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**Proposal to develop a comprehensive business  
partnership model: Inputs from two case studies**

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management

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**ABSTRACT:**

This study proposes a detailed partnership model for case company which is a global manufacturing company. The study aims to address the complexities involved in defining a partnership model that includes defining critical success factors, the division of liabilities and analyzing the risks associated with partnership creation.

The company faces challenges in understanding how to structure their partnerships. Previous studies on business partnership models, including theories like transaction cost economics (TCE) and resource-based view (RBV), provide valuable insights but do not specifically address the complex dynamics of implementing such a model in a global manufacturing context. This thesis fills this gap by focusing on the unique challenges faced by case company.

The study employs a mixed-methods approach, combining qualitative and quantitative data. Qualitative data is gathered through thematic semi-structured interviews, while quantitative data is derived from business case calculations based on the estimations from the business experts. The study includes inputs from two case studies within case company and one background interview, allowing for a comprehensive analysis of the factors influencing the success of business partnerships.

The study identifies several critical success factors (CSFs), including mutual interest, communication, trust, quality, and sales acceleration. Additionally, supporting factors are presented to be flexibility, reputation and control. The findings indicate that the desired commercial setup, combined with the CSFs, defines the feasible starting point for liability division in each case. Risk management is ensured through the diversification of risks, contractual terms, and risk mitigation methods. Furthermore, ensuring the financial feasibility of the partnership requires a thorough evaluation of the proposed partnership's key financial metrics in relation to the organization's financial and strategic targets.

Finally, the study proposes a business partnership formulation process model. The findings suggest that the factors presented in the model should be balanced in order to ensure the long-term success of the partnership. Continuous monitoring and the development of partnership is desirable and therefore revisiting the process model on a regular basis is suggested.

The study is limited by its case study nature, which may affect the generalizability of its results. Scope of the study is quite broad to cover different aspects of business partnerships. However, more detailed insights could be obtained with a narrower focus. Future research should examine sectoral factors, focus on risk management tools and practices, and explore more detailed factors to improve the understanding and effectiveness of business partnerships.

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**KEYWORDS:** business partnership, critical success factors, risk management

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**VAASAN YLIOPISTO****Tekniikan ja innovaatiojohtamisen akateeminen yksikkö**

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**TIIVISTELMÄ:**

Tutkimuksessa kehitetään yhteistyömalli case-yritykselle, globaalille teollisuusyritykselle, keskittyen kriittisiin menestystekijöihin, vastuunjakoon ja riskien hallintaan. Aiemmat teoriat, kuten TCE ja RBV, tarjoavat yleisiä näkemyksiä, mutta eivät huomioi monimutkaista globaalin tuotantoympäristön dynamiikkaa. Tämä tutkimus täyttää tämän aukon keskittymällä case-yrityksen kohtaamiin ainutlaatuisiin haasteisiin.

Tutkimuksessa tunnistetaan useita kriittisiä menestystekijöitä, kuten molemminpuolinen kiinnostus, kommunikaatio, luottamus, laatu ja myynnin tehostaminen. Lisäksi esitellään näitä tukevia tekijöitä. Tulokset osoittavat, että haluttu kaupallinen asetelma yhdessä kriittisten menestystekijöiden kanssa määrittelee kussakin tapauksessa vastuunjaolle soveltuvan lähtökohdan. Riskienhallinta varmistetaan riskien hajauttamisella, sopimusehdoilla ja riskinhallintamenetelmillä. Puolestaan kumppanuuden taloudellisen toteutettavuuden varmistaminen edellyttää keskeisten taloudellisten mittareiden perusteellista arviointia suhteessa organisaation taloudellisiin ja strategiaan tavoitteisiin.

Lopulta tutkimuksessa esitellään liiketoimintakumppanuuden muodostamisprosessin malli. Tulosten mukaan mallissa esitetyt tekijät olisi tasapainotettava, jotta kumppanuuden pitkän aikavälin menestys voidaan varmistaa. Kumppanuuden jatkuva seuranta ja kehittäminen on toivottavaa, ja siksi prosessimallin säännöllinen tarkistaminen on suositeltavaa.

Tutkimusta rajoittaa sen tapaustutkimusluonne, mikä saattaa vaikuttaa sen tulosten yleistettävyyteen. Tutkimuksen soveltamisala on melko laaja, sillä se kattaa laajasti liikekumppanuuksien eri osa-alueita. Tutkimuksesta voitaisiin saada yksityiskohtaisempaa tietoa, jos tutkittava aihe olisi suppeampi. Tulevassa tutkimuksessa voisi tarkastella alakohtaisia tekijöitä, keskittyä riskinhallintavälineisiin ja -käytäntöihin sekä tutkia yksityiskohtaisempia tekijöitä, jotta voitaisiin kehittää yhteistyömalleista ymmärrystä ja tehokkuutta.

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**KEYWORDS:** business partnership, critical success factors, risk management

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## Abbreviations

<b>CM Ratio</b>	<b>Contribution Margin Ratio</b>
<b>CM</b>	<b>Contract manufacturing</b>
<b>COGS</b>	<b>The Cost of Goods Sold</b>
<b>CP%</b>	<b>Contribution Percentage</b>
<b>CSF</b>	<b>Critical success factors</b>
<b>EBIT</b>	<b>Earnings before Interest and Tax</b>
<b>EBITA</b>	<b>Earnings before Interest, Taxes and Amortization</b>

<b>EBITDA</b>	<b>Earnings before Interest, Taxes, Depreciation and Amortization</b>
<b>ETO</b>	<b>Engineer-to-Order</b>
<b>FE</b>	<b>Fixed Expenses</b>
<b>FWA</b>	<b>Framework agreement</b>
<b>GP%</b>	<b>Gross Profit Percentage</b>
<b>IDPC</b>	<b>Industrial Drives &amp; Power Conversion</b>
<b>IJV</b>	<b>International Joint Venture</b>
<b>IPR</b>	<b>Intellectual Property Rights</b>
<b>JV</b>	<b>Joint Venture</b>
<b>M&amp;A</b>	<b>Mergers &amp; Acquisitions</b>
<b>MNE</b>	<b>Multinational Enterprise</b>
<b>NDA</b>	<b>Non-Disclosure agreement</b>
<b>OEM</b>	<b>Original equipment manufacturing</b>
<b>OVC</b>	<b>Other Variable Costs</b>
<b>RBE</b>	<b>Resource-based view</b>
<b>R&amp;D</b>	<b>Research and Development</b>
<b>TCE</b>	<b>Transaction Cost Economics</b>
<b>YoY</b>	<b>Year-over-Year</b>

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# 1 Introduction

In today's rapidly evolving global landscape, the pursuit of competitive advantage has become more critical than ever for organizations striving to change the world. Multinational corporations are agents of transformation, leveraging innovation, technology, and strategic thinking to reshape industries and drive societal progress. These involvements are not just improving products and services but reimagining entire business models, forging new paths in sustainability, and creating value in new ways. As companies strive to stay ahead, they must navigate the complex interplay of globalization, digital disruption, and shifting consumer expectations. Companies must utilize their core competencies, the strengths that differentiate them from their competitors and execute better (Krawenski & others, 2021). The most successful organizations are those that can anticipate change, embrace it, and use it for growth, all while maintaining a clear focus on their core values and mission.

To stay ahead of the curve and to develop their actions, case company wants to tap the new business potential via new business partnership model to respond to the rising market competition. Outsourcing is the umbrella term under which the possible partnership models will be discussed. It is defined as transferring activities that have been internal to external suppliers (Krajewski et al., 2021). Empirical evidence has shown that about 50% of alliances fail (Schilke and Goerzen, 2010). Therefore, it is extremely crucial to investigate what would be the most feasible business partnership model to pursue.

## 1.1 Case company

Case company is a global leader in engineering and renowned for its commitment to innovation and sustainability across various sectors, including heating, cooling, refrigeration, and industrial automation. The company has a strong global presence and a robust manufacturing and distribution network to support its global customer base.

This study is conducted for a segment of case company, specifically within one division. The segment examined in this study focuses on energy-efficient technologies and solutions for controlling electric motors and drives.

Case company has multiple business opportunities where they could benefit in the market by utilizing outsourced manufacturing. However, it is not clear how the partnership model should be defined. This includes, for example, the division of liabilities between case company and partner, determining the appropriate supply chain and analyzing the risks of each partnership options. This study will utilize two case studies to gain a comprehensive understanding about manufacturing with a partner.

## **1.2 Research questions and objectives**

The case company wants to assess what would be a viable business model for partnerships which include outsourced manufacturing. It is uncertain about the crucial factors to consider, how liabilities should be allocated, and how the partnership could be financially feasible, given the significant role of outsourced manufacturing. The company has limited experience in organizing this type of partnership, making this study necessary. It is open to various partnership models, with the aim of identifying an option that meets the outlined requirements. Research questions are following:

*Q1: What are the key factors that influence the success of outsourced manufacturing?*

*Q2: How should liabilities be divided between the case company and the business partner to optimize operational efficiency and ensure that risks are taken into account?*

*Q3: How can case company ensure financial feasibility?*

By answering these research questions, it is possible to determine how the factors outlined in the research questions are designed to be implemented in the cases and which

factors are valued. These research questions enable to find out how a comprehensive partnership model should be formed in these case studies.

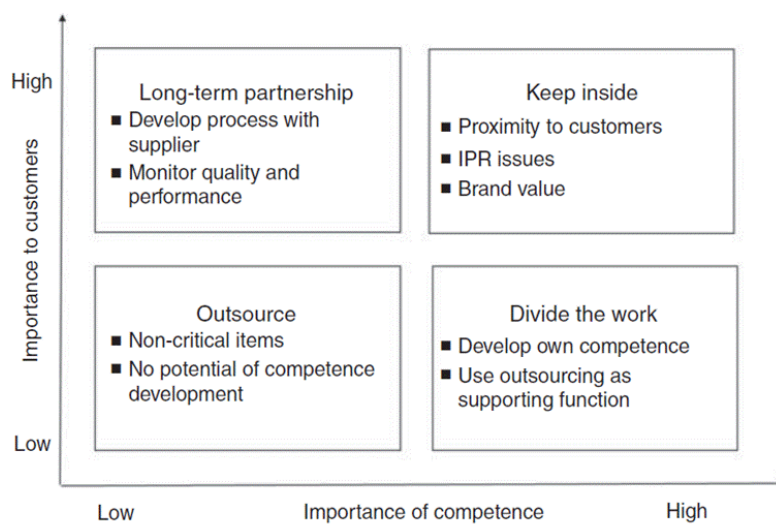
This study will utilize inputs from two cases. However, case 2 has two potential suppliers and have therefore been separated and treated separately from each other. In addition, one background interview is used. This enables a deeper exploration of certain critical factors that should be considered, particularly during the stage of establishing cooperation. Moreover, the previous research can contain valuable insights that should be considered when forming a new partnership. By combining insights from the case studies and the literature, a comprehensive overview of how to form a successful business partnership can be provided at the conclusion stage.

### **1.3 Structure of the study**

This study follows a five-step model, beginning with the introduction, which outlines the research questions and objectives while establishing the importance of competitive advantage and the need for innovative business partnership models in the global market. The literature review provides an overview of existing research on business partnerships, discussing various models and their applications. The methodology section details the research design and methods used, explaining how data was collected and analyzed to explore key aspects of business partnerships. The results section presents the findings of the study, addressing the research questions and offering insights into critical success factors and challenges in partnerships. In the discussion, the study's findings are interpreted, analyzing their significance and broader implications for business practices. Finally, the conclusion summarizes the main insights of the study and offers recommendations for businesses seeking to develop successful partnerships. Together, these sections form a comprehensive framework for developing, understanding and managing business partnerships effectively in the provided case studies.

## 2 Literature review

Companies increasingly turn to business partnerships when specific products, tasks, or services lie outside their core competencies (Sandhu et al., 2018). This reliance on partnerships enables organizations to focus on their strengths while leveraging the expertise of external partners for specialized functions. The customer-competence matrix (Figure 1) is illustrating a model that help companies in decision-making regarding outsourcing.



**Figure 1. Customer-competence matrix (Sandhu et al, 2018)**

The choice of the business partnership model is crucial and the impacts of this decision are long-lasting. To support the decision-making, this literature review first delves into various business partnership models. Beyond categorizing these models, this literature review explores theoretical frameworks: Transaction Cost Economics (TCE) and the Resource-Based View (RBV) to facilitate decision-making in outsourcing contexts. These frameworks help identify critical factors that are influenced by the partnership model selection.

In the following chapters these critical factors, their impacts, pros and cons are presented to gain a comprehensive insight about the topic. In addition, the review of risk

management approaches are crucial to establish robust and sustainable partnerships. By synthesizing insights from these models and frameworks, this chapter aims to provide a comprehensive understanding of the impact and liabilities in different partnership models.

## 2.1 Available business partnership models

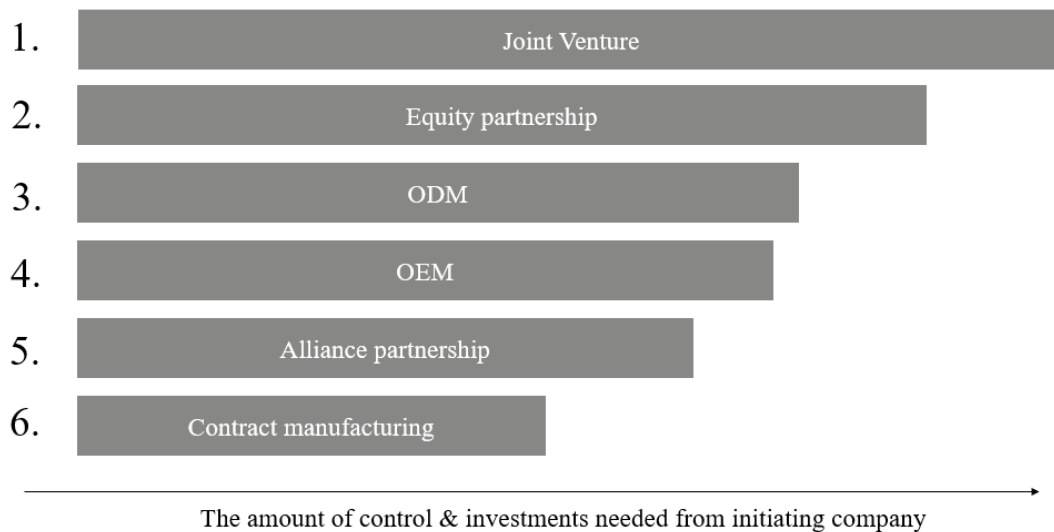
Companies leverage various strategic partnership models to optimize production, reduce costs, and focus on core competencies (Tarigan & Siagian, 2021). Multiple different business partnership models are presented to gain a comprehensive understanding of different opportunities within this topic. Each model has different set up for liability sharing and these allow companies to focus on different strengths. All the partnership models and related references for these are presented in Table 1. In addition to mentioning, there are some other business partnership models such as system integrators, component suppliers and distributors that won't be handled in this study. This is since the case company is already familiar working with them and the aim is to identify new or less familiar approaches for partnerships.

**Table 1.** Business partnership models. Source: author

Business partnership model	References
1) Original equipment manufacturing (OEM)	Chen et al.(2021) and Hsiao and Chen (2012)
2) Original design manufacturing (ODM)	Chen and Shen (2010), Feenstra (1998), Amsden and Chu (2003) and Lai et al. (2009)
3) Contract manufacturing	Krajewski et al. (2021), Matope and Mahove (2021), Hsiao and Chen (2013), Porter (2008), Han et al. (2012), Kim (2003), Cao and Zhang (2010) and Henrikson and Thatte (2008)
4) Alliance partnership	Wallace et al. (2015)
5) Joint venture	Hennart (1988), Chen & Hennart (2004), Williamson (1983), Chi (1994) and Kogurt (1994)
6) Mergers & acquisitions	Halpern (1983)

7) Entrusted development	Chen and Ye ((2008) and Ma (2019)
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This chapter provides an overview of the different business partnership models. Later, this study apply theoretical frameworks to support the decision-making process regarding the choice of the business model. At this stage of the study, the goal is to explore a broad range of partnership models and evaluate their benefits to establish a solid foundation that can later be aligned with the business requirements. Since the case company is open about the partnership model it is prudent to evaluate multiple options. Figure 2 presents various business partnership models, categorized by the level of control and investment required from the initiating company. Note that the sums and amounts provided are purely indicative and intended for illustrative purposes only.



**Figure 2.** Partnership models based on the control and investments need. Source: author

### 2.1.1 OEM

An original Equipment Manufacturer is a company that produces products or components that are then sold by another company under that company's brand name (Hsiao & Chen, 2012). OEMs are integral in industries such as technology, automotive,

and electronics, providing high-quality, specialized components that meet the specifications required by the purchasing company (Chen et al., 2021). They are often unbranded or carry the branding of the OEM, but they meet the specific requirements and quality standards set by the purchasing company. Hsiao and Chen (2012) define that these companies focus on producing high-quality, low-cost goods for other companies that then sell the products under their own brand names. The OEM strategy allows companies to focus on manufacturing excellence without engaging in the branding process.

### **2.1.2 ODM**

An Original Design Manufacturer (ODM) is a company that designs and manufactures products based on the specifications of another company, which then sells the final product under its own brand name (Chen & Shen, 2010). According to them, this business model allows companies to outsource not only the manufacturing process but also the design process, enabling them to focus on marketing, sales, and distribution while leveraging the technical and design expertise of the ODM. They are particularly prevalent in industries where the speed of product development is critical, such as electronics, consumer goods, and fashion (Lai et al., 2009).

Firms that choose ODM services can bring products to market quickly without having to invest in extensive research and development (R&D) or production infrastructure (Chen & Shen, 2010). This approach can significantly reduce costs and time-to-market, making it an attractive option for companies looking to expand their product lines or enter new markets (Feenstra, 1998). In contrast to OEMs, which typically follow the designs provided by the purchasing company, ODMs take on a more significant role in the product development process (Amsden & Chu, 2003).

### **2.1.3 Contract manufacturing**

Contract manufacturing is a strategic business model where a firm outsources the production of its goods to a third-party manufacturer, known as a Contract Manufacturer (CM). CM is an extension of the subcontracting practice (Krajewski et al., 2021, p. 79). This model is widely adopted across various industries due to its cost-effectiveness and access to specialized manufacturing capabilities (Matope & Mahove, 2021). The outsourcing firm, often referred to as the brand owner, relies on the CM to produce high-quality products that meet specific design, formula, and quality standards (Hsiao & Chen, 2013).

The decision to engage in CM is often driven by industry competition and the need to remain agile in a competitive market. Firms in highly competitive industries may proceed with CM to reduce costs and increase their ability to meet diverse customer demands without the burden of extensive capital investments in manufacturing infrastructure (Porter, 2008; Han et al., 2012). Additionally, the relationship between the OEM and CM is crucial, as effective communication and collaboration are essential to achieving the desired outcomes and mitigating potential risks (Kim, 2003).

The advantages of contract manufacturing include significant cost savings, enhanced production efficiency, and access to advanced technology and equipment that the outsourcing firm might not possess (Matope & Mahove, 2021). It also allows companies to convert fixed costs into variable costs, providing greater financial flexibility (Hsiao & Chen, 2013). They define that one the key benefits of contract manufacturing is the ability to convert fixed costs into variable costs, which offers companies greater financial flexibility.

This model also helps companies reduce labor costs and improve productivity, allowing them to focus on their front-end business activities while leaving the complex manufacturing processes to the experts (Cao & Zhang, 2010; Han et al., 2012). Studies have highlighted the importance of strategic alignment between the capabilities of the CM and

the needs of the outsourcing firm to ensure the success and sustainability of CM arrangements (Hsiao & Chen, 2013; Matope & Mahove, 2021).

However, CM also presents challenges, such as potential risks related to quality control, intellectual property security, and dependency on the CM's performance and reliability (Henrickson & Thatte, 2008; Han et al., 2012). The relationship between the brand owner and the CM is crucial, as the quality and reliability of the contract-manufactured products directly impact the brand owner's reputation and market performance (Matope & Mahove, 2021).

#### **2.1.4 Alliance partnerships**

Alliance partnership refers to a collaborative arrangement between two or more organizations, where they work together toward shared goals while remaining independent entities (Wallace et al., 2015, p. 84). Wallace et al. (2015, p.83) define that the aim with this type of partnership is to achieve intimacy, trust and collaboration between the parties involved. In addition to cooperation, parties are expected to share the knowledge and resources to achieve synergies through the benefits of these factors.

#### **2.1.5 Joint Ventures**

Hennart (1988, p.362) has defined joint venture to be following: "An equity joint venture arises as two or more sponsors bring given assets to an independent legal entity and are paid for some or all of their contribution from the profits earned by the entity, or when a firm acquires partial ownership of another firm." Moreover, since this study seeks to find international partnership model, joint venture must be considered to be international. International Joint Venture (IJV) is defined as a strategic partnership between multinational enterprises (MNEs) and local firms (Chen & Hennart, 2004). The study defines that IJVs can be formed in two primary ways: by creating new entities jointly owned by the partners (referred to as greenfield joint ventures) or through partial acquisition of an existing local firm, where the MNE acquires a stake but not full ownership.

This approach allows MNEs to share ownership with local firms, which reduces financial risk and initial capital commitment (Chen & Hennart, 2004). By retaining partial ownership, local partners maintain a vested interest in the venture's success, helping mitigate risks of opportunistic behavior, as detailed in the hostage theory (Williamson, 1983). This arrangement ensures that both parties contribute improving a company's chances of success by tapping into local expertise, reducing knowledge asymmetries and enabling smoother transfer of intangible assets such as know-how and technology. (Chi, 1994). Partial acquisitions also reduce the complexities of market entry. By sharing control, MNEs can gain valuable cultural and regulatory insights from their local partners without fully committing resources upfront (Kogut, 1991). These benefits make partial acquisitions particularly appealing in volatile or high-risk markets, offering flexibility to adjust or expand investment later (Chi, 2000).

#### **2.1.6 Equity partnership**

According to Halpern (1983), mergers and acquisitions (M&A) refer to corporate transactions in which companies consolidate by merging into a single entity or one company acquires another. A merger involves the combination of two firms into a single legal entity, typically aimed at enhancing the combined entity's competitive position, operational efficiency, and market presence. An acquisition, on the other hand, occurs when one company purchases another, gaining control either by buying the majority of its shares or assets.

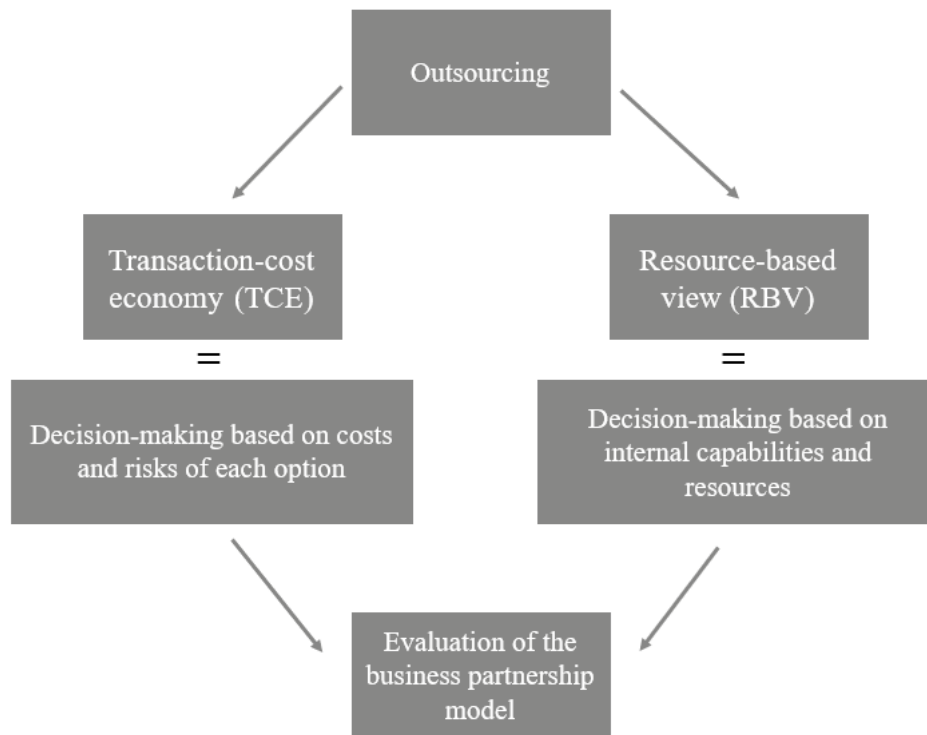
#### **2.1.7 Entrusted development**

In the existing literature, there are only a few articles about entrusted development partnerships and most of these studies are conducted in China. According to Chen & Ye (2008) entrusted development is characterized by a collaborative arrangement where a company entrusts a research institution or university to handle R&D tasks that align with its market needs. They define that this model allows enterprises to focus on their core

operations while leveraging the academic partner's expertise to innovate and adapt technologies. Also Ma (2019) defines that entrusted development is considered more significant than patent licensing or technology transfer at this stage. According to him, in this model the enterprise provides funding and direction, while the university focuses on developing the required technologies, often leading to practical market applications.

## **2.2 Theoretical frameworks**

Outsourcing is a commonly used term in the field of industrial management. The knowledge roots of the topic stretch back to more than 70 years (Busi & McIvor, 2008). They define that most used theories in the field are transaction cost economics (TCE) and Resource-based view (RBV) theories. These theoretical frameworks are utilized in the empirical part of the study to provide a comprehensive understanding of the factors that influence in outsourcing and moreover international partnership models with outsourcing features. Together, these frameworks offer a solid theoretical basis for determining the most suitable partnership model for international companies (Charles & Ochieng, 2023). Figure 3 represents the actors involved in the theoretical framework.



**Figure 3.** Theoretical framework. Source: author

### 2.2.1 Transaction cost economics

Transaction Cost Economics (TCE) is a framework developed primarily by Oliver Williamson (1975; 1985). Basic understanding behind this theory is that economic institutions are structured to minimize the costs associated with transactions. According to Williamson (1985), transaction costs are the "costs of running the economic system," comparable to friction in physical systems. TCE helps explain whether an organization should perform an activity internally or outsource it based on the costs and risks of each option. Transactional costs encompass the expenses related to negotiating, monitoring, and enforcing contracts. By utilizing this economics of scale (Samuelson & Nordhaus, 2009) companies are able to achieve cost reductions and production costs. Williamson's TCE framework revolutionized the understanding of why firms exist and how they manage the trade-offs between markets and hierarchies.

As industries have become increasingly global and complex, TCE provides a valuable lens through which to understand decision-making processes. Firms constantly face decisions regarding whether to produce goods in-house or to outsource production to external suppliers. This decision is fundamentally about transaction costs. Williamson (2008), posits that firms choose governance structures, such as contracts, based on the need to minimize transaction costs, including both ex-ante costs (search, negotiation) and ex-post costs (monitoring, renegotiation). Moreover Ge et al. (2021) explain that the decision is fundamentally about managing coordination costs and adaptation costs, both of which are integral to TCE.

Coordination costs refer to the expenses incurred in managing the collaboration between the firm and its external suppliers, including the integration of activities across organizational boundaries (Ge et al., 2021). In contrast, adaptation costs arise when unforeseen changes occur, requiring contract renegotiation or adjustment, which can be costly and expose firms to opportunism. These costs are more emphasized in relationships with high asset specificity and where investments made in the relationship cannot be easily transferred elsewhere (Ge et al., 2021; Williamson, 2008).

Latest research reveals that companies often choose to produce in-house when they have a high usage frequency and need control over production quality (Ronchini et al., 2023). On the other hand, companies outsource when the technology is unfamiliar or too costly to implement. In the article by Muo & Chei (2023) the strategic framework highlights how firms use strategic outsourcing to reduce costs associated with transactions, including negotiation, monitoring, and enforcement.

### **2.2.2 Resource-based view**

Richardson (1972) presents resource-based view as a theoretical framework that emphasizes the internal capabilities and resources of a company as key determinants of its competitive advantage. According to Mclgor (2008), firms should focus on developing and utilizing unique, valuable, and hard-to-imitate resources to achieve long-term

success. In outsourcing decisions, McIgor (2008) suggests that firms should only internalize activities where they hold superior capabilities compared to external providers. On the other hand, activities that do not offer a competitive advantage or where the company does not have sufficient resources can be outsourced to external suppliers who may have specific expertise.

Results from RBV studies also indicate that firms need to strike a balance between what is outsourced and what is kept in-house (Muo & Chei, 2023). Outsourcing too much can lead to a loss of control over essential functions, while keeping too much in-house can burden the firm with unnecessary costs. The article by Muo and Chei (2023) stresses that successful firms carefully analyze their internal resources and capabilities and decide on outsourcing only those functions that do not contribute directly to their competitive advantage. Therefore, firms must carefully manage the balance between what is outsourced and what remains internal to avoid dependency and loss of critical knowledge (Muo & Chei, 2023).

### **2.3 Key factors influencing business partnership decisions**

The section explores critical success factors (CSFs) along with key elements identified by TCE and RBV theories. Risk management is divided into its own chapter since it is a broader entity including multiple aspects and therefore the structure of the study will be more clear. However, it is considered to be one of the CSF. Critical Success Factors (CSFs) outline the key requirements that are essential for achieving an organization's objectives and ensuring its success (Camilleri, 2011). By identifying and exploring these factors the study can provide a structured framework for strategic decision-making in the following part of the study.

Based on the characteristics of the case study and the information in the literature this study will handle following CSFs to help to understand the situation better. CSFs and their relevant references are illustrated in the following table (Table 2) to create a simple overview of this area of the study.

**Table 2.** Critical success factors of business partnership. Source: author

CSF	References
1) Cost	Abiola and Othman (2022), Rintala et al. (2021); Charles and Ochieng (2023)
2) Quality	Astuti et al.(2022), Giraldi et al. (2024), Oakland et al. (2021)
3) Flexibility	Zijm et al. (2019)
4) Sustainability	Zhan et al. (2021), Lucas et al. (2013), Hajmohammad et al. (2024), Wang & Sarkis (2013), Oakland et al. (2021), Fraser et al. (2020)
5) Communication	Muo and Chei (2023), Li (2021), Doran et al. (2019) and Gilley and Rasheed (2000)
6) Trust	Das and Teng (2001), Mayer et al. (1995), Gur and Alayoğlu, (2017), Boštjančič et al. (2020), Li (2020), Becerra et al. 2008, Astuti et al. (2022), Ayios (2018), Li (2007), and Weck and Ivanova (2013)
7) Control	Das and Teng (2001), Boštjančič et al. (2020) and Ning (2017)
8) Risk management	Zeng and Yen (2017) and Hallikas and Varis (2009)

### 2.3.1 Cost

Cost is a critical factor that directly influences the success and sustainability of partnerships. Managing costs effectively ensures that both parties involved in the partnership can achieve profitability while maintaining competitive advantages.

The effective financial management, including the maintenance of liquidity and solvency, is crucial to sustain successful partnerships (Abiola & Othman, 2022). According to them, ineffective cost management, such as high debt levels and liquidity constraints, increases the financial burden on firms. This can negatively affect their ability to engage effectively with business partners. The study highlights the importance of balancing long-term debt and operating costs to avoid insolvency, which can strain partnerships and undermine profitability.

Additionally, production costs, such as labor and infrastructure, are crucial considerations when deciding whether to outsource certain processes or keep them internal. Firms often seek to reduce these costs by leveraging the capabilities of external partners who can offer economies of scale or specialized expertise. However, McIvor (2008) highlights that outsourcing decisions should not be driven solely by cost-saving motives. The long-term implications on a firm's competitive advantage and the potential for increased transaction costs due to complex interdependencies must also be considered.

Managing collaborative costs becomes essential when companies collaborate across global supply chains. This includes investments in shared technologies, processes, and communication systems that facilitate efficient knowledge sharing and joint innovation (Rintala et al., 2021). Poor cost management in these areas can lead to strained relationships and underperformance of the partnership.

Operational effectiveness and cost reduction are positively correlated, meaning that making the right outsourcing decisions can enhance operational effectiveness. This, in turn, can lower overhead costs and boost the company's profitability (Charles & Ochieng, 2023).

### **2.3.2 Quality**

In business partner relationships, product quality plays a crucial role in maintaining trust and fostering long-term co-operation as it contributes to improved coordination and integration of business processes (Astuti et al., 2022; Giraldi et al., 2024). High-quality products ensure that both parties in the partnership can rely on each other to meet customer expectations and maintain competitive advantage (Oakland et al., 2021). Furthermore, product quality directly influences innovation performance, as it creates a foundation for trust and commitment in collaborative ventures, enabling partners to share knowledge effectively and pursue joint product development initiatives (Astuti et al., 2022).

Customers require quality assurance, and therefore, different certificates and standards play a crucial role in demonstrating compliance with industry regulations, ensuring product safety, and maintaining trust between businesses and their clients (Oakland et al., 2021). These certifications provide a formal guarantee that products, services, or processes meet predefined quality criteria and operational benchmarks. For example, the ISO 9000 family of standards specifies systems that organizations can implement to ensure product and service requirements are consistently met. These standards, such as ISO 9001:2015, ensure that the quality management system in place helps a company meet statutory, regulatory, and customer-specific requirements, thereby enhancing customer satisfaction and minimizing operational risks (Oakland et al., 2021).

### **2.3.3 Flexibility**

Flexibility refers to the ability of partners to adapt to changing circumstances, ensuring the sustainability and success of the collaboration (Zijm et al., 2019). According to them flexibility is the ease with which a system or a partnership can change, whether it is adapting to new product variants, altering the scope of services, or adjusting to changes in demand and market conditions. As highlighted by Zijm et al. (2019), flexibility in manufacturing systems often involves the ability to switch between different product variants or adjust production volumes in response to fluctuating demand. This adaptability ensures that the partnership remains relevant and competitive in a dynamic environment, where the ability to quickly respond to market changes or technological advancements is crucial. Flexibility allows for the smooth integration of new processes, product lines, or innovations, enhancing the overall resilience and longevity of the partnership (Zijm et al., 2019).

### **2.3.4 Sustainability**

Sustainability of the suppliers is essential for businesses to maintain a positive reputation, comply with regulations, and ensure operational continuity. Consumers are increasingly

demanding responsible sourcing, and working with unsustainable suppliers can lead to significant reputation damage and loss of customer trust (Zhan et al., 2021). For example, Apple and other companies have suffered from the scandals related to their mutual partner Foxconn significantly over the years (Lucas et al., 2013).

Also, the regulatory frameworks are tightening, and failure to meet environmental or ethical standards can result in fines and legal penalties (Hajmohammad et al., 2024). According to them, sustainable suppliers help reduce risks associated with supply chain disruptions, such as resource shortages or environmental impacts, while also fostering innovation through the adoption of eco-friendly and efficient practices. Existing research also shows that environmental performance is positively associated with the financial performance of the company (Wang & Sarkis, 2013).

By conducting audits companies can secure that suppliers meet sustainability and quality standards. Audit is structured and thorough evaluation of the company's practices (Oakland et al., 2021). Through regular audits, businesses can assess whether suppliers operate in a responsible and sustainable manner (Fraser et al., 2020). Audits are a key part of securing the supplier's sustainability. However, worth to mention is that they are also a key part of quality management systems. Such as ISO 9001 is conducted to verify that a company's processes are meeting the required quality standards (Oakland et al., 2021).

Sustainability audits assess an organization's environmental impact and practices, ensuring they meet sustainability standards, such as ISO 14001 for environmental management (Oakland et al., 2021). These audits can uncover issues such as inefficient resource use, poor waste management, or unsafe working conditions, which may not be visible through routine communication. By verifying suppliers' adherence to sustainability standards, audits help mitigate risks associated with non-compliance, such as environmental harm, legal penalties, or reputational damage (Fraser et al., 2020). Audits also provide valuable insights into a supplier's continuous improvement efforts (Oakland et al., 2021).

### **2.3.5 Communication**

Effective communication helps build trust, manage expectations, and ensure alignment between the firm and the external service provider. According to Muo and Chei (2023), good communication enhances the company's operational efficiency and improve financial success. Strong communication enables partners to clearly express expectations, share knowledge, and align goals. This leads companies to better collaboration and innovation outcomes (Li, 2021). Specifically, the article points out that communication between supply chain partners enhances knowledge sharing, which in turn improves innovation performance. In addition, according to Duran et al. (2019) effective communication between business partners ensures that expectations are clearly defined, knowledge is shared efficiently, and both parties can adapt to changes in a timely manner. This is especially important in dynamic environments where adjustments may be required due to market or operational changes.

Poor communication can lead to misunderstandings and reduced trust, ultimately affecting the success of the partnership (Li, 2021). When communication fails, the consequences can be severe, leading to misunderstanding and reduced efficiency. Misunderstandings often arise when communication is unclear or inconsistent, leading to misalignment in goals and expectations. Partners may interpret instructions or strategies differently, resulting in divergent efforts that waste resources and time (Doran et al., 2019). Operationally, communication failures often cause delays and errors. Without clear guidelines, mistakes are more frequent, and project timelines may suffer. Additionally, unresolved conflicts due to poor communication can escalate quickly, creating a negative or unproductive work environment (Gilley & Rasheed, 2000).

### **2.3.6 Trust**

Business partnerships often involve uncertainty and risk, especially when partners need to rely on each other to perform strategic tasks (Boštjančič et al., 2020). Trust mitigates

these risks by fostering mutual confidence in the ability and willingness of both partners to fulfil their obligations (Das & Teng, 2001). Trust can be understood as the willingness to be vulnerable to the actions of another party, based on the expectation that they will perform competently and honorably in the partnership (Mayer et al., 1995). In business partnerships, especially those involving complex transactions or cross-border cooperation, trust reduces the perceived risks associated with the partner's behavior and decision-making (Gur & Alayoğlu, 2017). This is particularly critical when it is difficult or impractical to monitor or control every aspect of the partnership.

Trust is essential for knowledge sharing in business partnerships. In partnerships where knowledge sharing is critical for innovation or performance improvement, trust enables partners to exchange not only explicit knowledge but also tacit knowledge, which is more difficult to identify and transfer (Boštjančič et al., 2020; Li, 2020). Studies have shown that in high-trust relationships, partners are more willing to share sensitive or proprietary information, thereby enhancing the partnership's innovation capabilities (Becerra et al., 2008).

Lack of trust, on the other hand, can lead to information hoarding and opportunistic behaviour, with partners withholding critical information for fear of misusing it (Dyer & Hatch, 2006). This behavior undermines the collaborative potential of the partnership and reduces its overall effectiveness. For this reason, trust is seen as a prerequisite for effective knowledge management practices in business partnerships (Astuti et al., 2022).

Trust becomes particularly important in cross-cultural partnerships, where cultural differences can create additional layers of complexity. In these partnerships, differences in communication styles, business practices, and social norms can erode trust if not managed carefully (Boštjančič et al., 2020). For example, in partnerships between Russian and Western companies, Russian managers tend to place a higher value on affect-based trust and personal relationships than their Western counterparts, who may prioritize cognitive trust based on competence and performance (Ayios, 2018). Understanding

these cultural differences is crucial for building and maintaining trust in international business partnerships.

Studies suggest that partners from different cultural backgrounds must engage in trust-building activities that bridge these differences, such as open communication, joint problem-solving, and the development of shared norms and values (Weck & Ivanova, 2013). In addition, it is good to be aware of the accepted level of trust depending on the region where the partnership will be based. Study conducted by Astuti & others (2022) in Indonesia reveals that the results from their study differs from Li's study (2007) which was conducted in United States of America. According to Astuti & others (2022) Indonesian companies are more likely to maintain trust in their partner even if they do not openly share information compared to the study conducted in the US.

### **2.3.7 Control**

Control mechanisms help ensure that each partner behaves in line with expectations and that the partnership's objectives are met. These mechanisms can range from formal contractual agreements to monitoring systems (Das & Teng, 2001). Boštjančič's and others (2020) study reveals that there isn't a strong relationship between trust and control. Therefore, they define that control of the partnership should always be taken into account to find a balance between their desired and possible degrees of control over a deal.

Control is used as a critical way to handle the risk management in business partnerships. Control mechanisms help mitigate risks by providing a structured approach to managing potential uncertainties and vulnerabilities in the partnership. This is particularly important when there is a high level of dependency between partners, as is often the case in strategic alliances where partners rely on each other for key resources or capabilities (Boštjančič et al., 2020). Control mechanisms also help manage external risks, such as changes in the market environment, by providing a flexible structure that allows partners to adapt to new challenges without compromising the integrity of the partnership.

By implementing control systems, businesses can monitor performance, detect early signs of opportunistic behavior, and ensure that the partnership remains on track. This reduces the likelihood of one partner exploiting the relationship for their own gain while neglecting their obligations (Ning, 2017).

## **2.4 Risk management in business partnership**

Risks should be taken into account when forming new business partnerships. While global operations generate great opportunities, the risks grow at the same time. The connections between supply chain partners not only generate new risks in operational level but also in relationship-related aspect as well (Zeng & Yen, 2017). Moreover, in partnerships, the risk faced by one company extends beyond itself and becomes the shared risk of all involved partners (Hallikas & Varis, 2009). Therefore, it is essential that risk management strategies are integrated into the very foundation of new business partnerships. By doing so, companies can proactively address potential vulnerabilities.

Risks can arise from operational challenges such as supply disruptions, production delays, or quality issues, but they also include relationship-based risks like trust, communication breakdowns, or conflicting objectives between partners (Zeng & Yen, 2017). Furthermore, collaboration between firms demands a shared understanding of risk tolerance and mitigation strategies. Without this, the failure of one partner to manage risks effectively can threaten the entire supply chain. Therefore, partnerships require a holistic approach to risk management, where transparency, trust, and clear communication are key elements to success (Zeng & Yen, 2017). Following chapters cover factors that are identified to help companies to mitigate the risks in the existing literature.

### **2.4.1 Contractual arrangements**

The framework of TCE, is pivotal in understanding the role of contracts in managing risks in business partnerships. TCE posits that contracts help reduce transaction hazards such

as opportunistic behavior, information asymmetry, and uncertainties associated with long-term collaboration (Williamson, 2008). Contracts provide the structure needed to secure specific investments made by firms and outline the expectations and responsibilities of each partner, thus reducing the potential for costly renegotiation and maladaptation (Ge et al., 2021). According to Zeng and Yen (2017), contracts play a critical role in supply chain risk management, as they provide the structure for managing risks related to supply disruptions, quality issues, and logistical challenges. Contracts that include provisions for risk-sharing, such as penalties for non-performance or incentives for exceeding expectations, can help align the interests of both parties and encourage proactive risk management.

In global supply chains, where partnerships involve a high degree of asset specificity (e.g., specialized technology or customized services), contracts are essential in mitigating adaptation costs. According to Ge et al. (2021), adaptation costs can be high in partnerships characterized by complex, interdependent processes, as both parties must frequently renegotiate terms when conditions change. According to them, these costs can be particularly high in situations where one party has made specific investments that cannot easily be redeployed if the relationship breaks down. Contracts that include flexibility clauses, such as provisions for renegotiation or performance adjustments, can reduce these costs by allowing firms to adapt without incurring significant penalties.

As mentioned before, another crucial factor in TCE are the coordination costs. They can be significant, as firms must work across organizational boundaries to integrate their activities (Ge et al., 2021). To mitigate these costs, contracts often include detailed coordination provisions. Communication protocols, performance metrics, and monitoring mechanism are examples of that. Also, Service Level Agreements (SLAs) in outsourcing contracts are designed to establish clear expectations regarding performance and accountability, reducing the likelihood of miscommunication and inefficiencies (Ge et al., 2021). By clearly specifying roles and responsibilities, firms can reduce the risk of delays and misaligned objectives.

### **2.4.2 Intellectual property rights**

Intellectual Property Rights (IPR) play a crucial role in protecting and managing knowledge within business partnerships, particularly in collaborative agreements. In the global business environment, where organizations frequently collaborate on projects involving the exchange of technology, know-how, and proprietary information, safeguarding intellectual assets is essential. IPR ensures that the creators of intellectual products maintain control over their innovations, and it serves as a vital mechanism for mitigating risks associated with knowledge leakage and misappropriation by partners (Foli & Durst, 2022).

Collaborative business arrangements often require the sharing of sensitive and valuable knowledge between partners. This creates a risk of knowledge leakage, which occurs when critical intellectual assets, such as trade secrets, patented technologies, or proprietary processes, are disclosed to unauthorized parties or used beyond the scope of the agreement. Foli and Durst (2022) emphasize that incomplete contracts and insufficient IPR protections increase the likelihood of knowledge leakage, as partners may engage in opportunistic behavior to exploit shared knowledge for their own benefit.

IPR helps mitigate these risks by establishing clear legal boundaries regarding the ownership and use of intellectual property. Formal contracts incorporating IPR provisions, such as patent rights, copyrights, trademarks, and trade secrets, are essential tools for protecting intellectual assets in collaborations. These provisions specify the scope of intellectual property sharing and define the penalties for unauthorized use or disclosure, thus reducing the risk of opportunistic behavior and ensuring that each partner's contributions are safeguarded (Foli & Durst, 2022).

According to Ge et al. (2021), effective contractual arrangements that include IPR provisions can help reduce transaction costs, such as those related to monitoring and enforcing agreements. By clearly defining intellectual property ownership and usage rights in

contracts, firms can prevent disputes over intellectual property and minimize the need for costly legal actions. Williamson suggests (2008) that firms should favor internal production over partnerships when the risks of knowledge leakage and the costs of protecting intellectual property are too high. Therefore, IPR serves not only as a risk mitigation tool but also as a factor influencing firms' strategic decisions on whether to enter into partnerships or keep production in-house (Williamson, 2008; Foli & Durst, 2022).

Sandhu et al. (2018) raise the importance of considering IPR clauses really carefully in their research. The customer-competence matrix (Picture 1) is illustrating a model that help companies in decision-making regarding outsourcing. This matrix is closely tied to several CSFs in outsourcing, but interesting finding is that one factor affecting to keep production in-house are the IPR issues. Moreover, non-critical items to customers could be outsourced but long-term partnership should be developed if the importance to customers is high but in-house competence is not required.

Collaborative agreements that involve the sharing of intellectual property must balance the need for knowledge sharing with the need for knowledge protection. A comprehensive IPR strategy helps achieve this balance by allowing partners to benefit from shared knowledge while minimizing the risk of leakage. Non-disclosure agreements (NDAs), confidentiality clauses, and intellectual property licensing agreements are commonly used to protect sensitive information in collaborative partnerships (Foli & Durst, 2022).

In addition to formal legal protections, Foli and Durst (2022) highlight the importance of building trust between partners to reduce the risk of knowledge leakage. However, trust alone is not sufficient; formal contracts that incorporate robust IPR provisions are necessary to provide legal recourse if a partner engages in opportunistic behavior or violates the terms of the agreement.

Managing IPR in global business partnerships is particularly challenging due to differences in legal frameworks across jurisdictions. Firms engaged in cross-border

collaborations must navigate a complex landscape of intellectual property laws, which can complicate the enforcement of IPR protections. This challenge is exacerbated in industries where innovation cycles are short and intellectual property is highly valuable (Ge et al., 2021).

## **2.5 Financial feasibility of business partnership**

Financial feasibility in the context of business partnerships refers to the ability of the collaboration to generate adequate returns on investment (ROI) while meeting the financial goals of all parties involved (Oakland et al., 2021). It serves as the cornerstone for evaluating whether a potential partnership is financially viable and capable of delivering sustainable benefits. A thorough financial feasibility analysis is essential for fostering a successful long-term partnership by aligning expectations, mitigating risks, and ensuring the efficient allocation of resources. Since the cases take place in the project business, the pursuit of profitability is discussed from this perspective also in this section.

Neglecting financial feasibility can have significant consequences, including misaligned expectations, budget overruns, and even partnership failures. The fallout from inadequate financial analysis may include reduced profitability, operational inefficiencies, strained relationships, and damage to organizational reputations (Brealey et al., 2023). By establishing a clear understanding of financial feasibility, businesses can make informed decisions that align their financial and strategic goals, thereby building a strong foundation for collaboration.

Key financial performance metrics such as EBIT (Earnings Before Interest and Taxes), contribution margin and fixed expenses are crucial in evaluating a business's financial health and profitability. These metrics provide quantitative insights that help partners assess the financial viability of a project or venture. Their use is critical in various business scenarios, from day-to-day operations to large-scale investment decisions. Key financial metrics will be presented in more detailed level and later on in this study these metrics can be evaluated in the case-specific context.

### **2.5.1 Product profitability in ETO business**

Engineer-to-Order (ETO) is a manufacturing strategy where products are highly customized and designed to meet specific customer requirements, often involving complex systems with numerous components and interactions (Silventoinen et al., 2014). Silventoinen and others (2014) define that unlike standardized production approaches, ETO projects are typically characterized by low repetition rates and significant engineering efforts for each order, making the definition and reuse of design references challenging.

The customization of ETO products leads to high variability in project profitability, as unexpected costs arising from changes during execution, technical risks, and non-conformance often erode profit margins, particularly under fixed-price contracts (Hicks & McGovern, 2009). Consequently, the lack of structured knowledge reuse and the high uncertainty in cost estimations make achieving consistent profitability a persistent challenge in ETO businesses. Interestingly, Løkkegaard and others (2022) define in their study results that the ability to capitalize the existing design knowledge is crucial for ETO products and project success.

### **2.5.2 EBIT & EBITDA**

Earnings before interest and tax (EBIT) is a common financial metric in a private company (Oakland et al., 2023). It is a measure of profitability. According to Brealey et al. (2023) valuation ratios of the companies are often based on EBIT or earnings before interest, taxes, depreciation and amortization (EBITDA). It is good to acknowledge the fact that these metrics are not taking into account the amount of debt financing. In turn, these metrics are dependent on the companies operating profitability (Brealey et al., 2023). These metrics reflect how efficiently a company is generating profit from its operations.

### 2.5.3 Contribution margin

Contribution margin is calculated by subtracting the variable costs per unit from the selling price of the product, providing a measure of the revenue available to cover fixed costs and contribute to profit (BarCharts, 2016; Noreen et al., 2020). A high contribution margin indicates that a product generates sufficient revenue relative to its variable costs, signaling strong profitability potential (Hongren et al., 2015). They define that products with consistently low contribution margins may need reevaluation or adjustments in pricing, cost management, or production strategies.

Products with higher contribution margins are often prioritized for investment in marketing, distribution, and production, as they deliver greater returns on resource allocation (Kaplan & Atkinson, 2014). This approach ensures the optimal use of organizational resources to maximize profitability. Contribution margin ratio is illustrated in Figure 5. The CM ratio shows how the CM is affected by a change in sales (Noreen et al., 2020).

$$\text{CM Ratio} = \frac{\text{Contribution Margin}}{\text{Sales Revenue}}$$

**Figure 4.** CM Ratio (Adapted from Noreen et al., 2020)

Contribution margin can also serve as a benchmark for setting performance targets and comparing actual results (Noreen et al., 2020). They state that products that consistently meet or exceed these targets are considered successful. In summary, contribution margin is a critical metric for measuring product success, as it offers a clear and actionable perspective on a product's financial performance and its role in achieving the business's broader profitability objectives.

## **2.6 Study gap**

While existing studies provide valuable insights into the business partnership selection, they do not take into account the complex dynamics involved in implementing such a model in a global company acting in a manufacturing industry like this case company. This literature review fulfill this gap by covering topics that are specifically important for global industrial companies where decisions are influenced by numerous factors.

The literature review addresses the identified study gap by providing extensive information on the factors central to the creation and selection process of partnerships in global companies. It explores the key success factors while addressing potential risks through effective contractual arrangements and intellectual property protections. Additionally, the literature review examines the impact of cultural differences, trust-building mechanisms, and regulatory environments on the success of international partnerships, while also covering the fundamental pillars that must be in place for a partnership to thrive.

## **2.7 Conclusion**

All the partnership models offer different benefits and risks. The benefits are summarized in Table 3.

The selection process of partnership model is complex, involving considerations like cost efficiency, flexibility, quality control, and alignment with sustainability goals. Additionally, factors such as trust, communication, and control play essential roles in the long-term success of these partnerships. The financial analysis of the product and estimated calculations play also a crucial role in the partnership selection process. The partnership model must support the growth targets, and the costs associated with establishing the partnership must not be excessively high from an investment perspective. Otherwise, the profitability of the partnership will be compromised.

**Table 3.** Benefits in different business partnership models. Source: author

Business partnership model	Benefits
Original equipment manufacturing (OEM)	Leverages expertise and manufacturing capabilities of partners, reducing costs and time to market.
Original design manufacturing (ODM)	Provides design and manufacturing services, allowing companies to focus on branding and marketing while leveraging the partner's design expertise.
Contract manufacturing	Offers cost reduction through economies of scale and allows companies to focus on core competencies by outsourcing manufacturing processes.
Alliance partnership	Facilitates collaboration on shared goals and resources, enhancing innovation and market reach.
Joint venture	Combines resources and expertise from both partners, sharing risks and rewards, and allowing entry into new markets.
Mergers & acquisitions	Provides rapid market expansion and access to new technologies and capabilities through integration.
Entrusted development	Allows companies to outsource specific development tasks while maintaining control over the final product specifications.

By synthesizing findings from various studies, the literature review offers a comprehensive understanding of the key determinants that drive effective partnership formation. Literature review builds a strong theoretical background to support this decision-making by combining two theoretical frameworks to provide comprehensive understanding of liability division and risk management.

### **3 Methodology**

This study is conducted for a case company. This section provides information about the research formulation and approach of the study.

#### **3.1 Research formulation**

The purpose of this study is to develop a proposal how to form a feasible business partner relationship. To support this initiative the research is an inductive explorative research. However, it also includes a descriptive research features as well. Inductive approach enables the use of small sample size which is feasible for this research. In addition, inductive research enables the exploration of the phenomenon, themes and patterns (Sanders et al., 2023) which is extremely crucial for this research. With these settings it is possible to gain a comprehensive understanding of the business partnership formulation.

The research design outlines the structured approach that will be followed to answer the identified research questions, achieve the research aim, and meet the set objectives (Saunders, 2023). This research is conducted as mixed method research since it combines qualitative and quantitative information. This methodological integration is particularly valuable, as both a deep and broad understanding of the subject is needed. Triangulation is applied in this study to reinforce the reliability of the conclusions, as it utilizes multiple data sources (Saunders, 2023). The research utilizes quantitative and qualitative data within a single phase of data collection and analysis. Therefore, it is concerned as concurrent mixed methods research (Sandler, 2023). Moreover, mixed methods are used in every stage of this research, so the study is fully integrated mixed methods research.

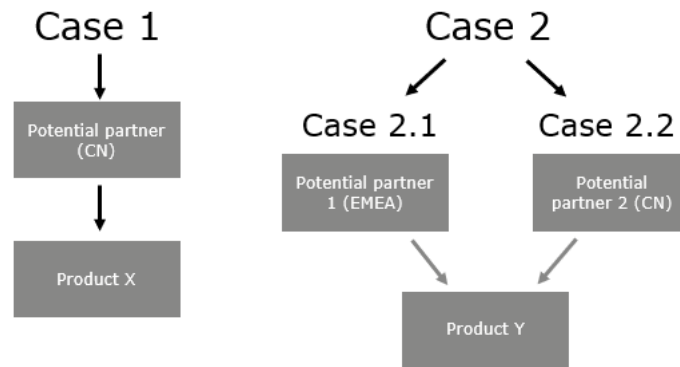
Research strategy is the link between the philosophy and the method choice in data collection and analysis (Denzin & Lincoln, 2018). Naturally, since this research has a real inquiry from the business, the suitable research strategy is a case study. Case study is an in-depth evaluation of a topic in real-life settings that enable comprehensive and

empirical results (Yin, 2018). Also, Eisenhardt (1989:546) states that the case study is suitable research strategy when there is not much data available from previous research about the topic. This is accurate since there is not a specific information with the same settings in previous research.

### **3.2 Case study approach**

The empirical part of this research is based on two cases. Case 1 concentrates on a different focus market for IDPC. The product is part of IDPC's product portfolio, and IDPC is seeking cost savings through outsourcing. In this study this is referred as product X. As this product is crucial to their portfolio and has a unique and valuable design, factors need to be considered to ensure design and quality are maintained. This case is limited to China, where one potential partner is under evaluation. Including this case highlights specific strategic aspects requiring extra attention, making the study more reliable. Assessing only a single case could lead to misleading conclusions. Figure 5 illustrates these two cases.

In case 2 another segment manufactures Product Y, which is not a core competency for this segment. However, the segment recognizes that selling these products could enhance their core market sales. The challenge is that this other segment has long manufacturing lead times and struggles to reduce costs and enhance flexibility. Additionally, the product design is not unique. This has led space to consider a strategic business partnership. Product Y is crucial for winning business opportunities in a specific market that the division focuses on. Therefore, the division is mapping global partnership opportunities, with potential partners located in Europe and China.



**Figure 5.** Case review. Source: author

To support the analysis, background understanding is collected via reading the research considering previous partnership in case company and with one interview regarding that same case also. This background interview is added to the thematic analysis as well to simplify the analysis process. However, it does not play a major role in the analysis but highlights the most crucial aspects of that case. The addition of this interview to the thematic analysis brings valuable insights that should be considered when forming a new partnership is relevant.

### 3.3 Data collection

The data collection process for this study is divided into qualitative and quantitative approaches. Each approach is tailored to gather rich and relevant data for addressing the research questions effectively. Below, the methodologies for data collection are described in detail.

#### 3.3.1 Qualitative data collection

Qualitative primary data is collected via thematic semi-structured interviews. Semi-structured interviews allow researcher to gain the understanding of reasons for decisions that participants have taken or the reasons for their attitudes and opinions (Sanders et al., 2023). Thematic semi-structured interview format is chosen over distinctive

format because there is a pre-list of questions to be presented for the interviewees that will determine the flow of the interview. Interviews are chosen as a data collection method over collecting the data via survey since the responses are easier to receive & follow-up questions are easier to present. Additionally, Sanders and others (2023) have found that interviewees are more likely to attend to interviews than conducting surveys. This strengthens the choice of data collection method.

Table 3 contains the details of the interviews. To protect the privacy of the interviewees, respondents are referred with the letters. The gender of the respondents has also been neutralized by using the pronoun they.

**Table 4.** Details of the interviews. Source: author

ID	Case	Role in the company	Region	Method	Date	Length
A	Case 1	Project Lead	China	Teams	4.11.2024	55 minutes
B	Case 2	Market Development Manager	Europe	Teams	4.11.2024	49 minutes
C	Case 2	Sales Manager	China	Email	16.11.2024	-
D	Background	Regional President	China	Teams	19.11.2024	19 minutes

A background interview has been included in this study to provide additional insight and understanding of a business similar to the cases examined. Like mentioned earlier, there is only little experience from this type of partnerships. Through this interview, it is possible to gain insights from previous partnership experiences. In addition, the success factors and potential pitfalls of this type of business can be better understood. This interview discusses the business at a general level but also reviews the case company's past partnerships.

All the interviews are recorded and transcriptions are made with the help of Microsoft Teams Auto-AI transcription tool. Transcriptions are then re-read and mistakes are corrected manually. One respondent answered to the questions via email. Interview questions can be found in Appendix 1.

### **3.3.2 Quantitative data collection**

Secondary quantitative data is utilized in this study as a quantitative data collection method. The data is used from business case calculations made for these cases before starting this research process. The advantage of using this type of data is that it saves time from collecting the data on my own, and often the quality of the data is higher also (Smith, 2008). This allows to spend more time in the analysis part and moreover delve into theoretical aims and substantive issues of this research.

Business case calculations made separately or both cases aims to provide a comprehensive justification for the proposed investments and strategic decisions. Business cases are simulations based on certain metrics. The business case document utilizes several key metrics to calculate profitability. These metrics include the sales price in EUR, which represents the average selling price per unit, and the total sales revenue generated from these sales. The cost of goods sold (COGS) is broken down into material costs, labor costs, and overhead costs, which together represent the total cost to produce the goods sold. Gross profit is calculated as the difference between sales revenue and COGS, and this is further expressed as a gross profit percentage (GP%).

Additional costs such as freight, warranty, and other variable costs (OVC) are also considered. These costs are deducted from the gross profit to determine the contribution, which is expressed as a contribution percentage (CR%). Fixed expenses, which include administrative and overhead costs, are then subtracted to arrive at the earnings before interest, taxes, and amortization (EBITA). The EBITA is also expressed as a percentage of sales (EBITA%). These metrics collectively help in evaluating the financial performance and profitability of the business case by analyzing revenue, costs, and profit margins.

### **3.4 Data analysis**

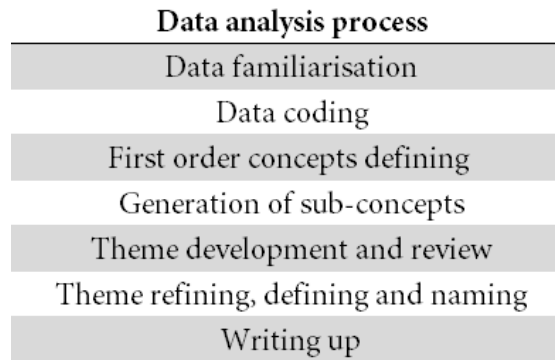
This study employs both qualitative and quantitative research methodologies to provide a comprehensive analysis of the factors influencing the success of business cases in the

Engineer-to-Order (ETO) context. This section covers both qualitative and quantitative data analysis processes.

### **3.5 Qualitative analysis**

Qualitative data is analyzed using the thematic analysis technique as outlined by Sanders (2023). According to Saunders (2023), thematic analysis is an appropriate technique for this study because it is both flexible and systematic, allowing for comprehensive data analysis. Additionally, this technique facilitates rich explanations and theoretical development within the study. Given that this study follows an inductive approach, themes will be derived directly from the data rather than being linked to existing theories (Saunders, 2023).

The thematic analysis process employed in this study is illustrated in Figure 6. Thematic analysis consists of six phases. Furthermore, the Gioia methodology (Gioia et al., 2013) is applied during the coding phase. This involves starting the coding process at the most detailed level and, as the process progresses, deriving first-order concepts and subsequently defining themes. In this research, codes are derived from the actual terms used by participants during the interviews. Then, first order concepts are defined and sub-concepts can be added to support the logical text structure creation. Finally, themes could be developed. This process also included a lot of theme refining, defining and re-naming in order to create an understandable entity.



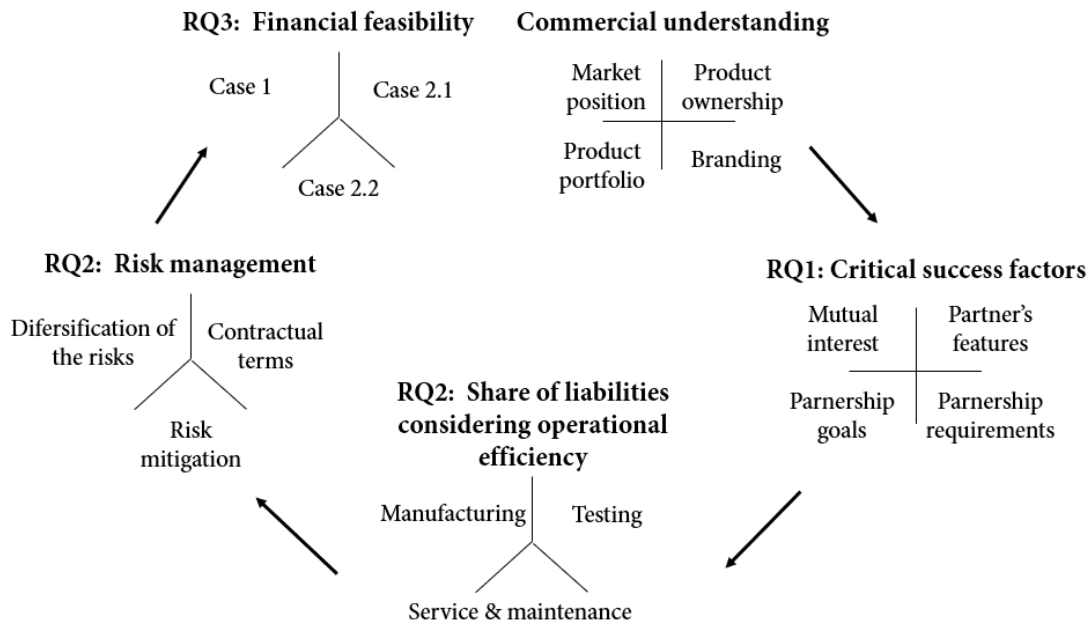
**Figure 6.** Qualitative data analysis process. Source: author

### 3.6 Quantitative analysis

Quantitative analysis is based on the summaries derived from the business cases. To ensure an objective analysis, the summaries are standardized across all cases and encompass the same metrics. This standardization allows for a direct comparison between the cases and facilitates the formulation of case-specific conclusions. To analyze the results from the case company's perspective, discussions regarding the company's goal metric values are conducted with relevant stakeholders. This variance analysis technique enables data-driven analysis and maximizes the value created for the case company. By leveraging business case calculations, case company can assess whether they are meeting their strategic goals and identify necessary adjustments.

## 4 Results

This section covers the results of this research. The order of following sections are created to support the logical way to answer the research questions. The sections are presented and the logic behind this process is illustrated in Figure 7.



**Figure 7.** The flow of the results section. Source: author

The results section begins with the presentation of findings from the commercial understanding aspect of the study. Subsequently, the results related to the critical success factors are discussed. Following this, the findings of the share of liabilities in relation to operational efficiency is presented. The section then addresses the findings related to risk management. Finally, case-specific insights related to financial feasibility are provided.

## **4.1 Commercial**

This section provides crucial information about the partnership requirements from the commercial point of view and therefore provides a comprehensive background for the following chapters. It is a critical component of the results section, as understanding the product's market position and the ownership model are important factors when considering the partnership's future operations. Commercial factors assist in identifying the necessary considerations for determining the most feasible operational model for the partnership and the risks associated with the product ownership model.

### **4.1.1 Market position**

Market position is a differentiating factor in these cases. In Case 1 and Case 2.2, the partnership is established in an untapped market. This is expected for Case 1, as the product is completely new. However, in Case 2.2, even though the case company has product Y in their catalogue, it cannot compete on price against local players in the Chinese market.

Conversely, Case 2.1 has a slightly different market positioning since company's own product is an alternative to the product available through the partnership. In this case the price itself is not the core issue. Nonetheless, as previously mentioned, issues with production lead times and flexibility present challenges for the own product, thereby creating an opportunity for product Y. In addition, case company gain valuable insights of the partner's operations that can be utilized.

### **4.1.2 Product portfolio**

Regarding the product portfolio factor, case 1 and 2 are the opposite of each other. In case 1, the product X is a core product and will be a significant part of product portfolio for the division. In contract, the product Y isn't a core product for them. However, the case company has another division, where this product group is a core focus group for them.

### **4.1.3 Product ownership**

In case 1 the product is based on company's own design. However, the whole design isn't shared with the partner. Conversely, in Cases 2.1 and 2.2, the product design is based on the partner's design. In Case 2.1, the entire product design of the company's product is shared with the partner, as it does not contain any critical information. In Case 2.2, the situation differs slightly, as the case company's product design is not shared with the partner due to the risk of design leaks and theft. Similar risks are identified in Case 1, and therefore, only specific parts of the design are shared with the partner. These risks will be discussed on more detailed level later on in this study.

Product ownership is a common factor in these cases, with the aim in both being for the case company to obtain product ownership. However, the circumstances and methods for achieving product ownership differ. In Case 1, product ownership is more straightforward since the technology developed for the product is created by the case company. In Case 2, product ownership rights are obtained through contractual terms. Respondents B and C explain that if product design modifications are necessary due to customer requirements, case company will cover the development costs for product Y. By covering these development costs, case company will secure product ownership. This approach is viable, given that the nature of the business dictates that design changes are likely to be required in every case.

### **4.1.4 Branding**

In case 1 and 2.2 the selected branding type is similar: partner's brand label won't be visible outside of the product. In turn, in case 2.1 the purpose is to have combined branding showing both parties brand names in the product.

## **4.2 Critical success factors of the partnership**

This section covers the critical success factors that the respondents highlighted during the interviews.

### **4.2.1 Mutual interest**

Mutual interest towards the partnership occurs not only in all case interviews but also in the background interview. In Case 1 the root cause to find a partner for product X is to be able to step into a new market and lower the cost of the product. In turn, respondents B and C that represents Case 2 define that product Y enables more sales for the core products in the product portfolio of case company. In addition, respondent C states that via mutual interest both parties bring their own competences and know-how into the partnership. Moreover, they contribute unique value propositions that enables synergistic outcome of the partnership.

The importance of strategic vision is raised by respondent D. If the strategic visions of the companies differ significantly from each other, the conflict can be major after some time. The mutual interest and moreover its match to the company's strategic vision must be in place not only before starting the partnership but also after a couple of years into the partnership.

### **4.2.2 Partner's features**

#### **4.2.2.1 Reputation**

Partner's reputation is highlighted by all the case respondents. However, the respondents emphasize different factors why it is an important feature in a partner. Respondent A defines that avoiding conflicts of interests is the reason to consider partner's reputation. Therefore, this finding is also tied to the mutual interest factor. Respondent defines that partners may have different ideas about what is achieved through cooperation and why they are interested about collaborating with case company. If the reasons to

collaborate doesn't match and partners are searching for different benefits this can cause issues at some point of the relationship. Respondents from case 2 brings up the reputation as an important factor since the marine industry requires that partner fulfills specific requirements and have special certificates to operate in this specific field. Marine certification is one example of how to proof the quality of the operations in marine industry.

#### **4.2.2.2 Product price**

Different price expectations in different cases are set based on the results of interviews. Respondent A specifies cost-down initiatives as a main initiative for the partnership. Respondent C who operates in the same region follows this same thought. However, the potential supplier in Europe can't provide notable cost-savings to the product price. This is due the fact that European partner operates in the same region as case company at the moment and therefore faces similar labor, material, and regulatory costs. Consequently, any potential cost-savings would be marginal and may not justify the transition to a new supplier based only the price of the product.

#### **4.2.3 Partnership goals**

##### **4.2.3.1 Fundamental grounds**

In case 1 the fundamental ground to find a partner for the product X are the cost-down initiatives like mentioned earlier. In addition to that, partner's flexibility and fast supply chain enables case company to have better opportunities to gain the market share in the unknown market. In turn, in case 2 product Y works as a business enabler for the core products in portfolio of case company. Even though the cost-down of the product is possible in China, it is not a main reason to place the partnership. However, background interview on previous partnerships brings a new and interesting perspective to the topic.

Case company participated to this partnership in order to be able to get a new product in the portfolio where they didn't have the technical knowledge about the product design. However, they had required connections and network to sell the products better

than the partner (Boyd et al., 2010). Nevertheless, this case have synergies with the case 1 since stepping into the new market is enabled with the help of the partnership.

#### **4.2.3.2 Flexibility**

The common factor in both cases is flexibility. Respondents A and B clearly state that the partnership's goal is to create flexibility for case company, enabling faster manufacturing and design solutions that are currently unavailable. Case company aims to avoid being tied to specific production amounts. Instead, evaluating business opportunities on a case-by-case basis creates flexibility to the business. Moreover, this flexibility facilitates efficient scaling of new products and allows case company to assess product profitability before making further investments.

Respondent A also highlights the importance of flexibility in order to maintain the competitiveness in the market. They emphasize that the ability to quickly adapt to changing market conditions, customer demands, and technological advancements is crucial. They have observed that the supplier is capable of that and therefore would create massive improvements to the product's go-to market strategy.

#### **4.2.3.3 Sales acceleration**

In Case 2, the primary objective is to secure and expand the sales within the marine business sector. Respondent C asserts that a successful business partnership would facilitate the acquisition of new business opportunities and anticipates additional growth in the sales of core market products. Respondent B concurs with this perspective. As previously mentioned, Product Y functions as a business enabler for the marine sector, and an acceleration in sales is a naturally anticipated outcome.

In case 1 the sales acceleration is the goal for the partnership also. However, like mentioned earlier cost-down initiatives are crucial for this partnership. The price must be lower in order to be able to gain market share in this rapidly developing market. If the

price cannot be reduced, the company risks losing its competitive edge against other local manufacturers, making it exceedingly difficult to penetrate the target market.

#### **4.2.4 Partnership requirements**

##### **4.2.4.1 Quality**

Quality is a unifying factor in both cases. Quality standards in the case company are high and therefore they must be taken into account when selecting the partner. For example, partners must have suitable quality certificates and agreement to conduct audits in their production facilities is required. In specific industries, additional certificates are needed also. In marine industry, marine certificates validate skills, ensure safety, and demonstrate compliance with international maritime regulations.

In case 2, potential partner's quality is evaluated before pilot cases through technical reviews by technical and quality specialists. In case 2.2 this is followed by professional manufacturing and inspection checks in supplier's manufacturing site. This is done due the protocols and because it is a completely new partner for the case company. Moreover, since the potential cost-down possibilities are relatively big in this case, it must be ensured that the cost-down won't be made by sacrificing the quality of the product.

In case 2.1 the situation is a different since the partner is mutual and the reputation is very good in the marine industry. However, after the partner passes the agreed pre-requisites the pilot cases can be started, and the quality is evaluated with case company's testing protocols when the product Y is combined with the company's own product. This process is illustrated in the Picture X.

In case 1 the quality of the product is also ensured with the audit procedures, technical product reviews and manufacturing reviews considering the operational capabilities of the partner. In this case also, the product X will be evaluated by the quality experts of the case company with the product quality tests in their facilities.

#### **4.2.4.2 Trust**

Trust is highlighted in both case studies. Respondent A highlights that in specific regions, there is a higher risk of product design theft, making trust an extremely crucial factor to consider. They also emphasize that case company must be efficient and progress rapidly to maintain the partner's interest in the collaboration.

Respondent B states that trust in the partner is important in this case because case company lacks product competence in this area, and product Y is not a core product for them. Similarly, Respondent C believes that trust is essential for discussing the benefits of the partnership with the potential partner. This finding aligns with the earlier discussion on mutual interest. Trust in the relationship is emphasized through contractual terms in both Case 1 and Case 2.2. This will be discussed later in this research.

Background interviews support the view of emphasizing and developing the importance of maintaining trust between the parties. Respondent D shares that their partnership suffered significantly from a loss of trust, and when it could not be restored, the partnership had to be terminated.

#### **4.2.4.3 Communication**

Respondents A and B emphasize the significance of physical communication with partners as a prerequisite for a successful partnership. They assert that resources should be allocated to facilitate face-to-face meetings, as these interactions significantly expedite and simplify the development of the partnership. Respondent B notes that without in-person meetings, the progress of partnership creation is hindered, and obtaining responses to specific questions via email or phone calls becomes challenging. Conversely, Respondent A highlights the difficulties of virtual meetings due to the lack of a common virtual platform between the companies. Although a platform was eventually established, it required considerable resources from both parties. In summary, both respondents identify the same critical element through different experiences.

Additionally, Respondent B highlights that open communication has been a crucial factor in building trust between the companies. Transparent communication enables the development of potential sales cases more efficiently and effectively, as it allows the full utilization of each company's capabilities. Respondent C supports this view, stating that transparent communication and cooperation are critical success factors for functioning as a unified team.

### **4.3 Liabilities of the partnership**

The following section handles the findings from the liabilities point of view. Share of supply chain liabilities among the partner and case company set the baseline for operations. Moreover, operational efficiency of the partnership is created through this distribution of responsibilities, ensuring that both parties are accountable for their respective roles. This section will further explore how these shared liabilities impact operational outcomes and contribute to the strategic goals of case company.

#### **4.3.1 Manufacturing**

Responsibility of manufacturing the product is divided between the partner and case company in case 1. Partner will manufacture more than 50% of the product first and then the product is shipped to case company's factory for further development. Conversely, in cases 2.1 and 2.2 the manufacturing liability lies with the partner completely.

#### **4.3.2 Testing**

In case 1, partner is responsible for hardware-testing considering product X. In turn, case company is responsible for the end-product testing considering product X. This ensures that the product fulfill the case company's quality standards which is important since the standards differ among the partners.

In both scenarios in case 2, partner is responsible for the testing of product Y. However, case company is responsible for the testing of the combined product solution. This is to ensure the product quality against the product quality protocol of case company which is valued high in the company.

### **4.3.3 Service and maintenance**

Case company holds full accountability for service operations directed towards customers. In practice, this means that all potential sales cases are managed by case company's salespeople and offices, establishing clear boundaries for the partnerships. In Case 2, given that product know-how is not within core competence of case company, guidance regarding product Y's design requirements and suitable adjustments may be required from the partner. Nevertheless, case company remains the primary contact point, ensuring that discussions considering the product design are not visible to the customer.

In Cases 1 and 2.2, the allocation of liabilities regarding maintenance is straightforward, with case company bearing full responsibility. Case 2.1 currently follows a similar arrangement, but there is also the option to utilize the partner's service network in the future. This is particularly suitable for the marine sector, as the partner's network may be located in regions where the case company does not have its own network.

## **4.4 Risk management**

Risk management is a crucial aspect of the partnership creation process. By examining the risk management practices utilized in these cases, valuable insights can be gained into how risks can be effectively addressed and where these practices can be applied to ensure a feasible division of liabilities and an optimal operational level for the partnership.

#### **4.4.1 Diversification of risks**

In all cases, risks are diversified through the use of pilot cases. These pilot cases allow case company to assess both quality and technological risks. As previously mentioned, they can test the final product using its own testing protocols and evaluate quality along with technical details in advance. Ensuring technological compatibility is also crucial. Technical compatibility can be developed and aligned through pilot cases, and with pilot customers, it can be verified that customer requirements are met.

In Case 2.1, risk diversification is fundamental, as risks are mitigated by the fact that product Y is not solely dependent on this potential partner. Case company has another way to go to the market with the product. However, it is important to recognize that this approach may limit opportunities. Case 1 follows a similar strategy, as they has the capability to produce the product independently but faces the same market limitations as Case 2.1. In contrast, Case 2.2 does not have similar opportunities due to the high market competition in the region where it operates.

#### **4.4.2 Contractual terms**

As mentioned earlier, contracts provide the necessary structure to secure specific investments made by firms and outline the expectations and responsibilities of each partner (Ge et al., 2021). Contracts have been carefully managed in these cases. To ensure open communication and mitigate the potential risks of information leaks, all cases have involved the signing of NDAs with potential partners well in advance of finalizing partnership agreements.

Framework agreements have been also negotiated with the partners in case 1 and 2.2. Framework agreement is the general agreement between the partners that establish the terms, conditions and structure of the future collaboration. Its importance lies in providing a structured yet flexible approach to managing partnerships, ensuring clarity, alignment, and risk mitigation from the outset. Having a framework agreement in place is

essential for ensuring that partnerships are founded on clear terms, well-managed risks, and mutual trust.

The background interview provides valuable insights into this topic. In that case, the partners were contractually equal in the established joint venture. Case company was bound by the contractual agreements, which prevented the company from ramping up its own manufacturing and operational model until the joint venture was dissolved. In this case, this factor contributed significantly to gaining a foothold in the market, as the know-how and production facilities were the responsibility of the partner and therefore gave them an advantage in terms of continuing the operations faster compared to case company.

#### **4.4.3 Risk analysis**

All the cases began with a market analysis and an evaluation of potential suppliers, leveraging the knowledge gained from the market and insights from case company's experts who may have a deeper understanding of the suppliers. Subsequently, potential partners were contacted, and based on their responses and interest in collaboration, the number of options was narrowed down. This allowed for more detailed conversations to uncover the true motivations and opportunities that could be realized through these partnerships. As mentioned in the critical success factors section, the interest of the companies plays a crucial role in the success of the partnership, and these steps help mitigate the risk of conflicts.

Risks are evaluated not only during the initial phase of partnership formulation but also in the later stages. In Case 2.2, risk analyses were conducted with consideration of the partnership model specifications and the design options of product Y. Furthermore, risk analyses are also performed when defining the operational setup of the partnership model, where technical, supply chain, quality, and risk experts assess the risks and their implications. Respondent A describes a similar process for Case 1, highlighting the risk mitigation strategies employed in that case.

## 4.5 Financial feasibility

Case overviews are based on the business case outcomes. The business cases simulate the financial projections to provide a comprehensive understanding of future financial situation of the business if the proposed strategies and initiatives are implemented as planned. By projecting various financial metrics the business case provides a detailed forecast of the potential financial outcomes and moreover information about the case protected feasibility. This chapter provides the results of the analysis from the business case simulations.

### 4.5.1 Case 1

Figure 8 illustrates the summary made for case 1 based on the business case and therefore consider the product X. The grey bar in the figure illustrates the sales but the specific numbers are hidden from the public version of the thesis. The figure illustrates the key financial metrics of this case which are illustrated in the figure with different colored lines. Blue line illustrates the estimated contribution margin percent (CR%), purple fixed expenses margin percent (FE%) and green one earnings before interests, taxes and amortization (EBITA) margin percent. Note that this figure doesn't take into account the general market price reductions.

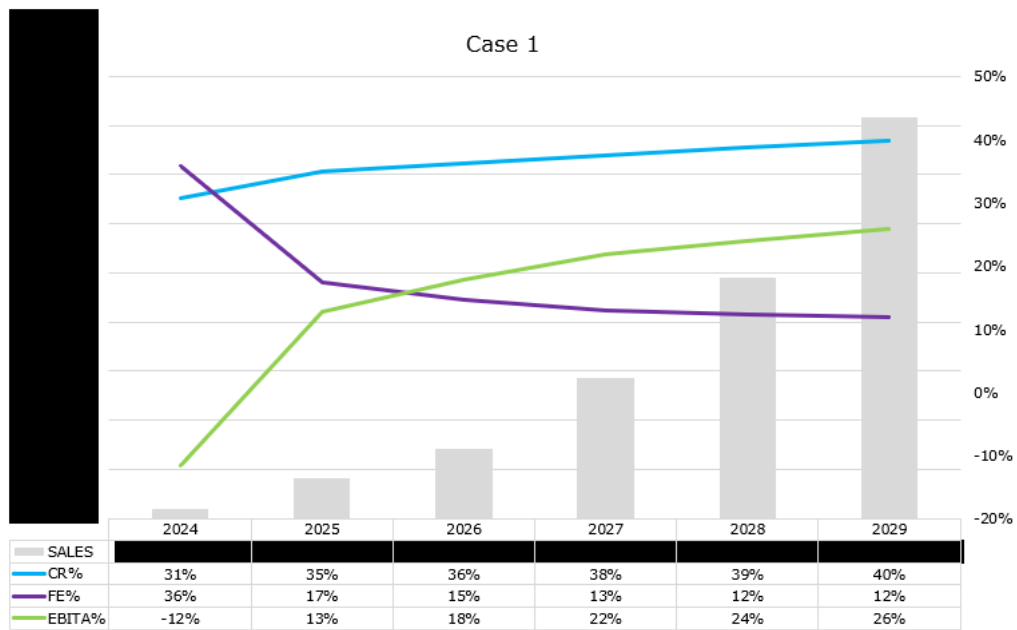


Figure 8. Case 1. Source: author

#### 4.5.1.1 Sales

The curve of increasing sales is drastic in this case. To illustrate this, sales in 2026 are projected to increase by 50% by the year 2027. This anticipated growth curve supports the growth strategy of this division of the company. The guideline for products of this nature emphasizes the importance of achieving substantial year-over-year growth to maintain competitiveness and meet market demand. To achieve this the go-to-market strategy is important, starting with a deep understanding of the target market, customer needs, and competitive landscape. The product must be ready and mature enough at the right time to win crucial customers, ensuring that its features, quality, and value proposition align with market expectations. This requires a well-coordinated effort across product development, marketing, sales, and customer support. Effective positioning, clear messaging, and strategic timing are essential to capturing early adopters and building momentum. Furthermore, leveraging the right distribution channels, pricing strategy, and partnerships can enhance market penetration and long-term success.

Additionally, background interview provided insights into successful business partnerships concerning sales ramp-up. In the background interview, a company managed to increase sales estimately by 100% annually. This growth was driven by the fact that the timing of the product launch aligned perfectly with market needs, as demand was booming and customers were actively seeking solutions that the product provided. This example underscores the potential for substantial growth when appropriate strategies are employed. Therefore, based on the estimated sales of Product X, the feasibility of this case appears promising. The projected increase aligns with both internal growth objectives and existing research in the field, suggesting that the division is well-positioned to capitalize on market opportunities and achieve its sales targets.

#### **4.5.1.2 Contribution margin**

An increase in contribution margin indicates that more revenue per unit of product will be available to cover variable costs and contribute to profits. A shift from 31% to 35% within one year suggests significant improvements in cost management, pricing strategies, and operational efficiency. Overall, compared to the 2024 baseline, the contribution margin development represents a 29% overall improvement by the year 2030. This steady growth sets a positive trajectory for the business's financial performance. However, achieving this will require strategic planning to manage variable costs, optimize pricing, and maintain competitive positioning.

#### **4.5.1.3 EBITA margin**

In contrast to contribution margin, EBITA includes both variable and fixed operating costs. This allow to make a deeper analysis considering the business performance evaluation. In case 1, the EBITA margin rises drastically year by year. This is supported by the drop in fixed expenses while variable costs are estimated to be the same in both years. The objective is to reduce fixed costs from 36% to 12%.

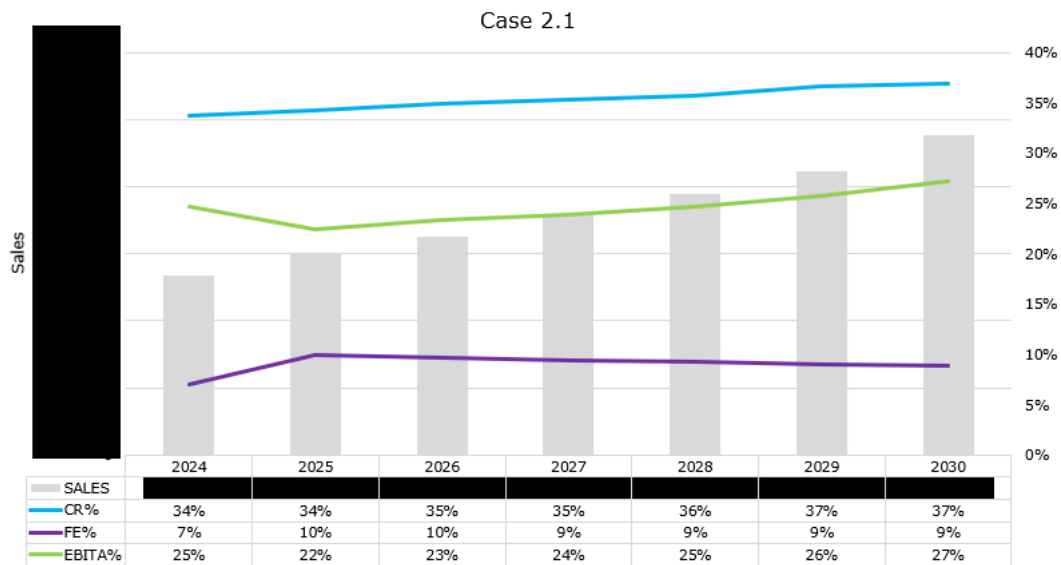
Reducing fixed costs has a significant indirect impact on the company's overall profitability and operational efficiency, which complements the improvement in contribution margin and moreover in EBITA margin. Consequently, the break-even sales volume decreases, enabling the company to achieve profitability at lower sales levels. This amplifies the benefits of a high contribution margin, as each unit sold contributes more swiftly toward profit.

2% costs reduction is calculated for the product costs every year. By systematically lowering product costs each year, the company can improve its cost structure and increase the contribution margin and moreover EBITA margin which will positively impact the overall financial performance.

EBITA margin is turning positive after year 2024. This means that the company's core operations are generating enough revenue to cover operating expenses (variable and fixed costs) and start contributing to profitability (before considering interest, taxes, and amortization). This can be considered to be the operational break-even point.

#### **4.5.2 Case 2.1**

Figure 9 presents a summary of the business case developed for Case 2.1, highlighting the strategic product combination proposed in this scenario. The grey bar in the figure illustrates the sales but the specific numbers are hidden from the public version of the thesis. The figure illustrates the key financial metrics of this case which are illustrated in the figure with different colored lines. Blue line illustrates the estimated contribution margin percent (CR%), purple fixed expenses margin percent (FE%) and green one earnings before interests, taxes and amortization (EBITA) margin percent. Note that this figure doesn't take into account the general market price reductions. Specifically, the business case outlines the integration of Product Y with the company's proprietary product, forming a bundled offering intended for joint sales. This has been done in order to get the most realistic assessment of the partnership's potential.



**Figure 9.** Case 2.1. Source: author

#### 4.5.2.1 Sales

The anticipated sales curve illustrates the sales acceleration. The average annual sales increase percentage is 10% per year. Overall, the sales is estimated to increase by 4,16 million euros over the years. This requires capacity to scale operations and adapt to dynamic market conditions. Achieving consistent growth rates around 9-12% annually suggests the company is maintaining or increasing its competitive edge in the market.

#### 4.5.2.2 Contribution margin

The trend in the contribution margin curve is positive, similar to that observed in Case 1. The total increase in contribution margin is expected to be 3% over the years. However, with an average contribution margin of 35%, the product does not meet the company's set guideline for profitability targets. This shortfall highlights the need for strategic adjustments to align the product's contribution margin with the company's profitability benchmarks.

#### **4.5.2.3 EBITA margin**

In this case the EBITA curve is estimated to drop in 2025 and after that it is raising again to the same level as in 2024 and beyond that after that.

Since this business case represents additional business for IDPC, the topline revenue of the product exceeds the target. Consequently, allocated fixed expense costs are not required for Product Y. This significantly reduces the total amount of fixed expenses attributed to the product combination. This is due the fact that the case company doesn't have to use the resources for example to production. As a result, the product combination benefits from a leaner cost structure, resulting in greater EBITA margin.

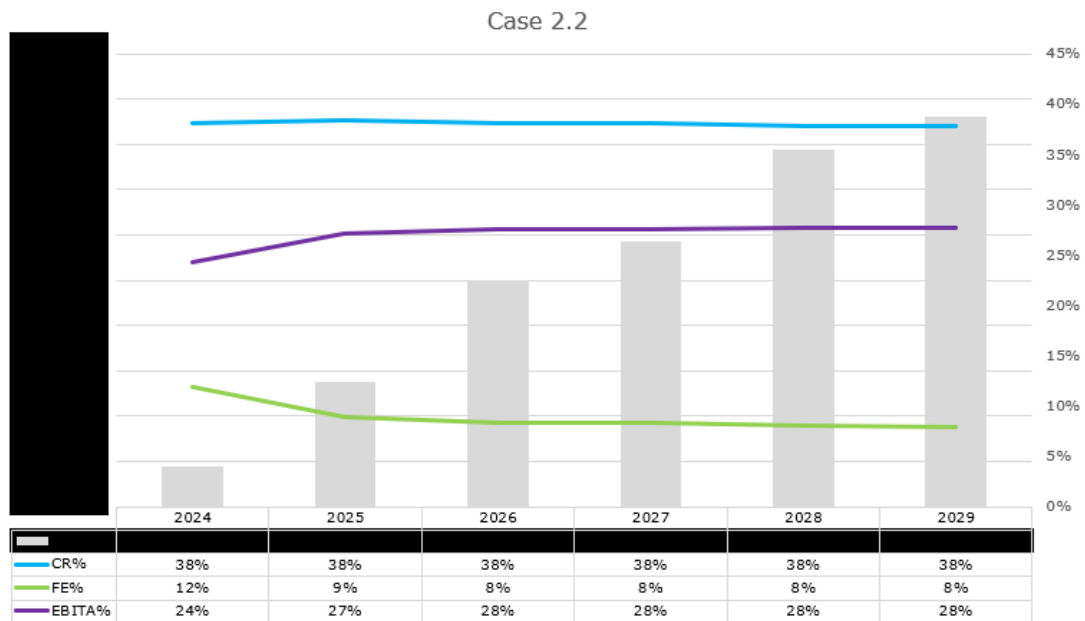
By not allocating additional fixed expenses to Product Y, the company can focus on leveraging the product's topline revenue performance to improve its financial contribution. This approach also enhances the overall scalability of the product combination, as reduced fixed expenses lower the break-even point, making it easier for the product to achieve and sustain profitability at lower sales volumes.

Like discussed earlier in the study this partnership enables to sell more our core market products. Without having these products available, the company will lost in average 57% of the sales illustrated in Figure 9. In summary, while the contribution margin for Product Y may fall short of profitability guidelines, the absence of allocated fixed expenses, coupled with strong topline revenue, ensures that the product combination delivers a net positive impact on the company's financial performance.

#### **4.5.3 Case 2.2**

Figure 10 illustrates the case 2.2 numbers. Similarly, as in Case 2.1, the business case highlights the strategic product combination proposed in this scenario. It shows the case based on the integration of Product Y with the company's proprietary product. This has been done to get the most realistic assessment of the partnership's potential. The grey

bar in the figure illustrates the sales but the specific numbers are hidden from the public version of the thesis. The figure illustrates the key financial metrics of this case which are illustrated in the figure with different colored lines. Blue line illustrates the estimated contribution margin percent (CR%), purple fixed expenses margin percent (FE%) and green one earnings before interests, taxes and amortization (EBITA) margin percent. Note that this figure doesn't take into account the general market price reductions.



**Figure 10.** Case 2.2. Source: author

#### 4.5.3.1 Sales

The anticipated sales curve is growing 71% in average year by year. The most drastic curve is in the beginning of the partnership where the sales is expected to grow over the year by over 200%. Compared to case 2.1, the growth of the business is not as linear as in that case. To achieve consistent year-over-year (YoY) sales growth, the company must maintain and develop the strategic, operational and customer-oriented areas of the partnership successfully.

#### **4.5.3.2 Contribution margin**

Unlike in the previous two cases, the contribution margin remains the same, resulting in a stable curve. Given the stability of the contribution margin and relative small variable costs, this scenario presents an optimal condition for maintaining profitability considering this financial metric.

#### **4.5.3.3 EBITA margin**

This case utilizes similar logic to Case 2.1, and additional allocated fixed expenses are not needed. Therefore, fixed expenses remain at a feasible level, supporting the profitability targets. The EBITA margin is expected to grow 4% in total over the years illustrated in Figure 10.

As this case also works as a business enabler for a growth division of case company, its strategic alignment becomes critical. By focusing on scalability and operational efficiency, the initiative underpins the broader objective of achieving sustainable market expansion. The division's ability to leverage existing resources without incurring significant fixed cost increments ensures that the business remains agile in responding to evolving market demands. Overall, the EBITA margin supports and is aligned with the divisional growth targets.

## **5 Discussion**

This section covers the interpretation and analysis of the research findings, relating them to the existing body of knowledge and highlighting their theoretical and practical implications. The discussion also highlights the practical applications of the research, providing recommendations for businesses. The purpose of this chapter is to provide a critical discussion of the results obtained from the study, examining how they align with or differ from previous research and theories presented in the literature review. In addition to exploring the contributions of the study, this section also addresses its limitations, offering suggestions for future research that could build upon the findings presented.

### **5.1 Main findings**

#### **5.1.1 Proposed business partnership models for the case studies**

The suggested business partnership model for the first case is the Contract Manufacturing (CM) model. This model is chosen because it is well-suited for partnerships aiming at cost reduction. It allows organizations to leverage the manufacturing partner's expertise, economies of scale, and established infrastructure. The CM model also helps convert fixed expenses into variable expenses, although it is noted that the partner will not manufacture the entire product, as in-house manufacturing is the final step of the process.

For case 2.1 and 2.2, the proposed business partnership model is the Original Design Manufacturing (ODM) model. This model involves collaboration where one partner is responsible for designing and manufacturing the product, while the other partner focuses on branding, marketing, and distribution. The ODM model facilitates accelerated product development cycles and emphasizes collaboration. However, modifications to the standard model are necessary to align with the case company's objectives concerning product ownership. This includes incorporating specific contractual terms to secure

product ownership through an agreement that covers development costs based on customer specifications.

### **5.1.2 Theoretical implications**

The findings of this study provide robust support for the theoretical frameworks presented in the literature review. Study findings support that outsourcing decisions is tied to TCE by showing that firms outsource to reduce costs, while also tied to RBV by highlighting that firms retain core competencies in-house to preserve competitive advantage.

Transaction costs reductions are visible in supplier findings and negotiations. Out of two in three cases transactions costs can be used by using local partner who has better supplier network. However, relatively few of the study's findings can be considered to support this theory. Considerably more found links with the RBV theory.

The Resource-Based View (RBV) theory is visible in all the cases, as decisions regarding outsourcing or retaining activities in-house are shaped by a firm's standing in key commercial factors such as product ownership, product portfolio, market position, and branding. These factors determine which resources and capabilities are considered strategically valuable and should be kept internal to maintain competitive advantage, while less critical operations are outsourced to optimize efficiency.

The results of the study accompany Sandhu's and others (2018) theory about customer-competence matrix (Figure 1). The differences between cases in commercial factors guide the cases to different directions regarding the business partnership liabilities set up. In case 1 since the design is originally owned by the case company, the IPR concerns are raised and therefore part of the production is kept inside to secure it. Based on the customer-competence matrix the solution would be keep this business in-house. However, the case company has partnered with the long-term partner according to the part of manufacturing that doesn't include the manufacturing of critical parts. Therefore,

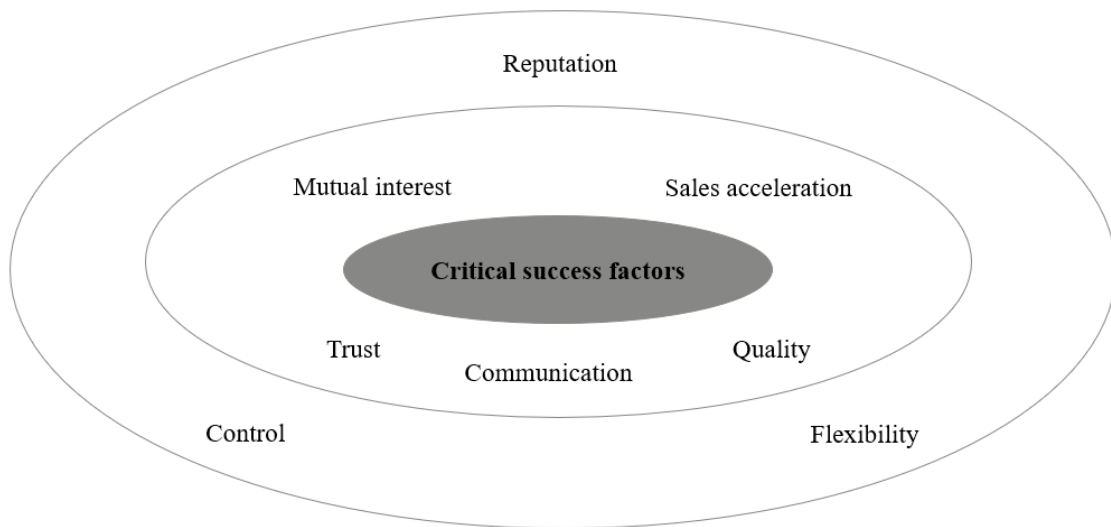
based on the customer-competence matrix the product X would be a mix of long-term partnership and in-house production.

In turn, in case 2 the commercial analysis based on the interview results showed that the case company's core competence doesn't lie in this product category and the technology of the product is unfamiliar. However, the importance to customers is the baseline for this business partnership formulation and therefore play a crucial role in this case. Based on the customer-competence matrix it is easy to define that this partnership should be fully a part of the long-term partnership option.

Also, as mentioned earlier and as highlighted in the literature, is that it is more difficult to generate profitability in ETO business compared to mass production (Hicks & McGovern, 2009). Since the customer requirements vary a lot in the cases they are considered to be ETO business since the changes are mandatory. This is a factor that must also be taken into account when forming and developing partnerships.

### **5.1.3 Critical success factors**

Based on the study findings, this research proposes that the critical success factors of the business partnership should be defined as illustrated in Figure 11. Critical factors are located in the inner circle. As Camilleri (2011) explains, these factors serve as prerequisites for the success of a business partnership. To realize these critical success factors, the study identifies supporting factors, represented in the outer circle of the figure, which facilitate critical success factors achievement. The differentiation between core and supporting factors is achieved by generalizing the findings across various cases. Case-specific factors are identified, and the balance is tried to find to be able to support as many cases as possible.



**Figure 11.** Critical success factors and supporting factors. Source: author

The study findings prove that critical success factors have interdependencies with one another and therefore needs careful balancing through the whole partnership. The findings show that the trust is a key pillar and without clear and open communication about the expectations towards the partnership the partnership is higher to fail. This argument is supported also in the literature by Kim (2003) and Li (2021). Quality is a top priority for the case company and therefore play a crucial role in the business partnership formulation also. Without high-quality products manufactured by the partner the case company will lose interest towards the partnership fast and trust is lost in this case too.

Mutual interest and sales acceleration are identified as critical success factors based on the study results. Mutual interest and the alignment of agreed goals toward the partnership play a crucial role in evaluating the success of cooperation. If the sales acceleration targets and other agreed goals for the partnership are not achieved, the financial feasibility will be compromised, thereby undermining the prospects for the partnership. If the estimated sales acceleration targets aren't be met, modifications to the operations must be made to secure the sustainability and continued success of the collaboration.

The supporting factors create valuable tools for companies to influence to the critical success factors indirectly. Control, reputation and flexibility are identified as supporting factors in this study. In contrast to critical success factors, these can be implemented to the partnerships, and the results can be visible in short-term. Critical success factors take more time form, and their formation can be the sum of several supporting factors. Also, they are more case-specific and not universally central to a product's success.

Balancing the CSFs and supporting factors on a continuous flow is essential for the business partnerships. While CSFs establish the foundational prerequisites for success, supporting factors play a dynamic role in ensuring these critical elements are continuously reinforced. This balance requires adaptability and an ongoing evaluation of both internal and external conditions affecting the partnership.

#### **5.1.4 Share of liabilities**

Liabilities should be shared between the partners based on the desired commercial setup which is based on the commercial factors presented in the case. This allow sharing the liabilities based on what is requested from the partnership. This approach also supports the equitable sharing of responsibilities, ensuring that each partner assumes liabilities proportional to their role and contributions within the partnership. By aligning liability allocation with the partnership's goals and expectations, companies can foster trust and open communication, both of which are essential for long-term collaboration. The case studies demonstrate that liability-sharing mechanisms must be adaptable and tailored to the unique needs of each partnership.

In case one, the main initiative for the partnership is the cost-reduction of the product. Based on the other features of this case the suggested business partnership model for this case is to form a business partnership following the contract manufacturing model. The CM model is well-suited for this partnership because it prioritizes cost reductions. As discussed earlier by Matope and Mahove (2021) it enables organizations to leverage

the manufacturing partner's expertise, economies of scale, and established infrastructure.

The business case also supports the use of CM model as a business partnership model in case 1 based on the ability to convert the fixed expenses into variable expenses as discussed earlier by Hsiao and Chen (2013). However, it must be noted that since the partner won't be manufacturing the whole product the CM model can't be applied to consider the whole product manufacturing. Nevertheless, the process won't be too complex since the in-house manufacturing is the last step of the manufacturing process.

In cases 2.1 and 2.2 the proposed business partnership model is the original design manufacturing. As discussed by Chen and Shen (2010) this model emphasizes collaboration where one partner takes responsibility for designing and manufacturing the product, while the other partner focuses on branding, marketing, and distribution.

The ODM model leverages the strengths of both partners, facilitating accelerated product development cycles. However, modifications to the standard model are necessary to align with the case company's objectives regarding product ownership. By incorporating case-specific contractual terms, product ownership can be secured through an agreement to cover the development costs for product design based on the customer's specifications. This tailored approach, combining the ODM model with specific contractual provisions, is the most suitable strategy for the case company's goals. Moreover, the presented commercial setup emphasizes liability-sharing in alignment with each partner's core strengths. As outlined earlier in this study, the case company has limited experience within this product category, making this model the most efficient utilization of both organizations' resources. This synergy ensures that the partnership remains strategically aligned while delivering mutual benefits.

### **5.1.5 Risk management**

Risk management is taken into consideration via diversifying the risks, contractual terms and risks mitigation methods. Partnerships inherently involve uncertainties that can impact financial performance, operational efficiency, and strategic alignment. Addressing these risks through diversification, clear contractual terms, and mitigation methods ensures the stability and resilience of the partnership.

Like Zeng and Yen (2017) define that global partnerships not only generate great business opportunities, but the risks also grow at the same time. Therefore, the holistic risk management is a key element in the business partnership formulation process. In this study, the actual methods in this area consisted of NDAs and FWAs. In addition, market and risk analyses were conducted.

### **5.1.6 Financial feasibility**

Ensuring the financial feasibility of a business partnership requires a thorough evaluation of the proposed partnership's key financial metrics in relation to the organization's financial and strategic targets. This alignment is crucial to ascertain whether the partnership will contribute positively to the company's overall financial health and strategic goals.

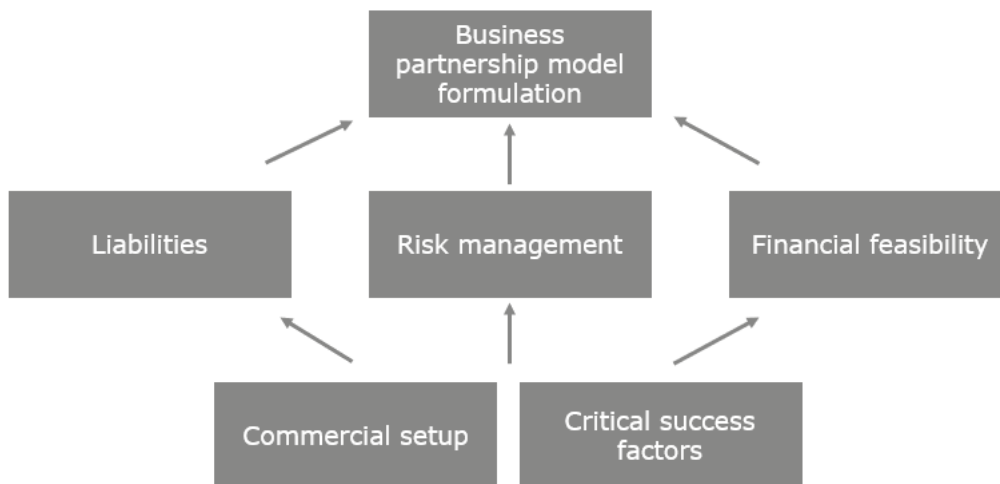
Financial feasibility is not a one-time assessment but a continuous process. Regular monitoring of financial performance through key performance indicators (KPIs) ensures that the partnership remains on track to achieve its financial targets. Adjustments to the partnership structure or operations may be necessary to address deviations from the projected performance.

Although the business cases do not meet the company's financial targets across all assessed indicators, they are nonetheless justified in terms of strategic objectives for

supporting these selected business cases. Given that it is a growth division of the case company, it is deemed reasonable to invest in the identified market hotspots.

## 5.2 Managerial applications

The findings of this study provide valuable insights for managers seeking to create, optimize, and sustain business partnerships. Therefore, based on the results this study proposes the following process model and is illustrated in Figure 12. This process can be applied to any business partnership formulation process. However, it may include some limitations that are discussed in the limitations section.



**Figure 12.** Proposed business partnership formulation process. Source: author

The commercial setup and critical success factors establish the foundational requirements for the proposed business partnership and serves as the starting point for the partnership formulation process. Following this, it is essential to ensure financial feasibility, implement appropriate risk management processes, and define liabilities in a

manner that aligns with the partnership's strategic objectives. These elements are considered equally significant, as the absence or inadequacy of any factor could result in an imbalanced process, jeopardizing the partnership's overall success. By addressing these core areas, the business partnership can be formulated with a high degree of confidence and security. This approach ensures that the partnership formulation process is both comprehensive and aligned with the strategic goals of all involved parties, thereby increasing the likelihood of long-term success.

Balancing these factors is essential for ensuring the long-term success of the partnership. Therefore, this study recommends that the formulation process should be revisited whenever changes occur in any of the key factors during the partnership. This continuous review allows for timely adjustments to be made, ensuring that the partnership remains aligned with its objectives and is adaptable to evolving circumstances. By adopting this proactive approach, potential flaws or imbalances in the partnership can be identified and mitigated before they escalate, thereby safeguarding the partnership's sustainability and effectiveness over time.

In addition, the continuous monitoring and the development of partnership is desirable. Regular assessment allows both partners to track progress, identify potential challenges, and make necessary adjustments to stay on course. By monitoring KPIs and revisiting CSFs, companies can determine whether the partnership is delivering the desired results and whether any recalibration is required.

Even though the critical success factors are described as a first step in the business partnership formulation process, they effect in every step of the partnership process. When CSFs are properly established and in place, they significantly enhance a company's ability to form a feasible and successful partnership.

### **5.3 Study limitations and future research directions**

This study, being a case study, is subject to certain limitations that should be acknowledged. The findings are based on only a few cases and are therefore inherently tied to the sampling within the selected case context. As such, the results may not be directly generalizable to all settings or industries due to the specificity of the case examined. Even though the process model (Figure 12) is applicable to all the cases presented in this research, it may contain flaws considering the factors that should be taken into account when forming a new business partnership. All the factors may not have been identified in this study and additional is needed to verify this.

Due to the explorative nature of this research, the phenomenon was approached with a relatively broad scope. This wide scope encompassed multiple aspects of the business partnership process, including critical success factors, financial feasibility, risk management, and liability-sharing processes. While this broader approach allowed for a comprehensive understanding of the subject, it may have overlooked more granular insights that could emerge from a narrower focus.

Future research could fulfill the presented gaps in this study by investigating specified and more narrow factors that affect in the business partnerships. For example, industry-specific factors should be investigated on deeper level. Via this, more factors could be identified and added to the process. Further research could focus on specific region or product category and examine would the results be similar and if not, the reasons behind that. In addition, the impact of cultural factors should be further explored.

Moreover, future research could delve deeper into the area of risk management within business partnerships. Specifically, a more detailed exploration of risk management tools and practices is warranted, as effective risk management represents a cornerstone in the formation of successful partnerships. By building upon the findings of this study, future research could aim to renew, clarify, and refine existing risk management processes. For example, new risks diversifying, contractual and risk mitigation methods could be

explored to support the creation of stronger risk management. This would not only enhance the efficiency and effectiveness of these processes but also facilitate the development of partnerships with reduced risk exposure. A more rigorous understanding of risk mitigation strategies could offer organizations improved frameworks for addressing uncertainties and ensuring the long-term sustainability of their collaborations.

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## Appendices

### Appendix 1. Interview outline

#### *Introduction*

1. *Please introduce yourself, your area of responsibilities and background related to the topic.*
2. *What is your specific role in this case study?*

#### *Business partnership background*

1. *Could you describe your experience working with business partnerships?*
2. *In your opinion, what is the key motivation for entering into this partnership?*
3. *How would you define a successful business partnership?*
4. *What are the primary objectives you aim to achieve through this partnership?*

#### *Product information*

6. *Is the product part of your core product portfolio?*
  - *Why or why not?*
  - *Does this factor affect to the expectations towards the partner & how?*
7. *What value partner can bring into the product?*
8. *Who holds the design ownership of the product?*
  - *How will the product's intellectual property rights (IPR) be safeguarded?*
9. *Do you plan to include the partner company's brand label on the final product?*
10. *How will liabilities be shared with the partner? (for example, testing, customer service & maintenance)*

#### *Critical success factors of the business partner*

11. *What are the most important factors in succesful business partnership and why?*
12. *What role does trust play in ensuring the success of this partnership, and how do you work to build and maintain it?*

13. *How important is clear communication in this partnership, and what methods are in place to facilitate effective communication?*
14. *How does flexibility in adapting to changing market conditions affect the success of the partnership?*
15. *How important is the partner's commitment to quality, and how do you ensure that quality standards are met?*
16. *What role does innovation play in the partnership, and how do you encourage continuous improvement?*
17. *How critical is your partner's reputation or standing in the industry? How about global footprint?*
18. *How do you evaluate your partner's operational capabilities, and how do these impact to the partner selection?*

#### *Risk management*

19. *What risk management strategies are in place to handle uncertainties in the partnership?*
20. *How do you evaluate & mitigate operational risks in partnership?*

#### *Financials*

21. *Do you have specific criteria how you evaluate financial the success of business partnership?*
22. *How do you evaluate & mitigate financial risks in partnership?*