-occupation with smaller, more functional issues of collaboration to focus on larger issues such as requests to be involved in steering group activities and requesting memoranda of INT’s meeting with customers. This resulted in the rider launching a global helpdesk to support the reseller carrier. This climate of knowledge sharing fostered by senior management involvement led to the establishment of a common platform to create one-stop shopping, and thus the realization of the first of the four common goals referred to above.

In terms of organizational culture, the OCAI questionnaires completed by the respective top management teams revealed the expected incongruence in organizational cultures (Table 2). Whereas SPR’s top managers characterized the company as having a clan culture, their counterparts in INT described their organization as having a market culture.

**PLEASE INSERT TABLE 2 ABOUT HERE**

The resulting CVF would therefore predict barriers to knowledge sharing. The clan culture (SPR) would typically have a propensity to share knowledge to facilitate collaboration and pursue common goals, whereas market cultures (INT) focus on competing, winning, and performance. While some scholars reported that organizational culture dissimilarities inhibited knowledge sharing and adversely affected performance in other international collaborative arrangements (Simonin, 1999; Sirmon and Lane, 2004), our findings support those of other scholars (e.g. Leisen et al., 2002), specifically that firms of different sizes and mixed organizational cultures can collaborate, at least in the short run, in the presence of resource complementarity and mutual trust.
4.2. The implementation stage

Despite such senior management initiatives, knowledge transfers decayed significantly in the implementation stage, when responsibility was delegated to middle managers. It became quickly apparent that the INT middle managers´ subsequent resistance to share information with their counterparts lay in the fact that its traditional core business derived from establishing and maintaining manual compliance systems in (typically) new production facilities of their customers (“consultancy hours”). For the customer, the main motivations for shifting from the manual solution to SPR’s software were cost savings, readily-updated compliance with regulative requirements, and ease of information retrieval. Accordingly, this required the carrier´s sales personnel to focus more on selling the rider´s GRC software (for which they were relatively inexperienced) rather than earning revenue from consultancy hours. As SPR’s sales director explained, selling SPR’s GRC systems is “**a hard job, with a long incubation time, (requiring) a lot of effort. It's easier to sell small task solutions that take a couple of hours than to sell large systems**”. This naturally eroded INT’s sales team’s margins.

Furthermore, not only did GRC require less personal contact with the customer than the manual solution, the lack of GRC competence at INT also meant that the customer would need to rely strongly and continually on SPR’s support staff to assist with technical queries. As the SPR Sales Director noted, “**… then it is us who will retain contact with the customer**”. The fact that SPR would assume some of INT’s traditional tasks would further reduce INT’s number of billable hours. SPR’s CEO stated: “**I think that the resistance is caused by the fact that ... they have all their key performance indicators such as sales of consultancy hours and then we come in and say we come here with a piece of software with a 3-month payback time on tasks that they usually solve for them [the clients]**” adding that its software “… may
actually cannibalize [INT’s] core business … if [our system] can oversee a process more effectively, then [they] … cannot sell consultancy hours for overseeing the process manually, and ... then we have internal resistance inside [INT]”.

As a consequence, SPR was duly concerned that INT middle managers may be disinclined to sell its software, despite offering tangible benefits to the customer. As SPR’s sales director admitted, even though the two teams “… had quite a lot of meetings and had come up with a list of potential customers … they [INT] had not really contacted them”. This lack of enthusiasm on the part of INT resulted in SPR fears that sales of its software may be unlikely to reach their full potential in foreign markets. Our findings in this regard corroborate several organization scholars’ findings of middle management resistance to senior management initiatives in the implementation stage (Guth and MacMillan, 1986). In such situations, middle manager self-interest overshadows organizational interests as perceived by top managers (i.e. the relational rents accruing from successful piggybacking). This resistance, even deliberate sabotage, has been detected in other studies investigating divergences between top- and middle managers in organizations participating in collaborative arrangements across borders (e.g. Kandemir and Hult, 2005). For instance, Brouthers et al. (1995: 18) posited that asymmetries in size and corporate culture between alliance partners can be overcome “when peer relationships between the top managements can be assured”, but that it also necessitated top-down delegation.

It also led to rider concerns that middle managers at the carrier were deliberately misreporting information to their seniors in order to thwart collaborative attempts. SPR’s sales director commented on this issue: “I have the feeling that the real opposition is just below top management and what top management is told [i.e. by middle managers] is not what we are telling them [i.e. the middle managers] about our solutions. Some kind of self-interest driven distortion or misrepresentation of information is taking place”. Indeed, we
observed that several middle managers at INT deliberately withheld information and/or failed to follow up on decisions at joint meetings with SPR personnel. As a consequence, SPR´s sales director lamented that “when [the middle managers] present the information higher up the system, the decision is not unsurprisingly negative time and time again”.

Interestingly, the differential sizes and organizational cultures between the carrier and rider which had been smoothed over by the top managers in the initial stage manifest themselves as conflict areas between middle managers in the implementation stage. The issue of size differentials was raised during the joint meetings. This was particularly a concern of INT. Based on prior experience of another small software provider subsequently going bankrupt (resulting in a lack of technical support cover), INT middle managers were suspicious that SPR´s relatively small size might inhibit its ability to keep up with changes in national legislation affecting the former´s customers operating in geographically diverse locations. Indeed, one of INT middle managers remarked that “[SPR] is a small supplier in a large industry and that in itself makes them less credible”. Another cast doubt on the ability of SPR to survive if it lost its private equity backing: “Even though it is owned by [private equity firm name], it is still only a little operation. How long will the private equity firm continue to invest in them? What guarantees do we have?” When interviewed, SPR´s Sales Director mentioned his distinct impression that one of INT´s middle managers “… simply does not like small firms (and) doesn´t want to be taught by a smaller firm”.

Conversely, SPR expressed fears that INT may exploit SPR relatively small size to vertically integrate backwards once it had acquired the necessary knowledge. The operational staff at SPR (for example, the programmers and quality controllers) in particular expressed their suspicions of INT´s intentions, that once replete with the requisite knowledge, INT would possess the competences to perform these functions itself. One of the rider´s programmers confided: “They don´t really understand our business and products ... and it
doesn’t actually seem as though they are interested in getting to know our software”, while a SPR middle manager remarked: “I could have my suspicions that INT only wants to cooperate with us because they want to be a gatekeeper for us and control access to the market”. These findings reinforce the fact that SPR top managers afforded their lowest trust scores to the benevolence dimension.

Another crucial issue was the entire mindset in the two organizations. The SPR sales director expressed it in the following terms: “For us it is an ambition and passion to sell our software system, but ... for [INT] it just has to be easy for them to earn money”. Here we clearly see the clash of two incongruent cultures. SPR’s CEO conceded that it was not realistic that INT’s top management put pressure on their organization to focus on sales of SPR software and “... go like a thunderbolt through the organization and dictate how it should be”. In this regard, the sales director’s remarks that INT have been, in his words, far too “greedy” and have wanted to "get 2/3 of the cake even though SPR comes with 4/5 of the solution", resonate. Resultantly, SPR had not realized any sales through INT during the first two years of the piggybacking arrangement, and the SPR sales director complained that “... you can hardly say that anything has gone well”. In terms of the four common goals enunciated in the initial stage of collaboration, only the first had been achieved: The collaboration had failed to create a market leading position, and joint representative offices had neither been opened in Asia nor the U.S. Indeed, at the time of writing, both sets of top managers were considering terminating the arrangement.

As Moen et al. (2004) noted, the benefits of piggybacking in terms of providing a competitive service to customers on foreign markets should accrue to both rider and carrier. However, in his study of the software industry, McNaughton (2001) observed that the realization of such relational rents may be thwarted by inter-firm conflicts, specifically noting that even though software distributors are often unable to provide the same level of customer
support as developers, the enhanced control that comes from direct customer contact often leads managers to resist developer attempts to contact customers (e.g. to provide training or ongoing maintenance), even though this may have been a more efficient approach. In other words, even though INT offering SPR’s digitalized GRC solutions to the customer presented both the carrier and the rider with competitive advantages, resistance further down the hierarchy reduced propensities to share knowledge, and ultimately, to a failed collaborative project.

5. Conclusion

While piggybacking has been often suggested as a form of FME for resource-constrained KIBS INVs (e.g. Moen et al., 2004), no previous empirical studies have examined the process through which piggybacking partners try to overcome inherent inter-firm diversity, which would typically attenuate mutual trust and the exchange of knowledge between partners and therefore threaten the viability of piggybacking as a FME mode. If piggybacking partners are unable to efficaciously manage this tension, then piggybacking is unlikely to be viable, especially in foreign markets where the need to share knowledge is even more paramount given heterogeneous and evolving legislative environments across multiple markets. The present paper attempts to address this deficiency in the literature by conducting a longitudinal study of the process of collaboration between an INV rider whose software offerings are marketed by a global carrier to customers in multiple international markets.

As expected, our case findings confirmed size asymmetries and corporate culture incongruities between the two partners. Furthermore, it revealed a clear tale of two stages. The relatively high level of mutual trust between the two sets of senior managers facilitated a host of knowledge-sharing initiatives designed to achieve four common goals for the piggybacking arrangement. While the first goal (a common one-stop shopping platform) was
attained during this initial stage, the achievement of the remaining goals - delegated to teams of middle managers in the implementation stage failed abjectly. The source of this failure was domain disagreements, specifically relating to contact with the client. INT’s sales personnel were disinclined to sell SPR’s digital GRC solution to their global clients as it cannibalized their traditional income stream derived from selling consultancy hours associated with manual systems and required greater effort. Sensing this, SPR expressed dissatisfaction with INT’s competence and sought closer and longer-lasting relationships with the clients (e.g. through providing maintenance agreements), which naturally, intruded upon the latter’s domain. This mutual suspicion manifest itself, on the one hand, by INT’s middle managers deliberately reporting misinformation to their superiors, and on the other, by SPR’s middle managers expressing concerns that INT lacked the competences to effectively sell GRC solutions to their customers. Collaboration effectively stalled and the project failed to realize its potential. As a consequence, five years after the senior management teams espoused the four common goals in 2012, only one had been realized.

6.1. Theoretical implications

This study contributes to the extant literature in three main ways. First, this paper contributes to the collaborative partnership literature which robustly attests to the detrimental effect of interfirm diversity (both size and corporate culture) on the propensity of the partners to trust and share knowledge with one another (Das and Teng, 1998), ultimately leading to unplanned dissolutions (Parkhe, 1991). For instance, both Eckenhofer and Ershova (2011) and Suppiah and Sandhu (2011) reported that collaborations between clan and market cultures (as in the present case) led to abject failures to share knowledge. However, our findings suggest that inter-organizational diversity does not necessarily have an adverse effect on collaborative success. Specifically, we found that size asymmetries and incongruent cultures did not per se
derail collaborative interaction in the initial stage where relatively high levels of mutual trust among the respective senior management teams facilitated knowledge-sharing initiatives, but that interfirm diversity became an issue when mutual trust dissipated between the respective middle management teams in the implementation process. While Parkhe (1991) suggested the possibility of developing intermediate corporate cultures and entering into shorter-duration contracts (to attenuate risks associated with “lock-in”), and Suppiah and Sandhu (2011) proposed better shared technology platforms to mitigate interfirm diversity and promote alliance stability, neither considered the potential role of mutual trust in preventing alliance dissolution. Our findings thus extend previous research by showing that the presence of mutual trust may militate against the otherwise negative effects of interfirm diversity on collaborative success, though with the important caveat that such interorganizational trust must permeate the different managerial strata to be efficacious.

Second, and relatedly, our case findings extend the literature on the process of interfirm trust and knowledge transfer by focusing on the specific context of piggybacking. Previous research in the evolution of trust building and knowledge transfer across organizational boundaries has been confined to other collaborative entry modes as strategic alliances (cf. Khanna et al., 1998; Simonin, 1999) and joint ventures (cf. Brown et al., 1988; Pak and Park, 2004). However, as noted in the foregoing, collaborative relations in piggybacking arrangements are likely to be inherently less stable given that they are often temporary affairs between two highly asymmetric partners. Furthermore, the piggybacking partners are both knowledge-intensive firms, with an attendant high risk of misappropriation, especially in settings of domain dissensus. As such, the collaborative process is likely to be different. Unfortunately though, the few empirical studies into piggybacking treat collaboration as a “black box”, absent temporal considerations. For example, while Coviello and Munro (1997), Coviello and Martin (1999) and Moen et al. (2004) all reported that various knowledge-
intensive firms (either software developers or engineering consultancies) chose piggybacking as a distinct mode of entry, none of these studies considered the evolution of collaboration within this particular mode. By utilizing a single longitudinal study, this is the first paper to generate insights into processual nature of piggybacking collaboration into international markets, and thereby open the “black box”. When including a temporal dimension, it becomes clear that the dynamic process of collaboration experiences both ebbs and flows as decisions are delegated from one managerial stratum to another. We thus extend the domain of piggybacking by introducing a processual understanding of collaboration.

Third, our case findings further supplement the partnership governance literature which focuses specifically on explaining the failure of alliances operating in international markets. Earlier research explained alliance failure largely in terms of interfirm conflicts of interest (Brown et al., 1988; Park and Ungson, 2001). For instance, Khanna et al. (1998) explain unplanned alliance dissolutions in terms of partner inability to satisfactorily reconcile the inherent mixed-motive nature of an alliance. In contrast, our longitudinal case data provided initial insights that the failure to share knowledge was precipitated not so much by interfirm tensions, but rather more by intrafirm managerial strata tensions (i.e. between senior and middle managers). In other words, collaborative failure was more the result of the breakdown of internal, rather than external, relations. We thus propose that the possibility of intrafirm managerial tensions should be taken into account when considering partnership governance failures.

6.2. Managerial implications

The present study offers several implications as to how managers may improve collaborative interactions with their piggybacking partners. First, managers need to reconcile the characteristic differences in size and dominant organizational culture archetype by prudently
delineating and articulating strategic complementaries in the formative stages of collaboration, facilitating the development of mutual trust and the necessary sharing of knowledge. KIBS firms would be prudent to focus on purposive actions such as the establishment of common platforms, the regular exchange of personnel and associated socialization activities, intra-alliance communication tools such as extranets and jointly-worded statements to clients. Second, senior managers need to exercise caution when delegating the implementation stage to their middle managers that there are no conflicts of interest arising out of the carefully-delineated complementarities, such as domain dissensus, which if not addressed, sow the seeds of mutual distrust and disinclination to exchange knowledge, inexorably dooming the partnership to failure on international markets. Top managers in piggybacking arrangements thus need to consider internal incentive structures to assuage middle management resistance or “foot-dragging” at the operational level. In the present case, these incentives would have allowed SPR to have greater contact with the customer (to ensure greater competence in selling) while simultaneously compensating INT for its loss of income arising from customers’ adoption of GRC-software. Thirdly, the fact that piggybacking imposes a greater dependence on one’s partner compared to other forms of indirect exporting (where firms typically have multiple distributors and agents present on foreign markets) means that the partner selection process needs to be especially judicious. While size and organizational culture differences may not, per se, hamper collaboration, the ability of top managers to clearly delineate complementarities, and align incentives accordingly is crucial to ensuring the perpetuation of mutual trust further down the hierarchy in the implementation stage. If managers are unable to resolve domain disputes, misaligned incentives, and such like, then organizational culture divergences will likely manifest themselves in overt conflict. In the present study, mutual dependence was especially high as both rider and carrier only targeted a single segment on global markets (i.e. pharmaceuticals).
This dependence could have been lessened if the software developer (SPR) broadened its range to other segments, and availed itself of the services of additional carriers operating in other industries. Finally, as Ariño et al. (2001) note, collaborative success depends on managers assuming both an external and internal focus. In other words, managers should not just concern themselves with monitoring the behavior of their counterparts, but should also put themselves in their partner’s shoes, and critically and objectively examine their own internal mechanisms and actions as likely perceived by their partner. In the present case, managers failed to account for the internal factors (i.e. tensions within the managerial strata) which ultimately doomed the piggybacking arrangement.

6.3. Limitations and future research directions

The present study is not without limitations. It should be emphasized that it provides a highly contextualized account of collaborative behavior between KIBS firms in a specific FME, namely piggybacking. As a consequence, generalizing the idiosyncratic findings from a single case to a wider body of cases is notoriously problematic (Yin, 2003; Welch et al., 2008; Michailova, 2011). In this regard, future research may enhance the external validity (generalizability) of the present study’s findings in a number of ways. First, in highly knowledge-intense industries (such as in the focal setting), the inherent asymmetries in size and organizational culture may contrive to prevent the necessary sharing of knowledge, and thus attenuate the viability of piggybacking as a FME mode. In less knowledge-intensive industries, this may not be the case, and piggybacking arrangements could be made more viable. It would thus be incumbent to explore whether the nature of knowledge itself affects collaborative outcomes by considering piggybacking arrangements involving KIBS industries exhibiting varying degrees of inseparability and intangibility, such as engineering consultancies or legal services. Second, the focal context of piggybacking constitutes one
form of collaborative FME. The present study revealed the serendipitous findings of the detrimental effect intrafirm managerial tensions on the collaborative process of piggybacking, and therefore, it would be opportune to consider the role of intrafirm managerial tensions in other cross-border partnerships such as global strategic alliances and international joint ventures. Third, given that empirical studies into piggybacking in their entirety are extremely scarce, replications in other piggybacking partnerships would add greatly to our understanding of the roles of interfirm diversity, trust and knowledge sharing on inter-firm collaboration. Finally, the present study focuses primarily on the co-creation processes in a Danish context. There is already some evidence that national culture influences the nature and role of trust, and indeed how trust is perceived (cf. Li, 2005), and future studies may wish to examine cross-border relationships to investigate the impact of national culture on international value co-creation processes.

References


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