# Editor's Comments

In order to operate effectively, both the manager and the researcher must make a number of simplifying assumptions about the environments in which they are operating. Periodically, however, it is useful to re-examine the validity of these assumptions. One frequent assumption is that the firm is the appropriate unit of analysis for IT applications. Much thinking and research involves the CIO: managing relationships inside the firm, developing appropriate planning and control systems, identifying emerging technologies. Today, the notion of the firm as a stand-alone unit of analysis is more suspect. The notion of the establishment of strategic IT alliances among organizations is a rapidly emerging phenomenon, and has been given inadequate attention in both research and in the management literature. These strategic alliances occur in multiple ways. A few examples illustrate this point:

**Joint Marketing Programs.** Firms now use data linkages to establish combined marketing programs reaching across traditional industry boundaries to a common customer database. This has been accelerated by dramatic reductions in data storage and transmission costs. For example, airlines, hotels, rental cars, and bank credit cards are now being woven together in a single combined marketing effort. These joint alliances often unevenly benefit the different parties, create barriers for other nonparticipants in the industry, and represent a new dimension of competition.

**Intra-industry Coalitions.** The economies of scale associated with certain kinds of hardware / software configurations have facilitated a very different method of operations. In the airline industry, for example, the economies of scale in developing and managing a reservation system are now beyond the capacities of the medium-sized airlines. In Europe, two major coalitions have been created: the Amadeus Coalition and the Galileo Coalition. Amadeus is built around the United Airlines software, and Galileo around the Continental software. Even the largest carriers have acknowledged their inability to handle this problem by themselves and have joined coalitions.

Another highly visible example is the paper industry of Finland. The 18 Finnish paper companies (a $3 billion industry), heavily dependent on exports, feel that to compete effectively in a service-oriented business they must provide online EDI interfaces with key customers and national sales offices. They have combined their efforts into developing a Finnish data system, which is reaching out across the globe. Of a projected budget of $50 million for the data system, $20 million has already been spent. No individual company in the industry had the size and financial strength to create and deliver the services deemed necessary to compete against large American and Canadian competitors.

A third example is the IVANS network (insurance value-added network service). This system allows a number of insurance companies to reach out as a single entity to terminals in the independent general agents' offices in the United States for policy issues, price quotes, etc. None of the smaller companies could afford to make the investment by themselves. In concert, however, they have provided an electronic interface to these independent agents in a way that gives agents the benefit of electronic service but still maintains a level playing field for the smaller insurance companies. The failure to develop such a system would have put the smaller companies at real risk, because only the large firms could have provided such service on an individual basis. Had that been the case, customers would have received a real difference in the service of smaller vs. larger firms.

**Customer-Vendor Relationship.** The establishment of joint research projects on new technologies through Beta sites can provide advantages to both parties. For the vendors, this relationship gives valuable insight into the practical field problems associated with their technology. Further, the ability to resolve these problems in prestige accounts gives vendors highly visible reference sales. For the customer, the relationship is a cost-effective way to learn and participate in new technology developments that may be beyond individual skill and financial resource levels. On both sides, considerable care must be taken to select the right partners to ensure good relationships.

**Customer-Supplier Linkages.** These joint efforts potentially provide better service to both parties, enabling them to better control investments in inventory, storage facilities, and operating costs. Sensibly architected, these linkages can give both parties a competitive advantage. If the two firms are of

unequal size, however, a risk exists that the larger party can force its standards upon the smaller party. Such a major power transfer can potentially destabilize the relationship.

A number of forces have driven the emergence of these strategic coalitions:

1. There have been dramatic shifts in the economics of delivering valuable electronic databases and service to external parties. The widespread emergence of fibre optics and the emergence of larger, cheaper mass storage devices and central processing units will accelerate this trend.

2. The cost of developing certain classes of software configurations is enormous. In the airline reservations industry, one talks about investments in the hundreds of millions of dollars. This has effectively created impenetrable entry barriers for smaller competitors.

3. Desk-top clutter has led to demand for end-user simplification. End users do not want 10 different terminals and 20 different software conventions on their desks. They are looking for simple, user-friendly interfaces, which enable them to reach out to a variety of services. This creates significant pressure for coordination.

4. Generally accelerating standards of customer service expectation, faster response time, broader access to data files, and an increased service customization are all important background aspects.

5. The management of organization learning in a rapidly changing technical environment remains a very real problem. There is no easy way to shortcut this, but strategic coalitions provide a way to reduce both technical and financial exposure.

The implications of these trends for operating managers are that strategic alliances are becoming a vastly more important topic for firms to both gain advantage and defend themselves. Three questions that the general manager and CIO must ask themselves are:

1. In this new world, am I strategically vulnerable, and are there ways to forge alliances to deal with this? The reality is that there are often many more losers in competitive systems than there are winners. The establishment of these alliances as a defensive stopgap is dominated by timing issues. If I try to establish them too early, my partners will not be responsive and the result will be unproductive. If I start too late, the door of opportunity may already be closed.

2. Have I analyzed my strategic interests broadly enough? These alliances, at their core, involve a transfer of power and authority. It is crucial that these issues be thought about carefully at the beginning of a relationship and then managed carefully throughout.

3. Have I picked the right partners? Are they viable, and do they represent the right collection of players for my purpose? In selecting this particular set of partners, have I sensibly analyzed the set of future options that I may be foreclosing? Today's short-term opportunity may be tomorrow's strategic liability.

The resolution of these issues is complex, murky, and fundamentally intertwined with corporate strategy and, in more than a few cases, with corporate viability. For operating management, the use of strategic alliances is a front-bench topic in 1988. For the researcher, this is a vital yet almost totally neglected area of MIS research where the opportunity to create great value exists.