Value Implications of Opportunism and Cooperation in Asymmetric Inter-Organizational Alliances for Innovation: An Interpretive Case Study

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Abstract: *It is a well-acknowledged fact that today's organizations have realized the importance of innovation to competitive success. Among the many enablers that have been discussed/suggested by both researchers and practitioners, one of the primary facilitators of innovation has been shown to be alliances. Consequently, a large number of studies have been conducted on the role of alliances on innovation. However, while this body of work has been immensely valuable, the underlying perspective within all these studies is that alliances can significantly help in innovative activity or in rolling out an innovation, and typically all such alliances (owing to its success) lead to high performance of the firms involved. In other words, it may be argued that the literature suffers from a pro-alliance bias that is similar to innovation literature suffering from a pro-innovation bias. This pro-alliance bias with respect to innovation within the literature has led to an emphasis on constructive outcomes such as value creation while value-destruction through sub-optimal relationships has to yet to gain full attention of the literature. Recently, a large number of studies have indicated high failure rates in alliances, often leading to unsatisfactory outcomes. This negative trend is quite believable since the general alliance literature has often highlighted through theories such as game theory as to how alliance partners tend to act opportunistically thereby putting the alliance and their own performance at risk.*

For more than a decade, scholars have increasingly called for greater focus on alliance failure given the fact that fewer than half of strategic alliances are successful. Despite this acknowledgement, our review of the literature have not revealed meaningful studies that have focused on the negative outcomes associated with alliances focusing on innovation. The focus on alliances failures is critical for the academia, practice and public policy because alliance value destruction is evidenced in more than half of all the alliances resulting in loss of public goods and welfare. Our study attempts to contribute to this void in the literature by providing an understanding of how alliances focused on innovation can be successful or fail. In doing so, we draw upon the tenets of game theory, which has often been used to discuss alliance relationship. Specifically, the study systematically attempts to reveal potential for value appropriation and destruction in the context of alliances surrounding an innovation. We seek to do this through the case of a B2B alliance between a powerful global firm providing a generic ERP package (here identified as ERPCo,) and its huge network of more than 1000 partners of different types. The innovation lies in how ERPCo develops an unique business model (a process innovation) involving each of its partners and itself to roll out its ERP package to markets that were unknown to itself. Our case study highlights several different types of outcomes that result when the alliance partners either cooperate or defect.