The Influence of Resource Dependency Tolerance on Inter-organisational Alliance Governance

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Abstract. The potential of inter-organisational alliances is well recognised but not always realised. An appropriate governance structure has been identified as an important contributor to success. However governance research has typically not examined influences on the *coverage* of an alliance and how they are reflected in the governance structure put in place. Based on resource dependency theory it is suggested that organisations have a resource dependency tolerance level and that this will manifest itself in the scope and depth of an alliance. Given the extent of any dependency is determined by a combination of the importance of a resource, the degree of control by another and the availability of alternatives these factors are key considerations when organisations are constructing an alliance governance structure. An exploratory case study of a local government alliance in Australia is presented to illustrate the proposed connection between resource dependency tolerance and alliance governance structure. The case also highlights that not all participants in an alliance will necessarily have the same resource dependency tolerance level and that this can make it difficult to agree upon the coverage of an alliance and its associated governance structure.

Keywords: Governance, resource dependency theory, shared services partnership, local government, alliance.

1 Introduction

The benefits of inter-organisational alliances and the contribution of information systems to those alliances have long been promoted in the literature [30], [11], [1]. Such alliances are seen as leading to increased efficiency and improved service delivery [20] and are increasingly prevalent in the public as well as the private sector [18] [29]. Many inter-organisational alliances though fall short of meeting their expectations [2]. In particular alliances are seen as difficult to manage [9], [38] with partners often being heterogeneous and with a diversity of interests and priorities [33]. Provan and Kenis [34] emphasised the importance of governance to the effective operation of interorganisational alliances yet also suggested that there is a paucity of academic research in the area. With the governance aspect of particular interest here being the *coverage* of an alliance – its scope and depth – it is proposed here that adopting a resource dependency perspective will provide improved understanding of why particular choices are made.

Resource dependency theory typically focuses on how organisations manage *existing* dependencies within their operating environment through the development of relationships with other organisations [31]. Where organisations are creating alliances to perform activities that were previously performed internally the emphasis shifts to the creation of new dependencies [6]. At the point of formation organisations have an opportunity to determine the *degree of dependency* they are prepared to accept. It is argued here that organisations will have a specific dependency tolerance which will be reflected in the governance structure put in place – in particular as it relates to the *coverage* of the alliance.

Shared Services Partnerships (SSPs) are the inter-organisational alliance form of specific interest here. At a broad level the concept of shared services is the aggregated provision of back-office services [35], [42], [26] typically underpinned by ICTs [16]. Shared services have been promoted as an area offering enormous potential with authors such as Schulman et al [36], Kagelmann [22] and Ulbrich [42] suggesting they provide an effective mechanism to deliver improvements in support processes. In the public sector, they are seen as a core element of reform efforts [3] and a key plank of eGovernment initiatives [37]. The potential to extend the benefits of shared services by aggregating activities across small government agencies and departments has led to the formation of multiple SSPs [3], [21], [42]. As with other forms of inter-organisational alliances such initiatives have often failed to realise their potential [41] with the SSP's governance structure being seen as an important influence on success [21]. As such it would appear to be of value to improve understanding of SSP governance structures and why specific choices are made.

The remainder of the paper comprises two sections. The first provides a brief introduction to governance and highlights the need to extend research beyond examining the *mechanics* of governance *within* an organisation to consider the governance of alliances *between* organisations – and in particular governance choices related to the coverage of a relationship. Resource dependency theory is proposed as a potential way of explaining why the coverage of inter-organisational relationships differ. It is suggested that the *resource dependency tolerance level* of the parties to an alliance will be a key influence on governance choices related to the *scope* and *depth* of that alliance. The second section presents the results of an exploratory case study designed to show how the proposed approach can be used to understand the choices made by one SSP.

2 Governance, Resource Dependency Theory and the Relationship between the two

2.1 Governance

A useful overarching view of corporate governance is provided by Keasey and Wright [23] who consider it to be a framework for the effective regulation, monitoring and control of companies which allows for alternative internal and external mechanisms for achieving the underlying objectives. The Cadbury Committee [8] similarly considers corporate governance to be “the system by which companies are directed and controlled” (p15).

Organisations such as the IT Governance Institute [ITGI] [19] though have increasingly recognised that governance matters are not necessarily constrained to the boundaries of a single organisation while also suggesting that governance becomes more complex and challenging when one moves beyond those boundaries – “In the extended enterprise environment there is no standard pre-existing governance structure” (ITGI, 2005, p67). Where research has investigated inter-organisational governance it has typically focused on the construction and operation of rules i.e. direction and control [5], [24]. Yet, and in contrast to traditional company level governance the entity being defined is not a well accepted, pre-defined given. As such issues surrounding the choice of activities to be provided by an alliance i.e. its coverage should also be examined. Authors such as Heide [17] and Frazier [14], for example, suggest that the initial *choices* regarding an alliance and associated governance structure – in particular those concerning the extent of the relationship – have profound implications for subsequent performance. Provan and Kenis [34] have identified a number of influences on the emergence and effectiveness of inter-organisational governance structures – specifically trust, number of participants, goal consensus and the nature of the task. They note however that while their selection explains some of the variance in the choice of one structure over another it is neither comprehensive nor systematic. Resource dependency theory offers the potential to provide the basis for a more comprehensive analysis.

2.2 Resource Dependency Theory

Building upon work in social exchange theory [12], [40] the central proposition of resource dependency theory is that an organisation’s survival is influenced by its surrounding social, political and task environment and hinges on its ability to procure critical resources from that environment. Such resources can be tangible or intangible and include capital resources, information, leadership, guidance and institutional legitimacy [28]. To secure the flow of needed resources, organisations try to restructure their dependencies and exchange relationships by establishing links with other organisations [43] that seek to deliberately increase the extent of coordination [17], [10].

Pfeffer and Salancik [31] argue that for any specific resource the degree of dependency of an organisation is a function of the importance of it to the organisation and the available sourcing options. Specifically it is determined by:

- The *importance* of the resource to the survival of the organisation
- The extent to which the resource is *controlled* by another
- The extent to which there are *alternative* sources of supply

While the bulk of research focused on resource dependency has examined the management of *existing* dependencies it has been recognised that it is important to also consider the establishment of *new* dependencies where internal activities are moved outside the boundaries of an organisation with the formation of outsourcing arrangements or the creation of collaborative alliances. Provan [32] suggested that a cost of developing collaborative activities is the loss of operating autonomy and Gray and Wood [15] argued that it was therefore necessary to maintain a balance between collaborative dependency and organisational autonomy. Kumar and van Dissel [25] argue that a combination of the activities shared and the coordination mechanism put in place determines the degree of dependency.

2.3 Resource Dependency Tolerance and Governance

Blending a consideration of governance and research dependency it is suggested that when organisations enter into a collaborative alliance they need, at the outset, to specify a governance structure that not only considers how the venture will be directed and controlled but also, and more fundamentally, what resources will be *included* and the *depth* of collaboration sought. It is felt that the determinants of dependency identified by Pfeffer and Salancik [31] – importance, control and alternatives – effectively capture the essential aspects of both the scope and depth of the relationship. Considering them within a context of establishing an alliance should assist organisations in identifying appropriate points of focus when deciding upon the coverage of that alliance and constructing the governance structure that will regulate that coverage – see Figure 1. Specifically given a particular tolerance an organisation will seek to construct an alliance that creates the matching resource dependency.

Fig. 1. Resource dependency tolerance and governance structure

A brief outline of each dependency determinant is given below:

- Resource importance

Pfeffer and Salancik [31] suggest that there are two aspects to the importance of a resource, the proportion of an organisation's inputs it represents and its criticality – or the ability of an organisation to function without it. With regard to the latter, a narrower focus is provided by Wernerfelt [44] who differentiates between non-core and core resources – the latter being the source of an organisations competitive advantage.

- Resource control

Pfeffer and Salancik [31] suggest control relates to the ability to impose restraints on the possession, allocation and use of a resource. Brennan and Buchanan (1985) argue the importance of carefully constructing the rules that relate to a relationship – and hence the control of resources – while Willcocks et al [45] have examined and classified different types of relationship contract on the basis of how comprehensive and rigid they are.

- Resource alternatives

Pfeffer and Salancik [31] suggest dependency is influenced by the availability of alternative sources of a resource – and whether an organisation has the ability to

transfer its business to them. A key concept from transaction cost theory – asset specificity – assists in understanding the determination of transferability. Asset specificity is where an asset is highly specialised and of value only in relation to a particular transaction or relationship [46]. Its existence thus limits the ability of an organisation to move between business partners.

3 Methodology

Having outlined the proposed relationship between dependency and governance¹ empirical research was conducted to determine whether it helped to enhance understanding of why and how inter-organisational alliances – in particular SSPs – are constituted the way they are.

Given the exploratory nature of the research a case study based approach was determined to be appropriate [4], [39]. Australia was chosen as the location for the case since it has been recognised as an early adopter of shared services in the public sector [26]. While the specific locus of study was the New England Strategic Alliance of Councils (NESAC) the perspective from which dependency was assessed was that of each of the four councils participating in the alliance. As such interviews were conducted with the General Manager of each council, each being between one and two hours in duration. Between one and three follow up interviews were subsequently conducted with each interviewee. A semi-structured interview protocol was followed to introduce a degree of commonality while minimising the potential for overlooking any unique aspects [13]. Interviews were also supplemented by a review of publicly available, and interviewee provided, documentation to enhance the ability to triangulate data and corroborate the perspectives provided [47]. With regard to analysis, data was coded in terms of its relationship to the governance and resource dependency related concepts identified² – an approach in accord with the recommendations of Miles and Huberman [27] and Yin [48] who suggest organising data “around the substantial topics of the case study” (Yin, 1981, p60).

4 Results

4.1 History

In 2004 the Department of Local Government (DLG) moved to amalgamate the councils of Armidale-Dumaresq, Uralla, Guyra and Walcha in the Australian State of New South Wales. In response the councils proposed a strategic alliance – NESAC – to develop and provide shared services as an alternative. Based on the principles of efficiency, performance and autonomy it was proposed that NESAC would:

- Identify one-off savings of \$1.3m and subsequent annual savings and benefits of at least \$1.7m across fourteen identified functional areas of focus.

¹ As it relates to establishing the scope and depth of an inter-organisational relationship.

² Specifically resource dependency tolerance, resource importance, resource control and resource alternatives.

Those areas were: community services, customer service, finance and budgets, human resources, information technology, land information and GIS, loans and investments, internal audit and risk management, plant and fleet operations, records, regulatory and planning functions, review, supply and procurement, works operations.

- Implement a performance management system to measure increased service levels, new services provision and implement a sustainable approach to asset management.
- Protect local employment and economic activity.
- Retain local autonomy and representation.

After strong lobbying by the councils and the local parliamentary representative the DLG agreed to defer amalgamation with the condition that NESAC was implemented successfully³.

NESAC was established under an initial four year period and structured such that the General Manager of each council had a portfolio responsibility for the delivery of specific shared services. Those services were to be supplied by the host council and sold to the other councils. In addition each General Manager would retain responsibility for the delivery of services outside the remit of NESAC to their local council. At the outset shared service provision was proposed for fourteen functional areas and a business case was prepared for each one. After realising benefits from the initial reorganization, recurrent benefits were expected to be realised principally through reduced duplication, increased productivity and streamlined council functions. An advisory committee comprised of the Mayor and Deputy Mayor of each council was also established with each member having equal voting rights. Resolutions passed by the advisory committee also need to be ratified by the individual councils.

Combined the four councils serve a population of over 40,000 across an area of 18,140 sq km with a budget of \$75 million. Out of a total of 649 staff approximately 90 work in shared service teams. From the outset it was specified that there would be no forced redundancies and no forced relocations of staff.

In February 2009 Walcha council withdrew from NESAC. Subsequently two of the remaining councils determined not to extend their involvement beyond the renewal date of October 2009.

4.2 Resource Dependency Tolerance

The resource dependency tolerance level of each council was subjectively assessed at a holistic level following discussion with interviewees regarding their attitudes towards collaborating with one another. Table 1 illustrates the levels and differences. In particular there was an overarching desire in some instances to preserve autonomy.

"I think mainly because they could see an erosion of their power and influence to go any further than that and certainly wasn't supported at a political level because they wanted to keep autonomy." Council A

"They wanted to actually create business units within the individual councils to deliver shared services and we didn't want a bar of that because obviously we didn't want services centralised any way, shape or form" Council D

³ The New England Weeds Authority was also included as a member of NESAC.

Table 1. Resource dependency tolerance levels with respect to NESAC

Council	Resource dependency tolerance level
Council A	Very High
Council B	Low
Council C	High
Council D	Very Low

The construction of NESAC's governance structure along the dimensions of *resource importance*, *resource control* and *resource alternatives*, as outlined below, can therefore perhaps best be understood as an attempt to accommodate the differences rather than a reflection of a particular, consistent level of resource dependency tolerance. Indeed the positions of the individual councils with regard to their preferred position along each dimension varied significantly.

4.3 Resource Importance

While NESAC supplies a number of services there was considerable disagreement regarding what its focus should be.

"they wished everything to be shared services right across the board. They wanted everything and we said we didn't want everything. Some services we wanted to be delivered locally" Council D

"Each service has a different footprint" Council B

Some interviewees suggested NESAC should only provide back office services

"I think there's some services that don't add value to the ratepayer. They don't care where they get their rate notices from. I think a lot of those types of things lend themselves to shared services .. those back office type functions. I have a little bit of a different opinion when it comes to the engineering services, all those types of things. I think the ratepayer would notice a difference if he couldn't come in here and talk to an engineer I think it makes a difference to the ratepayer then if he loses that local part of those services." Council B

While others disagreed

"if we can get together and do a road in 2 weeks not nine months they are going to be happy" Council C

Interviewees also highlighted that for a particular activity there can be variations with regard to the extent to which it is included – it is not an all or nothing prospect. The consensus however was that NESAC did not really contribute to the main activities of the councils.

“In engineering we came together to develop policies and share ideas but everyone wanted to keep control of their assets” Council A

“While IT and admin are costly they are nothing compared to engineering which NESAC scarcely touched. I mean engineering is phenomenal. We spend 70% of our money on engineering” Council C

4.4 Resource Control

NESAC’s control of resources was universally seen to be weak. Decisions could not be imposed. Councils could retain services and even maintained a degree of “influence” over those that were transferred to NESAC.

The formal NESAC charter sought to accommodate the varying perspectives of the four councils and was seen as being ineffective and open to interpretation.

“Every time somebody said I don’t like that their, I don’t know, desires were accommodated...which makes everything weaker because you try and do everything for everyone and you do nothing for no-one.” Council A

Any decision taken by NESAC’s advisory board required approval by all the individual councils.

“we had decisions .. that had been sitting on the table for some 12 months, 14 months, Two years because the general managers couldn’t come to an agreement because their councils couldn’t come to an agreement” Council C

There was also no requirement to take up many of the services with the level of involvement left with each council.

“effectively for many things something of an opt in basis; there’s no kind of compulsion that we’re in this together and we’ll do everything together, more that initiatives get raised and then councils if they’re interested can opt into it” Council A

The reluctance to cede control by the councils was further reflected in the operating structure put in place.

“we had a very unique management arrangement around these functions – see we might have IT but we had the IT reporting to four general managers all of which had a bearing on how the IT system operated and all had different ideas about what IT meant or what it should have achieved.. what happened is everybody then retained control of everything.” Council A

4.5 Resource Alternatives

Alternatives to NESAC existed for the supply of a service and in some cases appear to have been actively maintained or nurtured.

"[Council D] always kept things in reserve. They were never going to stay. They were always going to go. They kept their business as it was running."
Council B

"I still had all the staff that I had before I went in. So I just had to retrain them slightly and just go back the way we were before wasn't too difficult"
Council B

"members of other resource sharing initiatives .. not a problem" Council D

There were also not perceived to be significant issues in moving activities from NE-SAC to another supplier even with IT which might a priori be considered difficult to disentangle.

"It's a fully managed service. We just hook in through an Internet connection. So it's basically exactly what we were getting before and rather than all the service, etcetera, housed in Armidale, they're actually housed in Mascot" Council B

The charter of the alliance itself had no clauses hindering the ability to withdraw.

"we just passed a council resolution and we were out basically" Council D

Given the varied resource dependency tolerance levels of the councils *with regard to* NESAC, and based upon the governance structure dimensions identified, it appears possible to identify distinctive coverage related governance preferences associated with low and high dependency tolerance levels – see Figure 2.

Fig. 2. Alliance governance – dependency and dimensions

Figure 2 suggests that councils with a low tolerance sought a very different alliance compared to those with a high tolerance. For example from a resource importance perspective they wanted the activities included to be restricted in number and low impact. High tolerance councils by contrast wanted a much broader range of activities included including their front office – which they considered core to their operations. Interviewees suggested that NESAC never managed to reconcile the differences.

5 Conclusion

The NESAC case suggests that it is useful to examine the construction of an alliance's governance structure – and in particular its coverage aspects – from the perspective of the participants' resource dependency tolerance levels. Furthermore when considering a governance structure the dimensions of resource importance, resource control and resource alternatives appear to capture key levers through which dependency can be managed. The case also however makes it clear that there will not always be a common resource dependency tolerance level across participants to an alliance and that where this is the case there may be significant difficulties in constructing an acceptable governance structure that will subsequently function to meet the varied expectations. It would therefore appear important to surface the dependency tolerance levels of all potential partners prior to entering into an alliance to ensure that there is congruency. This could be done quite simply through discussions centred on their desires regarding the three resource dependency dimensions.

The research contributes to the literature primarily through extending governance and resource dependency research into new areas and combining the two. In particular it highlights the need for governance research to look beyond the boundaries of an individual organisation. Furthermore once in the realm of inter-organisational alliances such research needs to consider the *coverage* of the alliance as well as its direction and control. From a resource dependency perspective the need to study the *creation* and management of new dependencies as organisations enter into alliances is highlighted, extending the historical research focus beyond the moderation of pre-existing dependencies. Combining the two perspectives, the research suggest that the governance structure of an alliance will be constructed such that it reflects the resource dependency tolerance limits of its participants.

In terms of future research a major limitation of the current paper is that it examined only a single case. Further case studies are required. Do alliance governance structures typically reflect the resource dependency tolerance limits of their participants? Are the dimensions identified here the key ones? Why do organisations have differing tolerance levels? More fundamentally, a shortcoming of the current case is that there was not a consensus view of the coverage of NESAC and the alliance ultimately collapsed. As such it is not possible to provide any insight regarding *how* to ensure that the desired coverage is effectively captured by an alliances governance structure. Case studies of successful alliances are required for this.

It might also be interesting to look beyond a single alliance to consider the complete portfolio of alliances an organization maintains to see if there is any interplay between them – for example the tolerance level of an organization toward a specific alliance might be influenced by the other alliances it has in place. Finally it would be

valuable to examine the relationship between the benefits of an alliance and the dependency level – is it the case that the greater the dependency the greater the benefits? Are there disadvantages associated with high dependency alliances?

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