School of Management
University of Western Sydney - Nepean

Conditions for the Effective Formation, Management and Evolution of Cross-Border Alliances

Michael Milgate
PLEASE NOTE

The greatest amount of care has been taken while scanning this thesis,

and the best possible result has been obtained.
Conditions for the Effective Formation, Management and Evolution of Cross-Border Alliances

Michael Milgate

A Thesis Submitted to the School of Management University of Western Sydney, Nepean

in fulfilment of the requirements for the degree Master of Commerce (Honours)


Supervisor: Robert J. Leivesley
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Except where otherwise indicated, this thesis is original work.

Michael Milgate
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PREFACE

The subject of cross-border alliances, and of cooperative strategy generally, is one that has been growing in importance over the last ten to fifteen years, both for practitioners and for academics. The literature on the subject has increased substantially during this time but, as with all subjects that come into vogue, there is currently no generally agreed body of theory, or even terminology to assist the student in researching and understanding the subject. This thesis, which is exploratory in nature, seeks to contribute to the strategic alliance field by means of research aimed at identifying significant associations between formation conditions, management approaches and evolving decision making taken in the case study alliances and the effectiveness of those alliances as deemed by significant partner members.

Part 1 (Chapters One, Two, Three, Four and Five) of the thesis reviews the major current macro economic theories that may have relevance to alliances, proposes an alliance classification schema appropriate to the research, develops a number of propositions mostly found in the alliance literature, and sets out a methodology for investigating them.

Part 2 (Chapters Six, Seven and Eight) presents five case studies of alliances. The cases are developed in a chronological and narrative form, relating the reflective comment of the alliance partners to the research propositions.

Part 3 (Chapters Nine, Ten, and Eleven) of the thesis presents findings from the research, and in the concluding chapter (Chapter Twelve), attempts to bring together the overall findings, and arrive at some general conclusions, especially certain implications for management.
PART ONE
CHAPTER ONE
STRATEGIC ALLIANCES:
AN EMERGING TERM IN AN EMERGING FIELD—
SOME GROUND CLEARING

1.0 Introduction

Strategic alliances are a fact of business life. Whether prompted by vertical disaggregation (Powell, 1987), shrinking product life cycles (Ohmae, 1989), growing capital investment requirements (Doz, 1988b; Gerlach, 1992), or the desire to increase competitiveness through organisational learning (Senge, 1990; 1992), organisations are forming alliances at ever-increasing rates (Glaister and Buckley, 1994; Glaister, Husan and Buckley, 1998). Yet despite nearly exponential growth, the corporate landscape is littered with alliance failures; estimates suggest that as many as 60% of all alliances do not succeed (Levine and Byrne, 1986; Harrigan¹, 1988; Bleeke and Ernst, 1993).

Although the concept of alliance formation is apparently well understood, the practice of alliance management poses a significant challenge. A basic purpose of this thesis is to move from an understanding of strategic alliance formation in a cross-border environment to an appreciation of the problems inherent in alliance management and evolution.

Table 1.1 on page 2 summarises this author's conceptual shift in research focus and proposes that too little emphasis is given to the management and evolution of alliances. This author believes that alliances move through a series of stages, each with a different managerial intent, and that the alliance manager is key to its success or

¹ Harrigan (1998a) replied to this writer by email on a question posed about her use of the term “joint venture” in her 3 books and more than 12 articles on joint ventures from 1983 to 1989. She maintained that neither academics working in the field of joint ventures nor practitioners had thought to differentiate between strategic alliances, joint ventures, collaborations, consortia, and partnering arrangements. The terms, in her view, had been quite carelessly used, perhaps because the alliance field had not received rigorous theoretical attention. She said that, because practitioners were using the term “joint venture”, she continued to use a term that was familiar to them so that her writings would be of use to practitioners as well as academics and students.
failure.

The theoretical literature suggests that the term "strategic alliance" encompasses a wide variety of organisational forms including long-term purchasing agreements, co-marketing and licensing agreements, research and development (hereafter R&D) collaboration teams, and joint ventures (for example, Borys and Jemison, 1989; Lei and Slocum, 1991; Lorange, Roos and Bronn, 1992; Bucklin and Sengupta, 1993). Despite their differences, each of these alliance types converge on several themes. Each has goals that are both compatible and directly related to the partner’s strategic intent (Spekman and Sawhney, 1991); each has the commitment and access to the resources of its partners (Borys and Jemison, 1989, Parkhe, 1991); and each represents an opportunity for organisational learning (Doz, 1992; Lei and Slocum, 1992).

<table>
<thead>
<tr>
<th>General Concerns</th>
<th>Present Status of Research</th>
<th>This Author’s Focus</th>
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<tr>
<td></td>
<td>* Understanding the nature of strategic alliances</td>
<td>* Understanding the problems of alliance management and evolution</td>
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<tr>
<td>Major Topic</td>
<td>* Pre-alliance issues</td>
<td>* Alliance management and evolution problems, and implementation issues</td>
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<td>* Formation problems</td>
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<tr>
<td>Research Questions</td>
<td>* How to define the alliance?</td>
<td>* Do alliance requirements change over time?</td>
</tr>
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<td></td>
<td>* What are the dimensions of an alliance that distinguished it from other inter-organisational forms?</td>
<td>* What is the role of the alliance manager?</td>
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<td>* Does this alliance make sense to its creators?</td>
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<td></td>
<td>* What criteria are important for partner selection?</td>
<td>* What is the interplay between the business of the alliance and the relationship among the partners?</td>
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<td>* Why do alliances succeed or fail?</td>
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Table 1.1 A Shift in Focus in the Study of Alliances

Just as there are different contexts in which alliances emerge (for example, buyer-seller relationships, distribution channel partnerships, joint ventures), there are many
different academic perspectives from which to examine alliances. For instance, Smith, Carroll and Ashford (1995) categorise research in cooperation into five broad theoretical frameworks: exchange theories, attraction theories, power and conflict theories, social learning theories, and social structure theories, from a managerial perspective, research has tended to emphasise those factors that distinguish one kind of alliance from another. In general, five issues emerge from the extant research: the rationale for alliance activity, how to form an alliance, how alliances create value, the organisational dynamic between alliance partners, and potential sources of problems in alliances. Appendix 1, on page 223, presents a summary of these five topics in the marketing, strategy and management literature.

After an extensive review of the literate on alliances, this author notes that the predominant interest has been on joint ventures and alliances in a cross-border environment. A search (as at 1996) of doctoral and other research theses in Britain and the U.S.A. gave no single instance of an intra-country alliance study being identified, which may simply mean that the focus of intellectual interest in recent years has been on cross-border alliances.

1.1 A Change in Organisational Form
The next decade, viewed from the perspective of 1998, is likely to see an economic world of larger trading blocs, lower tariff levels, dramatically shortened transmission times both of product and of information, and increasing globalisation of market arenas in an ever widening band of industries.

In this world the opportunities for the major multinational corporations\(^2\) (MNCs) are plain to see, with their multi-country plants, financial resources, and their educated and

\(^2\) Multinational corporations are defined, for the purpose of this thesis, as enterprises that control and manage production establishments - plants - located in at least two countries (Caves, 1996:1)
sophisticated work forces. At first sight, it seems that they are likely to dominate the world in commercial power, even perhaps at the expense of the nation state, and to exercise strong oligopolistic power over the consumer in determining what is available to buy and at what price.

1.1.1 Changing Organisational Structures

Such a future was predicted over twenty-eight years ago. Perlmutter (1968) forecast that, by the mid eighties, MNCs would account for over 60% of the world’s industrial output. This has, however, proved to be a substantial over-estimate. Brown’s (1974) research, cited by Dunning (1974), showed that, by 1970, of the top 99 world economic entities, nations ranked by Gross National Product (GNP) accounted for 39, and MNCs, by level of sales, accounted for the other 60. Yet Rose (1977) was able to write about *Why The Multinational Tide Is Ebbing*. The last twenty years have by no means shown the decline of the MNC, but nor have they seen its continued rise to world dominance.

Countervailing forces have developed. Many developing nations have imposed restrictive provisions to the entry of MNCs to their countries, requiring at least 50% local ownership of the equity. Increasing attention to and criticism in the popular media of the MNCs having power without responsibility has led to some public distrust, and a reluctance to accept all the MNCs have to offer. Furthermore, the provision by new technology of flexible manufacturing systems in many industries has reduced the advantage of the hitherto dominating economies of scale so advantageous to the MNC (Ghoshal, 1987; Chandler, 1990).

The growth, in the high technology world in particular, of entrepreneurial companies like Apple Computers, in their early days subcontracting most of their activities, except those key ones in which they have a special competitive advantage, has also led to questions of whether MNC world supremacy is inevitable. Apple Corporation has been
able to compete successfully with MNCs like IBM, although in its early stages it lacked comparable financial and other resources. Jensen (1989) writes of the *Eclipse of the Public Corporation* and Handy (1992) heralds the development of the *Federated Enterprise*. The dis-economies and narrow cultural bias of unitary hierarchies (most MNCs) makes them, it is suggested by Handy (1992), ecologically maladapted to the modern global market, with its demand for fast response and high flexibility.

These major forces and events suggest some fundamental question: future structure of business entities of the twenty first century. Will unified MNCs resume, despite recent setbacks, and/or will a movement towards markets (Williamson, 1975) begin to dominate? Can, in certain conditions, networks\(^3\) and alliances between enterprises survive even in the face of the power of the MNCs? Is it even possible that, in certain circumstances, strategic alliances may be the "naturally selected" surviving organisational form (Hannan and Freeman, 1989:17-18)?

---

\(^3\) It is important to distinguish at this point some measure of difference between "networks" and "alliances" since networks are not dealt with in detail as they are not the main subject of this thesis. In a network, each member has access to specialised skills and competencies to meet special situations without the need to meet the overheads involved in developing the competencies internally. The more integrated subcontractor networks, such as the Japanese *keiretsu* or the relationship that the British company, Marks and Spencer, has with its suppliers are still based on the assumption that one party is dependent on resources controlled by another. All the parties to network forms of exchange have lost some of their ability to dictate their own future and are increasingly dependent on the activities of others. In an alliance, this dependency on resources controlled by others is significantly reduced or in some cases eliminated. Any confusion in the distinction is explained by Castells (1996:162) where alliances are described as *very different from the traditional forms of cartels and other oligopolistic agreements, because they concern specific times, markets, products, and processes, and they do not exclude competition in all the areas (the majority) not covered by the agreements*. Castells goes onto describe networks as *open structures, able to expand without limits, integrating new nodes as long as they are able to communicate within the network... A network-based social structure is a highly dynamic, open system susceptible to innovating without threatening its balance* (Castells, 1996:140). For detailed discussions on the differences between alliances and networks, see Ibarra (1992); Castells (1996) and Gulati (1998).

It may also be of benefit to distinguish concepts such as Just-In-Time (JIT) and Outsourcing from alliances. Johnson (1997) suggests that JIT is a supply chain concept that minimises the need to hold stock, while outsourcing is moving the administrative burden of staff from the focal company to another party - this has the effect of turning labour into a commodity. Johnson (1997) argues that these are not alliances as there is no knowledge transfer or profit sharing between the parties concerned.
1.1.2 Cooperative Strategy

Terms, such as joint venture, alliance and network, are used almost interchangeably in the related literature (Buttery and Buttery, 1994). This thesis is concerned with three forms of alliance among partners rather than the dominance relationship that appears to characterise vertical integration and the relatively fluid and shifting arrangements that “networks” often imply. While there can be no hard and fast differentiation between terms that are in the flux of social and commercial change, and that are not always strongly characterised in the literature, the term “alliance” is used in this thesis to characterise an arrangement(s) which partners deem to be enduring relationships among them for quite specific purposes (which may nevertheless change over time).

Strategic alliances are defined by Spekman and Sawhney (1991:5), after Mattsson (1988), as:

...a particular mode of interorganizational relations in which the partners make substantial investments in developing a long-term collaborative effort and common orientation toward their individual and mutual goals.

This definition, from the marketing discipline, reflects the possibility of the long-term viability of an alliance and also that it is not a quick fix, second rate solution or invalid organisational form. The “mutual goals” aspect may be too narrow but the concept of a broader mutuality is an important aspect of alliances nevertheless. Adapting their definition for the purposes of this thesis, the following definition is proposed:

A strategic alliance is a close, intended long-term, mutually beneficial agreement between two or more partners in which resources, knowledge and capabilities are shared with the objective of enhancing the competitive position of each partner.

Throughout the eighties and into the nineties, cooperative forms of doing business have grown rapidly, and continue to increase as organisations of all sizes and nationalities in
an increasing number of industries perceive value in them. Bresser and Harl (1986:425), in fact, place collective or cooperative strategies and competitive strategies in a position of equivalence when they comment:

...whether competitive or collective strategies prevail at any given point in time appears as largely irrelevant for obtaining viability and long-term stability. What is relevant is the ability to react to instabilities by switching from more collective forms of strategizing to more competitive ones, and vice versa.

Strategic alliances, joint ventures, dynamic networks, constellations, cooperative agreements, collective strategies, all make an appearance in both academic and non-academic publications and develop significance for the analyst of industry structure as well as for the industrial practitioner. In tune with the growth of cooperative managerial forms, the reputation of cooperative ventures, in the views of commentators such as Collins and Doorley (1991), Lorange and Roos (1992) and Johnson and Scholes (1993; 1997), is enjoying a notable revival, set against the hitherto seemingly unassailable theoretical strength of the competitive model as a paradigm of resource allocation efficiency.

It is probably unhelpful, however, to think of cooperation as the opposite of competition, since organisations generally cooperate with each other if only in order to harness the resources, skills and power to compete more effectively with others in the market-place. The issue, then, is not whether to compete or to cooperate, but rather how best to organise the appropriate set of resources and skills to become a winner in the competitive market-place. And since more market-places are becoming global\(^4\), the

\(^4\) Globalisation is defined, for the purposes of this thesis, as the process whereby global tastes and product offerings converge and are increasingly satisfied by world-wide attractive products rather than local ones. Few global products exist, but globalisation is a reality for most of the world's largest companies, in the sense that they think and operate with a global perspective on customers, technology, costs, sourcing and competitors. Globalisation is driven by "hard" economics: to compete effectively, organisations have to incur high fixed costs, forcing executives to spread these costs over higher volumes or by other means, which means trying to gain market share in all important world economies.
critical mass of resource-developed companies cannot cope alone with the enormity of the global market-place.

This thesis takes the view that competition is not threatened by the growth of strategic alliances and other cooperative variants, as it was by the philosophy underlying the command economies where the economy was owned and controlled by the state and there was only one player in the market, the state. For the purposes of this thesis, the questions that are dealt with are those concerned with the conditions and circumstances that lead to the development of alliances and the patterns of behaviour that lead to their survival and success, alongside the existing competitive forms.

1.1.3 Changing Economic Building Blocks

The growth of inter-organisational cooperative forms of business activity calls into question the nature and boundaries of the basic building blocks of economic analysis: the organisation, the particular industry and the national economy. In traditional economic analysis, organisations comprising a set of resources and skills produce products and services, and compete with other organisations for the favours of customers in a market-place. Organisations that produce similar products are collectively gathered together in an industry, and all the organisations within a nationally governed geographical area form a national economy.

It is generally assumed that the organisation controls its resources and can deploy them at will, and that the success of industries and national economies comes from the interaction of that deployment within constraints set by national governments. In a world of globalised tastes and technologies, declining "hard" trade barriers, economic turbulence, and with multinational companies larger in turnover than many nation states, the traditional categories of the economist become less and less useful as exclusive basic building blocks for strategic analysis. Alliances and cooperative
networks in these circumstances have attractions as entities for analysis stronger than they would have in a more stable and predictable economic world.

Williamson (1975) defines an organisation as a cluster of contracts with suppliers, employees, customers, and distributors. Others, like Reich and Mankin (1986), talk of the “hollow corporation” where the entrepreneur and team perform one key function (product development in their case) and leave all other functions to sub-contractors judged to be better equipped to carry them out.

In a growing number of functional areas within a manufacturing organisation, a careful consideration of the appropriate make-or-buy options may lead many manufacturers to opt to become mere assemblers (for example, many automobile companies), or even purely brand-marketing companies (for example, Tonka Toys). Medium-sized companies may even become global enterprises almost overnight by setting up a number of strategic alliances to meet global challenges and opportunities.

In this changing milieu, the predominance of the traditional integrated organisation operating with a complete value chain (Porter, 1985) as the basic unit of strategic analysis may cease to claim to be the dominant paradigm. On an industry level, some researchers (McGee and Thomas, 1986; Hatten and Hatten, 1987; Cool and Schendel, 1988; Mascarenhas and Aaker, 1989; and others) suggest that strategic analysis is often more usefully carried out at strategic group level (that is, the group of strategic entities that recognise each other as competitors) than at the industry level, the clear existence of which becomes questionable in many ways. Many “industries” have major players uncomfortably straddling a number of them; for example, it is debatable whether it is now useful to talk of a computer industry. Should it be the communications industry, telecommunications, or even micro-chip or information industry that is the most useful descriptor?
At the level of the economy even, the globe-spanning existence of major multinationals has long made national economic management difficult, and supra-nationality\(^5\) may increase further as the European Union develops its post-1992 power.

These changes are emphasised by the development of the concept of the “transnational corporation” (Bartlett and Ghoshal, 1989), for example, NEC, which may have multi-headquarters in a number of different countries, and which exists to respond sensitively to local needs in a global fashion, through the dexterous manipulation of appropriate information flows.

1.1.4 Globalisation

The major factors underlying the growth of alliances are most commonly cited as the globalisation of tastes and markets, and the rapid spread and ever-shortening life-span of modern technology. Levitt (1960) is credited with first having drawn attention to the increasing homogenisation of taste leading to global markets. Since Levitt’s (1960) influential article was written, the process has gained pace despite numerous researchers’ (Ohmae, 1985; 1989; Porter, 1986b; Douglas and Wind, 1987; Bleeke and Ernst, 1991) attempts to show that the process only applied to a narrow range of industries, for example, consumer electronics. Kotler (1986) suggests, for instance, that no more than about 3% of the world’s production is truly global. Ohmae’s research (1989), however, has shown that over 600 million consumers in the triad (United States of America (USA), European Union and Japan) are developing strikingly similar consumer needs in a wide range of areas.\(^6\)

---

\(^5\) This term refers to the alignment of nations such as the European nations into the European Union or Canada, Mexico and the United States of America into the North American Free Trade Association where a common good based on geographic closeness creates a supra-nationality based on trade.

\(^6\) At the cash register, you don’t care about the country of origin or country of residence. You don’t think about employment figures or trade deficits. You don’t worry about where the product was made. It does not matter to you that a “British” sneaker by Reebok (now an American owned company) was made in Korea, a German sneaker by Adidas was made in Taiwan, or a French ski by Rossignol was made in Spain. All you care about is the product’s quality, price, design, value, and appeal to you as a consumer (Ohmae, 1989:144).
This process of globalisation has been accelerated in recent years by improved communication, greater travel both for business and leisure, and increased spending power. Chandler (1990), in fact, takes the globalisation of markets as a given in his analysis, *Scale and Scope: The Dynamics of Industrial Capitalism*. If the globalisation thesis is accepted, its impact on the global strategy of the MNC will be a major one. Hrebeniak (1992:398) pointed out:

*Competitive advantage under global strategy is derived, in large part, from the sharing and leveraging of skills or capabilities across country boundaries.*

Takeuchi and Porter (1986), for example, demonstrate how international marketing can lead to opportunities for major economies of both scale and scope by stimulating global thinking, and by ensuring that this thinking influences the configuration of their value chains, in part through the centralisation of marketing back-up, and in helping the organisation develop universal, modified or country-tailored products as perceived circumstances dictate, dependent upon the degree of country-specific demand in each country served.

Stopford and Turner (1985) reinforce the argument that there is a need for globalisation, by adding the technology dimension, pointing out that all of what they describe as the meta-technologies, namely micro-electronics, genetic engineering, and advanced material sciences, are subject to global competition. They suggest that the major forces leading to globalisation are:

a) technology, principally through the micro-electronics revolution;

b) cultural evolution, that is, the heterogenisation and homogenisation of tastes through media and other forces; and

c) the breaking down of barriers, for example, by deregulation and economic integration.
There is general agreement in the literature that the movement is not all one way, and that the secret of organisational commercial success is as much in identifying the areas where local responsiveness is key, as those where a global product is appropriate. Ghemawat and Spence (1986) propose the development of a globalisation index focusing on the drivers and impediments to globalisation. Overall, they conclude that the countries most ripe for global product penetration are small countries with metropolitan but expensive tastes. Piest and Ritsema (1990) also offer a word of caution in rushing to the theme of ubiquitous globalisation by enumerating the large number of material, technical and fiscal barriers that exist in the European Union after 1992 and which will, therefore, act as a brake to the market globalisation process.

Overall, however, globalisation is taking place in a growing range of industries, and organisations looking to survive over the medium-term future will need, it is suggested, not just to have a good product that will sell well in a single country, but one with a more global-market appeal. Increasingly, organisations will need the resources, either alone or in partnership with others, to produce and market goods on a world-wide scale, and the ability to identify and achieve sustainable competitive advantage in global terms. In this connection, Auster (1987:4) notes:

*Improved information and communication systems allow rapid global transactions. Improved transportation systems give companies easier access to faraway markets. Both of these factors accelerate the rate of technological diffusion and create increasing socio-economic, technological, and cultural exposure.*

1.1.5 Global Technologies

A major factor behind growing globalisation of markets has been the development of global technologies which both dramatically reduce communication times, thus “shrinking” the world in Vernon’s phrase (1979), and facilitate the design and
manufacture of products with truly world-wide appeal.

Failure to appreciate this factor in the USA may well have been a major element leading to the growing dominance of Japan in international markets. USA companies cooperate with Japanese ones, and export their technological know-how. The Japanese carry out the production function, while the USA organisations accept functional substitution instead of engaging in organisational learning. The Japanese then improve the technology, quality, and costs, and successfully attack the USA market.

Roman and Puett (1983) saw the MNC as the prime instrument in the spread of technology on an international scale, and in the creation of global markets in the 1980s.

Technology has also been a key factor behind the dramatic growth of cooperative agreements in the 1980s. Osborn and Baughn's (1987) research argued that there were 189 cooperative agreements registered between Japanese and US companies between October 1984 and October 1986. Of these, 20% involved cooperative R&D, and 50% crossed industry boundaries but still had a strong technological content located in one country. Friar and Horwitch (1985) also emphasise the growth of technology strategy as a key element in determining an organisation's level of competitive advantage, and illustrate how this is frequently leading to inter-organisation technology cooperation.

A strategic alliance may be an effective way of spreading technology through organisational learning, but such a collaborative venture risks creating a competitor, due to an insufficiently tight appropriability regime in the partner providing the technology (Teece, 1986). A design paradigm may be established by a collaborative

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Friar and Horwitch (1985:145) suggest that this refers to the set of activities by which management chooses its technological activity, allocates resources for its technological undertakings, and structures the overall context for the development and maintenance of the technological resources that support the long-term strategic direction of a firm.
venture, but the technological partner may still lose its position in the long run because of information leakage, and absence of direct contact with the customer base. Kono (1984) suggested that it is appropriate only to sub-contract or cooperate in technologies that are not key to competitive advantage so as not to create a competitor.

Alternatively, a company with a unique product will certainly fail if it lacks sufficient complementary assets, and never manages to establish the dominant design paradigm. Its best route may, therefore, be to establish an alliance, to make its appropriability regime as tight as possible, and attempt to create a trusting relationship with its partner, for example, the alliance between Apple and Canon in the generally regarded successful development and marketing of the LaserWriter.

1.1.6 The Federated Enterprise

The movement away from the traditional concept of the organisation as a unitary entity is accentuated by the growth of federal organizations (Handy, 1992) of which, perhaps, the largest, recent convert is IBM, still one of the most economically powerful MNCs in the world. It decided in 1991, after experiencing a significant decline in performance and suspecting a loss of competitive advantage, radically to restructure its operations from that of an integrated world-wide organisation with a strong single culture, to that of a federation of 14 potentially competitive companies. The “culture shock” was so great, and the immediate results so mixed, that the chief executive resigned in 1993, and his successor came from outside the computer industry. The IBM of the future may be a federated enterprise, although the company has not yet successfully adapted to such a radically changed paradigm.

The growth of alliances approaches the flexible trans-national structure from the other end, that is, from the amalgamation of previously independent resources and competencies in contrast to the federation of previously hierarchically controlled
resources and competencies. See Figure 1.1 below:

![Diagram of Integrated MNC and Federated Enterprise]

Figure 1.1

Where the traditional concepts of organisation, industry, and national economy start to become concepts of declining clarity, and thus to lose their exclusive usefulness as tools for strategic analysis, the need for an adequate theory of strategic alliances and other cooperative strategies assumes increased importance.

Until recently the reputation of strategic alliances, and of other cooperative forms of organisation, has been uncertain at best, and the underlying theory justifying them has been unconvincing and lacking in consensus. In fact, many of the most prominent students of this genre have had little good to say about it. Harrigan (1986) suggests that, if organisations can do everything equally well and are blessed with infinite cash resources, there is no need for joint ventures. Similarly Collins and Doorley (1991) view strategic partnership as appropriate only when one does not want control, one cannot afford it, one does not need it, or one is not allowed it - or where it provides a temporary expedient to help bring new competencies into the business.

The literature, as shown below in this paragraph, is strewn with negative adjectives like, “impermanent”, “transitional”, “second-best”, “unstable.” Alliances, then, have traditionally been thought of as a transitional form of international enterprise, and classified as a second-best solution. Stopford and Wells (1972) and Stopford (1980)
also see them as compromise arrangements. Joint ventures are seen as a trade-off between the drive for unambiguous control and the quest for additional resources. In other words, organisations form joint ventures to gain access to competencies they do not have, and to economise on the use of risk capital. Harrigan (1984; 1986) suggests that joint ventures are a transitional form of management - an intermediate step on the way to something else. Harrigan (1984; 1986) again generalises, in a fashion difficult to prove or disprove, on the unstable nature, as she sees it, of joint ventures. Brooke and Remmers (1970) see joint ventures as useful for entering a market; they do not necessarily see them as permanent. Gullander (1976a; 1976b) assumes that joint ventures are a second-best alternative to arms-length marketing or integration within the single organisation. These references on strategic alliances make frequent use of normative adjectives, even supposedly descriptive ones like “unstable”, intent on relegating the strategic alliance and particularly its most popular form, the joint venture, to a low position in the list of possible organisational forms.

However, the underlying assumptions behind the orthodox MNC view of organisation are increasingly coming to be questioned and, implicitly, the denigration of the strategic alliance, as a viable organisational form, is becoming rarer. The current rate of formation of alliances, particularly in Europe, is generally accepted as rising sharply. While there are no official authoritative figures, Christelow's research (1987) indicates the growing importance of international joint ventures to USA companies wishing to internationalise their operations. The research of Morris and Hergert (1987) confirms the accelerating growth of all forms of strategic alliance, as does research by Glaister and Buckley (1994) and Glaister, Husan and Buckley (1998) which suggests that Europe is the area of fastest growth in strategic alliances in recent years.

It is noticeable that the prime motor for alliance growth since 1986 appears to have been amongst organisations within the European Union. Contractor and Lorange
(1988) also highlight the importance of joint ventures by pointing out that there were approximately 10,000 foreign wholly-owned affiliates of USA organisations, but approximately 12,000 joint ventures in which USA companies had between 10 - 50% ownership.


and of course the Japanese have their keiretsu, and the

and-spoke subcontracting systems developed around the major manufacturing and other corporate giants.

Strategic alliances are neither characterised by fully market-dominated relationships, nor by the organisational hierarchy characteristics of fully merged companies. In relation to Williamson's (1975) dichotomy of markets and hierarchies, Powell (1990:296-297) explains:

...transactions that involve uncertainty about their outcome, that recur frequently and require substantial “transaction specific investments”- of money, time or energy, that cannot be easily transferred, are more likely to take place within hierarchically organized firms. Exchanges that are straightforward, non-repetitive and require no transaction specific investments will take place across a market interface. Hence, transactions are moved out of
markets into hierarchies as knowledge specific to the transaction (asset specificity) builds up. When this occurs the inefficiencies of bureaucratic organizations will be preferred to the relatively greater costs of market transactions.

However, there are many intermediate points between markets and hierarchies, as Thorelli (1986:46) points out. He suggests that, for alliances to come about, there needs to be at least a partial overlap between some of the dimensions of the partners' corporate domain, that is, product, function, clientele, territory or time.

...the network may be viewed as an alternative to vertical integration and to diversification, and as an instrument for reaching new clienteles and/or additional countries...

A useful way of categorising such relationships might be to consider a spectrum running in ascending levels of integration from markets to hierarchies, with the market end of the spectrum dominated by the price mechanism, and the hierarchy end by organisational fit. Between the extremes of markets and hierarchies, there is a range of inter-organisational forms of ascending levels of integration, which may be assumed to exist due to what Masten (1984:403) calls their differential efficiency as organisational forms. Barnard (1938/1968:57) put it thus:

...the efficiency of a cooperative system is its capacity to maintain itself by the individual satisfactions it affords.

Arms-length market relationships at the base of the triangle frequently develop into established suppliers and distributors, and may then develop further into cooperative networks as illustrated in Figure 1.2 on the following page.
In a network, each member has access to specialised skills and competencies to meet special situations, without the need to meet the overheads involved in developing the competencies internally. Powell (1990:303) notes:

*Basic assumption of network relationships is that one party is dependent on resources controlled by another, and that there are gains to be had by pooling resources.*

Further up the ladder of integration come the closely knit subcontractor networks like the Japanese *keiretsu*, or Marks and Spencers with close relationships with its suppliers, in which annual prices are fairly determined to give the supplier an acceptable margin, product is scheduled over a long period and delivered as required, and the major organisation puts very demanding inspectors into the supplier organisation to ensure product quality. Licensing agreements come next, in which the relationship between the licensor and the licensee is integrated from the viewpoint of activities in a defined area, but both retain their separate identities and ownership. Between licensing agreements and complete hierarchies, where rule by price (markets)
is replaced by rule by fiat (hierarchies) comes the most integrated form of rule by “adaptive coordination” (Johanson and Mattsson, 1991), namely that found in strategic alliances.

It is often assumed (Nelson and Winter, 1982; Hannan and Freeman, 1989; Donaldson, 1995; 1996) that the particular organisational form will be chosen that fits the specific circumstances of the relationship between the set of activities and the environment, and that the pressures of natural selection will cause inappropriate organisational forms to fail. Williamson (1975) argues that inter-group relations that persist over time must be effective, otherwise the groups would de-couple or be integrated in one unit. There may seem to be something distinctly determinist about such views.

These diverse forms of cooperative agreements are categorised by DeFillippi and Reed (1991) as either unilateral or bilateral. Unilateral agreements are so called because they typically involve minimal amounts of partner interdependence. Examples of unilateral agreements would be technical training, supplier contracts, franchising, patent licensing, or marketing consultancy. The agreements have quite specific tasks, and each partner could terminate the agreement without great costs. Strategic alliances are generally bi-lateral agreements and involve a larger amount of interdependence. They include non-equity cooperative agreements, equity joint ventures and consortia.

Before a coherent set of conditions and decisions supporting strategic alliances can be proposed, it may be useful to consider a number of background theories in the literature most appropriate to underpin such propositions. The predominantly economics focused theories to be examined are the major explanations for competition, of how organisations compete, and why various organisational forms are chosen. Such theories as have been significantly advanced are covered in the earlier sections - 2.1 to 2.6 - of Chapter Two. They seem, however, to neglect the important time and cultural
dimensions that are discussed in Chapter 2.8.
CHAPTER TWO

ALLIANCE BACKGROUND ECONOMIC THEORIES TO THE
PHENOMENON OF STRATEGIC ALLIANCES

2.0. Background Theory

A consideration of the basically economic theories underlying strategic alliance formation logically starts with a review of the major ideas most commonly advanced as a basis for the development of this inter-organisational genre. The theories will contribute some of the material necessary to construct a viable understanding of the drive to alliance formation and management, and of alliance evolution. These theories are:

a) transaction cost analysis (Section 2.1);
b) international trade theory (Section 2.2);
c) resource-based theory of competitive advantage (Section 2.3);
d) resource dependency perspective (Section 2.4);
e) the learning organisation (Section 2.5); and
f) chaos theory (Section 2.6).

A discussion on culture (Section 2.7) and trust (Section 2.8) will follow the major theories of alliance formation. Culture and trust are often left out of the economic theory-based literature on strategy but these elements are of paramount importance when bringing together not only two or more corporate cultures, let alone two or more national cultures as well. Cultural compatibility of whatever kind is also an important ingredient for fostering an environment of trust/bonding between the alliance partners. The level of trust within an alliance will depend significantly on the cultures of the alliance and the alliance partners. Trust, as will be shown, also has an impact on transaction costs. The result of the impact of culture and trust will be the ability of the alliance partners to bond and work together to reach their own goals.
2.1. Transaction Cost Analysis

Strategic alliance theory is most frequently based in the literature on the transaction cost model which claims that alliances are set up and survive when this alliance form of organisation represents the lowest level of transaction costs in comparison with other forms, notably fully integrated companies (hierarchies), or, at the other extreme, totally fragmented markets.

In Williamson’s schema (1975) the key driving forces towards hierarchy are that:

a) there are major economies of scale and scope;

b) the market is complex and uncertain;

c) operating through the market gives rise to major risks of opportunism; and

d) operating through the market gives rise to high risk of information loss.

He sees these key driving forces towards markets:

a) the efficiency of the market price mechanism is vital for resource allocation and optimal profitability;

b) only the market system will stimulate entrepreneurship and motivation adequately;

c) hierarchies lead to excessive bureaucratic disabilities; and

d) hierarchies lead to excessive governance cost.

Strategic alliances, when viewed as a hybrid organisational form, have some of the characteristics of hierarchies and some of markets, with the following typical profile.

Their hierarchy characteristics may be:

a) economies of scale and scope; and

b) ability to deal with complex and uncertain markets, but there is a high risk of opportunism by one partner or the other, and a high risk of information loss.

Their market characteristics may be:

a) a degree of operation of the market price mechanism; and

b) entrepreneurship and motivation, which are more commonly found in
alliances than in large corporate hierarchies. But bureaucratic disabilities are often replaced by culture conflict and governance costs, that is, coordination costs remain potentially high.

From transaction cost analysis, it appears that the strategic alliance may be an “appropriate” organisational form in certain circumstances (which are not objective as they rely on the perception of the parties to identify, measure and prioritise), notably if:

a) the situation seems to call for an organisation displaying characteristics of flexibility and the need for cooperation;

b) the alliance is judged to be the best way to gain access to certain necessary and specialised assets;

c) neither party alone could market the end product as effectively;

d) the market is “thin”, making both partners very dependent on each other over an extended time scale;

e) the alliance form meets both partners’ risk profiles; and

f) opportunities for realising scale/scope economies exist.

The alliance may involve the contribution of assets by one partner which are covered by scope economies, for example, their distribution network, and, in the absence of an alliance, the other partner would need to set up its own network or buy its partner’s whole business. The situation may involve the transfer of tacit knowledge or know-how which is most effectively done on a cooperative basis when overall goals are compatible, that is, in an alliance. In collaboration with third world partners, the alliance form is, it is suggested (Beamish, 1988; Yeung, 1997; Gray and Yan, 1997; Olson and Singsuwan, 1997; Li and Shenkar, 1997; Luo and Chen, 1997; Erden, 1997; Tallman, Sutcliffe and Antonian, 1997; Pearce and Branyiczki, 1997), often the best way to retain local motivation, bridge the organisational cultures, and meet local political needs. Most commonly, the alliance enables partners to limit risk, and gain access to assets they do not have but need.
In addition to the above specific conditions that may give rise to alliances, other conditions are those meeting the “balance of forces” argument, that is, in situations requiring some market characteristics, such as retention of motivation, entrepreneurship, and the price mechanism, and some hierarchy characteristics, for example, scale, scope, and learning economies. The balance of forces argument also requires the minimisation of relevant transaction costs, for example, opportunism or information leakage for markets, and bureaucratic disabilities for hierarchies.

In the world of transaction cost economics two primary forces are commonly believed to operate (Williamson, 1975; 1985):

a) pressure towards equilibrium; and

b) natural selection.

However, in actual as opposed to theoretical situations, these forces are frequently impeded in their operation by four inhibiting forces, namely: friction, immaturity, imperfections and time lags. Friction may occur in a market when institutional factors prevent immediate adjustment to changed circumstances. Immaturity occurs as new markets develop and, in their evolution, give rise to forms that may not survive in the longer term. Imperfections may occur in all markets save the genuinely uni-locational commodity form, and give rise to a variety of distortions. Time lags may incur costs and, at any one moment, make the precise nature of evolution unpredictable. Thus, even if there are underlying forces towards the minimisation of transaction costs, the above inhibiting factors may well prevent the predicted least-cost form emerging. Both Williamson (1975) and Nelson and Winter (1982) retain the concept of “efficiency” in their writings as the key to organisational change, but Hannan and Freeman (1989) doubt its predominance, and believe that it rarely overrides institutional and political considerations. The pressures of “natural selection” and “efficiency”, then, do not necessarily operate smoothly or certainly in the real world. There may, therefore, be organisational forms that survive, even though they do not minimise transaction costs.
but achieve other desired ends.

Further weaknesses of the transaction cost model are that the relevant costs defy calculation. How, for example, can the cost of information impactedness be calculated and added to that of opportunism? Further, it is not a model necessarily known to the decision-takers setting up alliances and cannot, therefore, as a model, motivate them. The only argument overcoming these weaknesses, namely that forces will drive organisational forms towards the most efficient ones through natural selection, is theoretically attractive to the determinist, but difficult to demonstrate empirically. It is, however, advanced in a sophisticated form by Ghoshal and Nohria (1987) in their presentation of a congruence approach to contingency theory as applied to multi-national enterprises of both an integrated and a federated or network form. They claim that structure will be systematically differentiated so as to “fit” the different environmental and resource contingencies faced by different organisational subunits. Under norms of rationality (Thompson, 1967), organisations facing heterogeneous task environments seek to identify homogeneous segments and establish structural units to deal with each. Perhaps so, but the norm of rationality may be only fitfully observed.

The concept of transaction cost minimisation underlies Ouchi’s (1981) concept of clans or uni-cultural strategic alliances, which are most appropriate when the cost of governing behaviour by rules becomes prohibitive, and when a cooperative mechanism emerges as an alternative, that is, where both parties to the transaction share a common goal or set of values and loyalties. Strict clan *mores*, including trust, are important to avoid the need for the governance rules of hierarchy. These elements of trust/bonding will emerge importantly in Chapter 5.3.3 (page 110) and Chapter 11.4 (page 204) of this thesis.
The transaction cost model is a somewhat mechanistic one. This is recognised by some commentators and given a more human face (Miner, 1980; Wood and Bandara, 1989; Donaldson, 1990; Griesinger, 1990). In fact, Griesinger’s (1990) use of the concept of the human motivation of “betterment”8 introduces a Theory Y (McGregor, 1960/1985) element to the predominantly Theory X emphasis of Williamson’s (1975) transaction cost schema9.

The transaction cost approach, however, sits uneasily alongside the resource dependency perspective as the two theories are based on contrasting views of the economic world. To the transaction cost economist, the “forces” driving towards efficiency will make the organisational form with the lowest transaction costs the surviving form, in a given set of environmental circumstances. To the resource dependency perspective theorist, the world is fundamentally perceptual and socially enacted; thus, cooperation will come about from the perception of mutual advantage, of vulnerability, and of the need to safeguard power. But the existence of transaction costs do provide economic “forces” that may, in the longer run, impel the enterprise towards the most efficient form and, to that extent, the concept will always have relevance; the transaction cost model provides a useful set of concepts against which to assess organisational form, even though it may rarely be a motivating force since few practitioners may be aware of it.

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8 the purposes of all living systems are first to be alive, second to live well, and third to live better. Quality living extends beyond material well-being into the psychological, relational, aesthetic, ethical, and spiritual domains of satisfaction (Griesinger, 1990:481).

9 Theory X holds that workers are inherently lazy, need to be supervised and motivated and that, for the worker, work is a necessary evil to provide money. The connection to Williamson’s (1975) transaction costs is seeing work as a transaction and the resources needed to motivate, supervise and remunerate workers as the cost. In contrast, Theory Y holds that people not only want to work but are seen to be valuable assets for the workplace rather than a liability which has a cost associated with it. And that employers should seek the individual’s commitment to the organisation’s objectives and hence a betterment of themselves from having a more prosperous employer who can offer better conditions (whether that be monetary remuneration or other conditions dependent on what motivates the various employees) to the employees.
2.2. International Trade Theory

This thesis is concerned with cross-border strategic alliances, as it turns out, chiefly European-Pacific Rim, with their nature and their underlying rationale. It is necessary, therefore, to attempt to understand why an organisation from one country would seek competitive advantage by collaborating with an organisation from another country. Dunning (1974) proposes the basic reasons why multi-national corporations are able to achieve competitive and comparative advantage in his "eclectic approach". This approach has three conditions attached to it:

a) ownership - that the organisation should possess ownership advantages in particular markets, whether due to brand names, technology or some other intangible asset;

b) internationalisation - that it believes it advantageous to internalise its specific assets, that is, not to license for fear of information leakage; and

c) localisation - that there is at least one immobile foreign-factor input that is of advantage, for example, low labour costs.

The locational factor appears to be key, since otherwise the organisation would elect to export from its more familiar and already tested home base. If the internationalisation condition is weakened, the opportunity for strategic alliances emerges. The theory of foreign direct investment, and of alternative organisational forms to develop business across frontiers, is set out effectively by Rugman (1985) who develops a logical decision-tree for choosing between the various alternatives.

Porter and Fuller (1986) argue that the way for an organisation without eclectic advantages to succeed in international trade is, with a partner, so to configure and coordinate the joint value chain that it thereby gains competitive and comparative advantage.
Bartlett (1979; 1986) and Bartlett and Ghoshal (1989) suggest, in the form of the “Transnational” enterprise, a modern form for the MNC quite similar to that of the strategic alliance. Bartlett and Ghoshal (1989) argue that managers are being forced to shift their thinking from the traditional task of controlling a hierarchy to managing a network. This idea of shifting forms emerges from the international structural stages model associated with Stopford (1980) and Stopford and Wells (1972), a model is graphically illustrated in Figure 2.1 below. The model suggests that the first towards the internationalisation of a company is to set up an international division.

![Diagram](image)

**Figure 2.1**

Subsequently, if organisations expand their sales without substantially increasing their range of products, they may adopt a geographically based area structure.

If they experience a substantial increase in foreign product diversity, however, they may take the worldwide product division route. Ultimately, when both foreign sales and foreign product diversity are high, they may adopt a global matrix structure, but experience has shown this form to be extremely difficult to operate smoothly. The
evolution of the trans-national concept represents an attempt to solve the matrix problem by a change of philosophy.

In order to depict a broad trend in internationalisation of the corporate scene it is useful to employ Bartlett and Ghosal's (1989) fairly lean characterisation of this scene. Crainer's (1996:223-224)\textsuperscript{10} characterisations are richer and more helpful in the later development of the thesis' argument and will form the background for later argument.

Bartlett and Ghoshal (1989) claim that, until the 1980s, the world economy had exhibited a mixture of "multinational", "international" and "global" companies. They define these terms as follows. "Multinational" companies were federations of subsidiaries with a holding company centre, with each subsidiary marketing products to suit the domestic markets in which it operated. This was, according to Bartlett and Ghoshal (1989), the dominant model in the pre-Second World War period. The "international" company structure became more common after this war. The primary task of international companies was to transfer knowledge and expertise to overseas environments. Local subsidiaries were more dependent on the "centre" than in the multinational model but there was some local adaptation. The classical "global" organisation model was one of the earliest internationalised corporate forms. It built

\textsuperscript{10} Crainer (1996:223-224) gives the following definitions for multinational, transnational and global organisations (which are the definitions for the terms as used in this thesis):

\textbf{A multinational organisation}: where the company integrates domestic and foreign operations into worldwide lines of business but headquarters tightly controls major decisions worldwide through a centralised hierarchy. Here, international management roles are focussed on top managers who are drawn from all parts of the worldwide organization and whose role is to integrate the company. Managers in the international cadre require a greater understanding of the world business environment and the cross-cultural skills needed to deal with a multiplicity of cultures. Cultural differences will be minimized by assimilating them into the dominant organizational culture.

\textbf{A global company}:
(a) operates with one global strategy in place of diverse strategies oriented to national markets;
(b) acts within a homogeneous or increasingly homogeneous market; and
(c) markets a standardized product globally, and makes consistent use of the opportunities offered by the international division of labor with the aim of realizing economies of scale and synergy effects (Crainer, 1996:223-224).
global-scale facilities to produce standard products and shipped them world-wide. It was based on the centralisation of assets, with overseas operations used to achieve global scale.

A new form is now emerging, Bartlett and Ghoshal (1989) contend, which they describe as the “transnational”. The transnational is characterised by the fact that it is a truly world-wide enterprise, neither owned in one country, nor controlled from one unified corporate headquarters. To operate effectively it needs to control three distinct flows:

a) the flow of parts, components and goods;

b) the flow of funds, skills, and scarce resources; and

c) the flow of intelligence, ideas, and knowledge leading to innovation.

Increasingly, the management of complexity, diversity, and change is the central issue facing all companies. Figure 2.2, on the following page, illustrates the position of the transnational. Formal organisation charts reflect only one aspect of the “cement” that binds the organisation together. It is, of course, held together more strongly by the managerial decision making process which depends on the information flows. Bartlett and Ghoshal (1989) believe it is not a new organisational form that is needed to meet the needs of the future but a new philosophy that will achieve global competitive advantage, local differentiation and global learning by transforming the “anatomy”, “physiology” and the “psychology” of the global enterprise.

The transnational is a newer and very much more sophisticated concept than earlier organisational forms for the international enterprise. With its emphasis on a network philosophy and the absence of domination by a home-country based head office, the philosophy can embrace equally well the enterprise based on a network of alliances as it can the integrated corporation. Bartlett and Ghosal’s (1989) transnational concept can be seen, for example, in Fujitsu’s approach to the development of the global Fujitsu
“family” of companies.

![Diagram showing the forces for global integration and national differentiation leading to different types of organisations: Global Organisation, Transnational Organisation, and Multinational Organisation.]

Figure 2.2

Interestingly, a similar philosophy is emerging amongst strategic theorists in Japan. Nonaka (1989) sees information as the key to success. Information is of two types - syntactic, that is, bare data, and semantic, that is, information with concepts and meaning. Meaning creation (semantic information) is an inductive process, and to have a good chance of success needs to have considerable redundancy of information. Deductive management (syntactic information) needs no redundancy of information, but it is basically uncreative.

Nonaka (1989) calls this “compressive management”, an interesting echo of Ansoff and McDonnell's (1990) “accordion” management, similarly devised to deal with the uncertainties of the modern turbulent environment. This process can also lead quite acceptably to hybridisation of the company’s headquarters, with perhaps one headquarters in Japan, another in the USA, and perhaps a third in Europe. As Contractor and Lorange (1988:26) point out:
One model of the multinational corporation sees it as a closed internalized administrative system that straddles national boundaries. An alternative paradigm proposed in this chapter is to view the international firm as a member of various open and shifting coalitions, each with a specific strategic purpose.

There is considerable congruity between the philosophical standpoints of Contractor and Lorange (1988), Bartlett and Ghoshal (1989), and of Nonaka (1989) in their rejection of the rigid hierarchy of the traditional MNC, strongly controlled from its home base, even allowing for local product variation. A world of sometimes shifting but continually renewing strategic alliances and even more informal networks fits well within this approach.

2.3. The Resource-based Theory of Competitive Advantage

Any theory of international trade must be based on a coherent theory of competition. Theories of competition have evolved from a number of distinct strands of economic theory (Barney, 1986), amongst which the more prominent are:

1. The Theory of Industrial Organisation Economics which developed out of classical micro-economic theory (Bain, 1956; Scherer, 1980). This is fundamentally structural and determinist, arguing that the performance of a company within an industry is strongly constrained by the structure and basic conditions of the market. Little independent role is attributed to management, entrepreneurship or strategic choice. Industrial Organisation theory has been incorporated in strategic management theory, principally through the work of Caves and Porter (1977), Caves (1980) and Porter (1981, 1985). In this thesis, the basic tenets of Industrial Organisation Economics are accepted as a limiting factor in establishing the relative profitability of various markets, but not as a major profit determining force.
2. **Chamberlinian Economics**, as set out in the *Theory of Monopolistic Competition* (Chamberlin, 1938/1965) takes a quite different approach, substantially ignoring industry structure, and regarding the differentiation of the product, and organisation-to-organisation differences, as the prime source of competitive advantage. Where such differentiation exists, even though it be slight, buyers will be paired with sellers, not by chance and at random (as under pure competition) but according to their preference. In conditions of monopolistic competition, as Chamberlin (1938/1965) describes it, each organisation strives to exploit its unique competencies and strengths. This leads on to the modern concept of the resource-based theory of the organisation (Hamel, 1990; 1991; Grant, 1991).

3. The **Schumpeterian Economic Contribution** is different again. Schumpeter emphasises change, and discontinuous change in particular. Far from seeing organisations as identical, technology growth as a coefficient, and the pressure towards equilibrium as ever present, Schumpeter (1950:83) claims that:

> *The process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.*

For the early Schumpeter, the entrepreneur and innovation are the driving forces of capitalism (Barney, 1986). The theory of "creative destruction", and the discontinuous nature of economic development, presages much later Chaos Theory (Gleick, 1987; Stacey, 1991), with the latter's emphasis on the impossibility of usefully forecasting economic development through methods of trend extrapolation, although the bounded instability concept in chaos theory is not present in Schumpeter.

However, all three strands of competition theory are relevant to the search for sustainable competitive advantage. Barney (1986:798) pointed out:

> *most firms, at any given point in time, face both IO and Chamberlinian*
competition and live under the constant threat of either Schumpeterian shocks or revolutions. Moreover, the impact of previous Schumpeterian revolutions on an industry’s current structure can be profound.

Sustainable competitive advantage itself is a factor that cannot be measured, only inferred from the measurement of other trends like profit, market share and sales turnover. It is, nonetheless, the holy grail which all organisations seek to find and to keep. Coyne (1986) identified it as stemming from:

a) customers’ perception of a consistent superiority of the attributes of one organisation’s products over its competitors, this being due to a capability gap;

b) the capability gap being durable over time; and

c) the superiority being difficult to imitate.

It is suggested by this writer that it is this configuration of knowledge, skills, core competencies and superior products that strategic alliances seek to achieve, where the partners believe that they cannot achieve it alone.

Strategic alliances come in a variety of forms but are normally, at least implicitly, founded on the resource-based theory of competitive advantage. This theory (Grant, 1991) holds that competitive advantage is most productively sought by an examination of an organisation’s existing resources and core competencies, an assessment of their profit potential, and the selection of strategies based upon the possibilities this reveals. Amit and Schoemaker (1993) describe the process as relating an organisation’s unique “strategic assets” to key “strategic industry factors”, or, as Snyder and Ebeling (1992:26) put it:

...the firm is a system of activities, not a portfolio of individual products or services. Some activities are performed so much better than the competition and are so critical to end products or services that they can be described as core
competencies. When a series of activities are organized into a system that works better than the sum of its parts, this business process can also create competitive advantage, even if component activities by themselves do not.

The task is, then, to assess the current core competencies the organisation has, and fill whatever resource or competency gap is thrown up by the inventory taking of existing resources and competencies, in relation to the perceived potential profit opportunities. This is where strategic alliances come in. They are a way of extending resources and capabilities, hence core competencies, in order to develop sustainable competitive advantage.

Most strategists would concede, no doubt, that insight into strategy options can only be perceived by an examination of both the external environment and the internal strengths of the organisation. However, it is suggested that the emphasis placed upon the sequence in which this exercise is carried out is of some importance. Throughout the eighties, strongly influenced by Porter's (1980) views which involve a sophistication and development of the Structure-Conduct-Performance paradigm from the Industrial Organisation tradition, the strategic process has been most commonly described as being to:

a) analyse the industrial environment for opportunities;
b) assess internal capacity to take advantage of them;
c) identify, evaluate and select the appropriate strategies; and
d) implement the chosen strategy.

The thinking behind this process is that the attractiveness of the industry is the prime determinant of profitability. However, as can be seen from the Profit Impact of Market Strategy (PIMS) data (Buzzell and Gale, 1987), variation of profit levels in organisations within industries is at least as great as that between industries. Furthermore, there is the undoubted long-term profit record of the Hanson Group
(Porter, 1986a) and others, the fundamental strategy underlying which frequently involves investing in apparently unattractive industries but aiming to run companies efficiently, which casts further doubt on this emphasis. The PIMS approach can also lead an organisation that believes it has identified an attractive opportunity to embark on an investment in that opportunity area, without paying sufficient attention to the question of whether the supposed opportunity actually builds upon its existing core competencies.

The resource-based theory of competitive advantage would deflect an organisation from investing in an enterprise that was not strongly related to its core competencies. Only strategies based upon existing core competencies could, it would hold, lead to the acquisition and maintenance of sustainable competitive advantage. Snow and Hrebiniak (1980) found that organisations concentrating on a distinctive competence, consistent with their chosen strategy, regularly outperformed competitors. The resource-based approach emphasises the sustainability of organisation heterogeneity, and highlights imperfections in factor markets:

*...the exclusive focus on equilibrium and structural dimensions is absent. Instead disequilibrium and process dynamics loom primary* (Amit and Schoemaker, 1993:42).

If the opportunity requires certain competencies in addition to those already present within the organisation, a strategic alliance with a partner with complementary skills and resources may represent a low risk way of overcoming that deficiency.

2.4. The Resource Dependency Perspective

A strong motivation for setting up alliances can be found in the Resource Dependency Perspective (RDP). This theory (Pfeffer and Salancik, 1978) proposes that the key to organisational survival is the ability to acquire and maintain resources. Thus, in the last
resort, it is organisational power, and the capacity of the organisation to preserve itself, that determines competitive success, not merely organisational efficiency as proposed, *inter alia*, by the Transaction Cost approach. Thus, the unit of analysis for the RDP is the organisation-environment relationship, not the individual transaction. Problems arise not merely because organisations are dependent on their environment, but because the environment is not dependable.

To deal with this uncertainty, organisations attempt to manage their environment by cooperating with key parts of it, for example, by forming alliances. An RDP approach treats the environment as a source of scarce resources, and therefore views the organisation as dependent on other organisations also in the environment. The resource dependency theory stems from the much earlier theory of social exchange which holds that, where organisations have similar objectives but different kinds or different combinations of resources at their disposal, it will often be mutually beneficial to the organisations in the pursuit of their goals to exchange resources (Levine and White, 1961; Litwak and Hylton, 1962).

Thompson (1967) suggests that organisations seek to reduce uncertainty, and, *inter alia*, enter into exchange relationships to achieve a negotiated and more predictable environment. Sources of uncertainty include scarcity of resources, lack of knowledge of how the environment will fluctuate, of the available exchange partners, and of the costs of transacting with them (Achrol and Stern, 1988).

The degree of an organisation's dependence is a function of the critical nature of the resources to the parties involved in the exchange, and of the number of, and ease of access to, alternative sources of supply. Where few alternatives exist and the resources are essential, a state of dependency exists (Jacobs, 1974). This creates a power differential between trading partners, and the dependent organisation faces the problem
of how to manage its resources with the concomitant loss of independence, since unchecked resource dependence leads to a state of strategic vulnerability.

Such strategic vulnerability can be tackled in a number of ways. Western organisations may do it, for example, by multiple sourcing of materials and components, internal restructuring, merger or acquisition; Japanese ones, by the establishment of semi-captive suppliers within keiretsu\(^{11}\) groups. The establishment of a strategic alliance can thus be regarded as an attempt by organisations to reduce strategic vulnerability, and hence to overcome perceived constraints on their autonomy in choosing their strategic direction.

There are, in Thompson’s view (1967), two basic forms of external constraint by the environment, which affect the organisation’s available resources:

a) competitive constraints, where organisations live off the same resource pool. This is a zero sum game, and alliances seeking to reduce this form of dependency can do so only at the expense of other competitors; and

b) symbiotic situations, where the output from one factor is the input for another, for example, buyer/supplier relationships. In symbiotic relationships the level of institutional linkages is likely to be directly correlated with the level of transactions between factors.

However, such an analysis is essentially static, and ignores the fact that two partners exchanging resources and skills may realise synergies in a dynamic dimension.

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\(^{11}\) There is a strong predilection for organisations in Japan to cluster themselves into coherent groupings of affiliated companies extending across a broad spectrum of markets: with banks and insurance organisations in the capital market, with sogo shosha (general trading companies) in primary goods markets, with subcontractors in component parts markets, and with competitors in new technology development. These patterns are clearest when the clusters have been institutionalised into identifiable enterprise groups known as keiretsu.
Strategic alliances can be seen as attempts by organisations to establish a negotiated environment, and thus to reduce uncertainty. On the basis of this argument, alliances will occur most often when the level of competitive uncertainty is greatest, since the level of competitive uncertainty is positively correlated with efforts to manage that uncertainty.

In RDP-motivated alliances both parties typically strive to form relationships with partners with whom a balance of desired resources can be achieved at minimum cost, and with a desirable level of satisfaction and determinacy, and thus, wherever possible, with similar sized organisations. This approach is echoed by Kotter (1979:89) in what he calls the external dependence perspective, thus:

...organizations cope (inter alia) with external dependence by establishing favourable relationships with those they are dependent upon and with alternative sources of support in their domain.

Kotter (1979:89) goes on to state that one way of doing this is by means of joint ventures and other complex coalitions with other organizations.

2.5. Corporate Learning

This thesis puts forward the contention that strategic alliances are most frequently formed from resource dependency motives, and that the ability of the partners to achieve and sustain competitive advantage in their chosen market is strongly influenced by the degree to which they place corporate learning as a high priority on their alliance agenda, and seek to cause the alliance to evolve in a direction based on that learning. Kogut (1988) suggests a joint venture is used for the transfer of organisationally embedded knowledge that cannot be easily blueprinted or packaged through licensing or market transactions.
In a sense, corporate learning can be seen as the dynamic counterpart to the resource dependency theory of the organisation. Thus, an organisation will diagnose its resource and skill deficiencies in relation to a particular external challenge, and through the process of deliberate and planned corporate learning set about remedying its weaknesses.

The concept of unique know-how that is contributed and sought by partners in alliances is contained within Reed and Defillipi’s (1990) concept of “causal ambiguity”. Causal ambiguity attempts to capture the difficulty in linking action and result, which is exemplified in the fact that some organisations are able to achieve outcomes that other organisations try and fail to replicate, although endowed with apparently similar skills and resources.

As Roos and von Krogh (1992) emphasise, strategic alliances should be competence driven, that is, explicitly adding to either the task or the knowledge system or to the organisational memory of each partner. The idea of the organisation as a residuary for learning is a popular one. Decision theory emphasises the importance of the search for information to enable organisations to make informed choices. Hamel (1990; 1991) stresses the role of learning as a source of competitive advantage through the development of unique competencies. Senge (1990; 1992) and de Geus (1997) describe learning organisations as the survivors of the future.

Corporate learning may be regarded as having two fundamental dimensions in the literature:

a) individual learning (Argyris, 1964); and
b) organisational learning (Johnson, 1987).

Individual learning may be rational (how to work a computer), or intuitive (learnt almost unconsciously, like riding a bicycle). Howsoever achieved, individual learning
adds to the competencies of the organisation but is, in theory, easily appropriated, as when the individual with the developed competence is attracted into leaving the organisation. Organisational learning develops at a level beyond that of the individual, and becomes embedded in the rituals, routines and systems of an organisation, in its culture. As such it is more deeply rooted in its core competencies, and may therefore survive the tenure of individuals. Corporate organisational learning may be construed as consisting of both types described above.

The ease with which learning takes place within an alliance depends upon, first, the type of learning and, second, the relationship between the nature of the learning and the condition of the would-be receptor. Many alliances are formed ostensibly for short-term gains or to deal with temporary situations. These obscure the nature of the true strategic alliance, in which the intent is a learning one - the enhancement of joint sustainable competitive advantage as the extension of individual and joint core competencies - and in which long-term mutual benefit is supported by trust/bonding, commitment and a willingness to be flexible and robust in dealing with the tensions inherent in the partnership.

The key learning dimensions (see Senge, 1990; 1992; de Geus, 1997) of intent, receptivity, transferability and transparency, when associated with the different types of learning - namely, technology, process, opportunity and the learning philosophy - lead to an extremely varied learning situation, alliance by alliance. For the greatest benefit to be achieved by an alliance partner, the key learning dimensions need to be present in large measure. In all alliances, opportunity learning - for example, who are the best distributors? - can be identified and achieved, and, with effort, technology learning also. These forms of learning can be observed in the Imperial Tobacco/Wintermans case study in Chapter 8.2 on page 160 of this thesis. Process learning, and the highest form of learning, the learning philosophy, take longer to achieve, and normally require
a culture change before they are permanently embedded. These factors are evident in the Rover/Honda case in Chapter 8.1 on page 146. They are not the only reasons why these alliances are classed as dynamic, but are the ones that give the best expectation for success. Continuous learning and flexibility to meet changing challenges may well be characteristics that are found together in dynamic alliances.

2.6 Chaos Theory

The theoretical model of this thesis is now building into one involving partners with felt resource dependencies building their skills to achieve joint competitive advantage through joint and individual organisational learning. The next issue concerns the predictability of the external environment. If analysed with sufficient care, can its future be discerned, given that, *inter alia*, the perception of weak signals may be problematic (Ansoff and McDonnell, 1990), and will the development of the alliance be on a path inexorably moving towards the production of commodity products at a state of stable equilibrium? Chaos Theory adapted from Gleick (1987) and building on Schumpeter (1950) suggests not.

The application of chaos theory to the international business world stems from a growing unease with the capacity of the economist’s stable equilibrium theory to describe the real world sufficiently effectively to be useful for prescriptive purposes. The dominant economic, and by importation, strategic management paradigm is of stable equilibrium. It is approached through an analytical process in which the organisation adapts to its environment to achieve a chosen goal. In the strategic management paradigm, this leads to success by the attainment of that goal through the achievement of sustainable competitive advantage. In the economic paradigm, the forces driving towards equilibrium and the commoditisation of product tend to destroy that competitive advantage over time as new entrants come into the market, copy and improve, and steal it away. The vision is presented within a static framework of
analysis, at best with a series of analytical pictures taken in the present, and forecast chosen times in the future. However, this economic paradigm and method leads to difficulties. In particular, stable equilibrium organisations tend to ossify and ultimately fail from lack of imagination, and from belief in the everlasting potency of their methods, technologies and products (Mintzberg, 1989; Miller, 1990; and Pascale, 1990).

Decision-takers generally embrace the concept of equilibrium because it reduces uncertainty, promotes the belief that economic questions have long-term answers, and reduces angst. However, as Stacey (1991) points out, in reality the environment is constantly changing, and contains too many variables to be predictable in anything more than the very short term.

The strategic planning process, with its sequential steps of industry environment, competitor and internal analysis, is unlikely to be successful, even if rigorously applied at regular periodic intervals. It does not promote imaginative solutions, and the state of the analytic data is almost certain to have changed considerably between periodic plan developments. A more robust model replaces “The Planning System” with the “Planning Agenda” (Stacey, 1992b; 1992c), and the Stable Equilibrium Organisation with the far more flexible Learning Organisation. Analysis seeks to recognise patterns of activity rather than causality.

Chaos theory identifies three distinct states of activity within an environment, which includes the organisation as part of it rather than distinctly apart:

a) stable;
b) unstable; and
c) boundedly unstable (Gleick, 1987).
Stable activity is brought about by negative feedback to a stimulus which causes damping and a move back to equilibrium. This activity is uncreative, and describes an organisation unprepared to respond to major environmental change, like a steep shift in technology or of tastes. Unstable activity demonstrates over-reaction to change, and leads to amplified activity. The underlying instability of the organisation leads to failure from lack of a base capable of dealing efficiently with routine activities. Between the extremes of the unimaginative and the excessively unstable lies a border area of bounded instability that can be managed creatively. An organisation operating in such an area needs to be adapted to the routine environment, but also to be capable of displaying imagination; this is the Learning Organisation (Gleick, 1987; Senge, 1990; 1992; Stacey, 1991; 1992b; 1992c).

In Stacey’s (1991) terms, to be creative one needs to operate at the borders of stability and instability, and to recognise not causality but patterns of activity that recur and, if understood, that can lead to insights. Those that succeed in chaos will be those who see patterns where others search for specific links between causes and events.

This theory, taken from the world of natural science, is intuitively attractive when translated to the realm of social science. It also provides a logical development of the insights of the Schumpeter competitive model of the 1930s in which capitalism is developed through irregular periods of “creative destruction” where existing technologies and products become suddenly obsolete, and are replaced with new and better ones perceived to meet market needs. Back in the 1930s, Schumpeter stressed that an organisation must practise creative destruction on itself to sustain competitive advantage. It must destroy its old advantages by creating new ones and, if it does not, some rival may well do so (Stacey, 1992a; 1992b; 1992c).
The successful organisation, then, needs to live with the tension created by pursuing an innovative strategic agenda of constant learning and change whilst continuing to pursue the existing business efficiently. The organisation needs, therefore, to be flexible, but also to have efficient systems. It is perhaps these primary requirements that make the strategic alliance such a popular current organisational form for, to be successful, it must be both flexible and stable. With its head controlled by two or more strategic partners, it cannot easily lapse into complacency and closed-mindedness and, with diverse cultures to balance within it, when successful, it is constantly handling the problems of complex learning and adaptation.

2.7. Culture, Strategy and Alliances

When an organisation seeks to enter a new market or to supply a current one it may seek a foreign partner to form an alliance. The formation and operation of alliances offer several possibilities for the interaction of strategy and culture. First, companies from different nations may express differential preferences for the location of their alliances and the form that they take. For the most part, such preferences have been explained by using organisation-level variables such as organisation size, international strategy or transaction costs (Gray and Yan, 1992). While there is relatively little comparative research on the topic of alliance choice, there is some evidence, both direct and indirect, that the decisions on which partner to choose and on the location of the alliance itself may be linked to the values of the decision-makers and organisational characteristics which reflect the cultural milieu.

Many of the theories explaining the existence of alliances are based on a consideration of transaction costs. Under certain conditions, organisations may benefit more from internalising their exchanges through a third unit in which each holds an interest. In one of the best known expositions of this approach, Buckley and Casson (1988) argue that both sides must resist the temptation to take advantage of the cooperative arrangement
to gain a better strategic position if the enterprise is to be a continuing, mutual success. If the alliance cuts across cultures, this may pose problems in a number of ways. The two partners may not have the same understanding of what mutual forbearance implies. In part, this may be due to communication difficulties, but it may also be due to culturally influenced beliefs concerning loyalty to a foreign partner (as opposed to domestic industrial allies), the importance of fixed fluid agreements and the long-term strategic outlook of the partners. Where the perception of the agreement is rendered non-congruent by cultural biases, the risk of accidental transgression of the mutual forbearance tenet is heightened. The issue of “loyalty” pre-figures a conceptual concern that the prevailing theoretical approaches to alliance adopt an instrumentally rational approach rather than being space for the affect-influenced judgements of potential and actual partners. This is, after all, the perception of formation and maintenance and the fine judgement what seem to be more economistic criteria that shape strategic decision domain.

One of the hurdles on which alliances may founder is perceptions of time. Several years after describing his four cultural dimensions Hofstede added a fifth dimension based in part on the perception of time (Hofstede and Bond, 1988). Hofstede and Bond (1988) have said that Hofstede (1980) did not discover this dimension in his original research because there was little difference in the way that Western societies perceived the linear passage of time. It was only when parallel work was done in Asian countries that the distinction emerged. Contrasting time constructs and differing time horizons can have important effects on the operation of international joint ventures. Japanese organisations are known for their strategies of long-term market penetration and growth, while American organisations seek short-term profit maximisation. In part, these contrasting strategies stem from different views of wealth accumulation, but they are also underlain by quite different time horizons. Contrasting views of time by
dominant and minority partners in international alliances can alter the strategies themselves (Ganitsky and Watzke, 1990). Dominant partners with longer time horizons may favour market protection strategies in their own milieux but market development strategies abroad. Chinese managers are more likely to trade time for accuracy when making a decision than their American counterparts (Baird, Lyles and Wharton, 1990). Where the view of time or time horizons differs between partners, as between Western and Asian or Latin countries, both operational and human resource difficulties are likely to arise.

Difficulties may also arise from basic conceptions of how the alliance should operate. The Baird, Lyles and Wharton (1990) study uncovered significant differences between the views of the Chinese and US managers on the way that alliances should be run and the role that managers should play. Among other attributes, the managers differed on the use of authority and power, managing appropriate levels of uncertainty, and the preferred type of links between managers and subordinates. There was an especially pronounced difference on the subject of allocation of routine and important work. Such pronounced attitudinal differences do not necessarily mean that a cross-border alliance will fail, but they do mean that greater effort may be needed in order to understand and accommodate the partner's point of view.

Shane (1993) argues that a preference for high power distances in a national culture denotes a lower level of trust. From this, he hypothesises that countries with higher power distance scores should prefer wholly owned subsidiaries over alliances as a means of foreign investment. Adding power distance to Contractor's (1990) market-based model for explaining preference for alliances over other types of investment arrangements produces a significant increase in explanatory power. Shane interprets this result as implying that higher transaction costs for organisations located in high power distance cultures will cause them to prefer the more direct control mechanisms
implicit in wholly owned subsidiaries. A similar argument has been made in relation to the preferred location of alliances. Because new alliances of any type create uncertainty, managers may seek situations in which uncertainty can be reduced or minimised. In cultural terms, this means finding partners and locations with a small cultural distance from the investor. If Shane’s (1993) view is valid, then it would add power in its own right to Contractor’s (1990) model.

The impact of cultural distance on alliances can be seen in the uncertainties that their managers encounter. In a study of role ambiguity faced by managers of international alliances, Shenkar and Zeira (1992) found that reported role ambiguity differed according to cultural distance. The authors used five indices of cultural difference, Hofstede’s four dimensions [Power Distance, Uncertainty Avoidance, Individualism, and Masculinity (Hofstede, 1980)] and a summary of the four which they called cultural distance. The composite measure was not significantly related to role but the four individual dimensions were. Shenkar and Zeira (1992) found perceived role ambiguity was higher when power distance and masculinity gaps were higher. However, higher role ambiguity was also related to smaller differences in collectivism and uncertainty avoidance. This would seem to imply that, for some cultural dimensions, being too close is likely to pose more problems than being reasonably distant. If two cultures have similar but not identical demands for uncertainty avoidance, it may be difficult to know how much information is required before a subordinate feels confident in acting, let alone trusting or bonding. If the difference were larger the problem would be better defined and the solution perhaps more obvious. The discovery of contrasting culture effects among Hofstede’s (1980) four dimensions also points to the dangers of simply summing a group of cultural measures and labelling the result “cultural distance.”
Within the cross-border alliance literature single-minded attention has been paid to alliances between Japanese and Western organisations, especially the cause of their high failure rates (Brown, Rugman and Verbeke, 1989). While a number of explanations for failures has been offered, notably the mis-management of the alliance once they have been established, there are indications that some of the failures, at least, are due to cultural differences. One possible difficulty may lie in the very definition of success for an alliance, or indeed any other enterprise (Turpin, 1993). Japanese managers typically emphasise increased market share and the introduction of new products. For American managers, high returns on investment, and maximising returns to shareholders, are paramount. Cultural influences here may be expressed directly, through the criteria managers use to judge their own performance, and indirectly, through the mechanisms set up to manage the joint venture itself. The tendency for American-Japanese alliances in Japan to be headed by Japanese may ensure that short-term profitability will not be high on the list of priorities. This practice reflects a cultural preference for retaining prestige posts for nationals, as well as the practical considerations of local connections and language facility.

The differences in the objectives of Japanese and American partners is underlined by the factors that lead to Japanese satisfaction with alliance performance. Organisational learning, development of human resources and market diversification may all be factors which weigh heavily in the evaluation of alliance performance for Japanese participants. Japanese managers seem to recognise a wider variety of benefits that may flow from the alliance, so their levels of satisfaction are not tied to a single indicator. This seems to be true for a variety of partners, not simply Americans (Cullen, Johnson and Sakano, 1995).

One of the key factors in the success or failure of an international alliance is the management of human resources. Depending on the location, ownership and mission of
the alliance, there may be some ambiguity as to whether the alliance’s employees belong to the alliance or to one of the parent organisations. This ambiguity can be exacerbated by the time horizon of the alliance and the value of loyalty to be found in the partner organisation’s cultures. The difficulty here may lie in the question, not just to whom the employee is loyal but to where that loyalty is directed. Japanese members who are lent to an alliance, especially one of intended short duration, maintain loyalty to the parent company in line with strong long-term employment prospects and the system of mentoring which facilitates advancement. Mexican employees limit their commitment to organisations, in part because of the strong collectivist attitudes centred on the family (Teagarden and von Glinow, 1990). Failure to understand the framework in which partners evaluate loyalty and trust may lead to unrealistic expectations or failure to fulfil those of one’s counterpart.

The success of a cross-border alliance depends on the perceived “fit” of the partners. For most writers, the term “fit” refers to the congruence of strategic goals, organisational structures or personnel resources. For others, however, it has come to include the fit between cultures and its effect on human resource issues. A lack of congruence can affect organisational effectiveness:

*This lack of congruence would be any conceptual incongruity between the host and foreign HRM systems; for example, a highly specific selection system (or reward system, performance appraisal system or career path structure) versus a selection system that does not include assessment, recruitment devices and other mechanisms associated with highly specific systems* (Teagarden and von Glinow, 1990:27).

If the alliance brings together cultures whose understanding of how employees are recruited, motivated and evaluated is at variance with one another, the alliance project
may be severely handicapped.

The idea of fit or congruence can be applied to more general characteristics of alliances. Meschi and Roger (1994) examined fifty-one joint ventures between Hungarian organisations and partners from five other countries. Using a perceptual measure of cultural distance, they found that greater national distance, as they termed it, led to significantly less organisational effort and organisational attachment, as well as higher levels of conflict. If the managers of the alliances perceived that Hungarian culture was distinct from that of their partners, they tended to be less committed to the alliance and to encounter more conflict over its direction. Although there was no direct measure of effectiveness, it seems safe to conclude that national distance does not inhibit the effective functioning of alliances, at least in this particular cultural context. The distance between organisational cultures of partners was also examined as a factor affecting social effectiveness. While organisational culture also had an impact on social effectiveness, in general it was less important than that of national culture.

Cross-border alliances represent an attempt by managements from two or more national cultures to work together toward some common goal. The research in this area, illustrated in Table 2.1, on page 53, shows that national culture plays a significant part in determining the shape of cross-border alliances, the partners involved and, most importantly, their chances of success. Precisely because the two cultures are brought into intimate contact, the difficulties that may arise from operating with different cognitive and affect frameworks are easier to recognise. Despite the evidence that national culture is a crucial consideration in the design and operation of cross-border alliances, there has been relatively little research directed towards understanding its actions (as opposed to its effects), perhaps because of the difficulty of matching theoretical concerns to appropriate methodological approaches (Parkhe, 1993).
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**Table 2.1 Previous Studies on National Culture**

**2.8 Trust/Bonding and Organisations**

Trust has received attention as a mechanism of organisational control and as an alternative to price and authority (Bradach and Eccles, 1989), as a response to the emphasis on opportunism that pervades agency theory and transaction cost economics (Etzioni, 1988; Bromiley and Cummings, 1992), as a key factor in managerial beliefs and philosophies (Sitkin and Roth, 1993; Miles and Creed, 1995), and as a necessary element in the operation of alliance forms of organisation (Powell, 1990; Miles and Snow, 1992; Miles and Creed, 1995). In at least some of these cases, the focus has been on the inadequacies of the assumptions that underlie organisational economics.

Despite the increased interest in trust, there does not yet appear to be a consensus on the place of trust in organisation theory. Trust functions, according to Powell (1990:305), as a remarkably efficient lubricant to economic exchange [that] reduces complex realities far more quickly and economically than prediction, authority, or bargaining. In line with these notions of the essential nature of trust, Bromiley and
Cummings (1992) argue that the level of trust within an organisation affects its structure and processes. Trustworthy behaviour, according to Bromily and Cummings (1992), actually reduces transaction costs.

There is little question that within the alliance form trust requirements are high and the consequences of failing to meet them severe. Alliance partners are expected to forego the right to pursue self-interest at the expense of others (Powell, 1990:303) and recognise their co-dependence with upstream and downstream partners. Within alliances, trust allows reduced transactions costs (Bromiley and Cummings, 1992) and assures those contemplating a long-term relationship that adaptations to future contingencies will be made in a jointly optimal way (Lorenz, 1988:201). It may be that alliances depend on minimal transactions costs to obtain both their responsiveness and efficiency.

2.9 Summary

This chapter has surveyed the economic and cross-border theories in which strategic alliances are becoming an increasingly popular organisational form. The first part of the chapter notes the changing nature of the economic world in which industry boundaries are becoming blurred, economic units are becoming pan-national, and enterprises are becoming federated and increasingly flexible. It draws attention to two of the major forces behind these changes, namely the shrinking of the world in communications terms conducing to the globalisation of tastes and markets. Secondly, the chapter looked at the globalisation of technologies, accompanied by shortening product life-cycles, leading to the need for greater levels of investment than single companies can easily accommodate. It suggests that all these forces lead to the renaissance of cooperative strategy, and to strategic alliances in particular.
The second part of the chapter reviewed some basic theories of strategic alliances as they emerge from macro trade theories, and in particular those strands of theory upon which the propositional model (described in Chapter Five) and the research reported in this thesis is based. The transaction costs approach is outlined as the economic efficiency theory most frequently cited to justify particular organisational forms on the grounds of economic efficiency; the modern theory of international trade is described to illustrate the place of strategic alliances in the ever changing configurations and forms of coordination that perceived cross-border demands and needs are bringing about. The principal traditional economic theories of competition are then referred to as background to the resource based theory of competitive advantage. The resource dependency perspective is outlined as one of the most commonly cited motivational theories for strategic alliances, and the concept of corporate learning as the philosophy that enables those resource dependency defects to be remedied through focussed knowledge accumulation. The theoretical section then cites modern chaos theory as an important constituent contribution to the theory that competitive advantage depends as much, if not more, on the bounded instability that stimulates creativity, as on the stability that brings about efficiency. If the lineaments of this theory are accepted, the advantages of the inherently flexible and changing alliance form may be preferable to the more rigid integrated corporation. According to Nonaka (1989), the globalisation process must involve overlaps, an element of chaos in the interests of creativity, and therefore substantial redundancy of information flows, for only through information excess can new forms develop.

Chapter Three will consider current alliance theories and will outline a conceptual framework for alliances upon which the thesis is based.
CHAPTER THREE

ALLIANCE THEORY REVIEWED

Against the background of basically economic theories contributing to an understanding of a changing global environment, this chapter reviews the quite disparate contributions of current strategic alliance theory, assesses its practicability of application, and then sets out a proposed theory of alliances to provide a structure for the research. Because the term “alliance” is relatively late in literature usage as a generic term, in this chapter terms like “joint venture” will appear interchangeably with alliance since literature up to the end of the eighties seems to prefer the term “joint venture.”

3.1 Existing Theories

3.1.1. The Motivation for Alliances

The processes of economic and industrial change in the West since the end of the second world war can be characterised by a number of phases, as Chandler (1986) explains. First, there was the immediate post-war phase of inherited rigidities from the inter-war period, and the protection of ravaged economies. Then, from the fifties onward came the dramatic growth of the major multinationals, and of the divisionalised M-form of organisation. Chandler (1977:11) goes so far as to say that:

What the new enterprises did do was to take over from the market the coordination and integration of the flow of goods and services from the production of the raw materials through the several processes of production to the sale to the ultimate consumer... administrative coordination replaced market coordination in an increasingly larger portion of the economy.

12 As previously mentioned in Footnote 1 on page 1 of this thesis.
However, this process led in due course to administrative and bureaucratic diseconomies that had to be weighed against the realisation of the clear scale and scope economies of large scale operation. Hrebinjak (1992:399) puts it thus:

...internal expansion and the inevitable creation of hierarchy can negatively affect flexibility, speed of response to markets, and the free flow of information so desperately needed to implement global strategies.

The third phase came in the late seventies and the eighties when much of what he (Chandler) observed earlier began to unravel (Jorde and Teece, 1989:29).

This period saw the growth of the venture capital-funded entrepreneurial organisation with substantial outsourcing of non-key processes. So, previously internalised value chain activities were returned to the market place. This, of course, led in many cases to the disadvantages of fragmentation, and the limitations of inadequate resources, particularly in the face of the concomitant movement towards the increasing globalisation of markets.

Partly in response to these forces, there has been a dramatic growth of strategic alliances between companies over the last fifteen years, particularly in technology and marketing:

*The spectacular growth of international interfirm technical cooperation agreements represents one of the most important and novel developments in the first half of the 80's* (OECD report, 1986, cited in Collins and Doorley, 1991:3).

And, as Gomes-Casseres states (1987:99):

*Joint ventures thus may often be instruments providing firms with flexibility in responding to trends that are difficult to predict.*
Porter and Fuller (1986:322,342) also focus on the basic purpose of an alliance when they say:

*Coalitions arise when performing an activity with a partner is superior to performing the activity internally on the one hand, and to reliance on arm’s length transactions or merger with another firm on the other... coalitions can be a valuable tool in many aspects of global strategy and the ability to exploit them will be an important and probably growing source of international advantage.*

A more complete theoretical basis for the development of strategic alliances, however, is needed that accepts that a number of different organisational forms may be as equally potentially viable as an integrated company (even though they may lack the superficially attractive qualities of simplicity) by being either markets governed by the price mechanism, or organisational hierarchies governed by control and coordination rules, or some combination of these types. It is clearly not necessarily logical to claim that one must be at one or other end of the markets/hierarchies continuum to be a viable organisational form. The factors leading to a form’s viability may not be the position on any continuum, but the nature and volatility of the internal and external environmental “determinants”, and especially the behaviour of those managing the particular form.

The basic motivations behind the formation of strategic alliances are clear. Aiken and Hage (1968: 914-915) said it succinctly:

...organizations are “pushed” into such interdependencies because of their need for resources - not only money, but also resources such as specialized skills, access to particular kinds of markets, and the like.

More analytically, Pfeffer and Nowak (1976) and, later, Porter and Fuller (1986) suggest much the same reasons for concluding strategic alliances, these including:
a) to achieve with one's partner economies of scale and of learning;
b) to get access to the benefits of the other organisation's assets, be they
technology, market access, capital, production capacity, products, or
manpower;
c) to reduce risk by sharing it, notably in terms of capital requirements, but also
often research and development; and
d) to help shape the market, for example, to withdraw capacity in a mature
market.

Another motive behind the conclusion of strategic alliances is the need for speed in
reaching the market (Lei and Slocum, 1991). In the current economic world, first-
mover advantages are becoming paramount between a technologically strong compar-
strong market access is the best way to take an.

There may also be opportunities, through the medium of alliances, for the achievement
of value chain synergies (Porter, 1986b) which extend beyond the mere pooling of
assets and include such matters as process rationalisation and even systems
improvement.

3.1.2. Ground Rules For Alliance Formation

To survive and be regarded as successful, alliances need to be created in a set of
circumstances conducive to their development (Teramoto, Kanda and Iwasaki, 1991).
They also need to be run according to a set of ground rules of which the following are
some of the most commonly recommended in the literature. Taucher (1988) suggests
that the best chance of success for an alliance is when a joint venture is concluded and
the partners actively encourage the new company to develop a clear self-sustaining
existence, even to the extent of encouraging flotation on the stock exchange and new
additional shareholders. Taucher (1988) cites Unilever as an example of such a development.

A strategic alliance, Lynch (1990) suggests, should operate in the spirit of trust, cooperation and integrity, since, as Perlmutter and Heenan (1986) point out, an atmosphere of mutual distrust and domination by one partner jeopardises the stability of the alliance. Lynch (1990) adds two more rules for success, namely that strategic and operational synergy prevail and that, as the alliance matures, the partners be willing to be flexible enough to allow the structure to transform as strategic and operational conditions change. This basic idea is supported by Bleeke and Ernst (1991:135):

Alliance managers should not only structure the alliance to minimize these tensions but also be prepared to rebalance the alliance - or exit smoothly - when it gets into trouble. Meeting the requirements of change, after all, is the main requirement for success in alliances.

A formula for termination should be built into the initial agreement as reassurance for both parties (Taucher, 1988). Devlin and Bleakley (1988) add that clearly defined goals should be set, sufficient resources contributed, and the limits of the alliance recognised if it is to have a successful life.

All commentators are clear about the major pitfalls that attend inadequately thought out alliances. The most important of these include Lyles (1987) who suggests:

a) future conflicts due to the differing agenda of the partners;
b) inadequate partner rapport leading to misunderstandings;
c) fear during technology transfer that a future competitor is being created;
d) cultural incompatibility; and
e) lack of commitment by the partners as personnel are seconded for two years, then rotated.
What even Lyles (1987) and others do not take into active account is the role of affect in the appraisal by alliance partners of their alliance. Yet, fear, tension and trust carry affect-laden freight.

A further risk occurs when the strategic condition and objectives of the partners change, and this change is not reflected in the arrangement of the alliance. This was a major factor leading to the failure of the Olivetti and AT&T alliance (Takeuchi and Porter, 1986).

Such ground rules are preliminary and prudential only. The relative immaturity of strategic alliance theory has not yet provided comprehensive confirmations of such ground rules.

3.2. A Proposed Framework for Alliance

If it is accepted that strategic alliances come about most frequently because the partners consider that their joint value chain will enable them to gain competitive advantage in a way they could not do apart (Porter and Fuller, 1986), it is necessary to identify the conditions under which this situation is likely to arise.

This thesis suggests that there are a number of conditions that need to be satisfied for strategic alliances to be likely to meet Porter and Fuller’s (1986) criterion, or the unifying dimensions as Spekman and Sawhney (1991:5) call them. If these conditions exist, then it is proposed that competitive advantage may be achieved through the medium of the alliance. Such advantage can only be achieved, as in non-alliance situations, through the creation of non-imitable “isolating mechanisms” capable of generating economic rents (Rumelt, 1974), or key competencies in strategic asset areas (Amit and Schoemaker, 1993). There appear to be three basic sources of these mechanisms:
a) preferential market access, for example, through brands;
b) non-imitable cost advantages; and
c) the possession, or superior use, of specific assets or skills, particularly technology (Amit and Schoemaker, 1993).

The stages of the development life of an alliance can be divided into three parts (Teramoto, Kanda and Iwasaki, 1991; Lorange and Roos, 1992):

a) its formation;
b) its management; and
c) its evolution.

Clearly the management and evolution stages overlap in time, as the evolution stage emerges from the management stage. It is contended by this writer that, for an alliance to demonstrate the primary characteristics of effectiveness, it needs to evolve from the initial pact, and that the process of evolution is strongly influenced by positive attitudes to corporate learning held by the partners (see argument at Chapter 2.5 on page 40 of this thesis).

3.2.1. Alliance Formation

Alliances are formed for a wide variety of reasons (Patterson (1993) outlines 12 distinct reasons cited by 36 separate researchers). First, there is generally an external stimulus. In the nineteen eighties and early nineties, this has most commonly been the globalisation or regionalisation of markets. Companies which had been equipped quite adequately to prosper in national markets suddenly found themselves having to cope in their home market with major global competitors. A number of factors brought this about, including the 1992 European Union single-market directives, the improvements in world-wide communications, and the homogenisation of tastes and, in respect of many industries, the same products are to be found in department stores simultaneously in New York, Tokyo and London (Ohmae, 1985).
Other external driving factors have been: ever-shortening product life-cycles, and the development of global technologies. This has led to the need for larger investment commitments as organisations faced gearing up to develop new products almost as soon as they had launched the last product. Few organisations were adequately equipped to do this alone. A further factor relating to technology was the growing need to have a sufficiently large volume of sales to be able to take advantage of economies of scale and of scope (Porter and Fuller, 1986; Hennart, 1988) that were available through modern automated manufacturing processes in order to secure the low unit costs necessary to achieve competitive advantage. Additionally, the world economy had, since the oil shocks of the seventies, become increasingly turbulent and uncertain, and only corporations of significant financial strength had the flexibility to cope with such uncertainty.

Most companies, even the very large, faced these external forces with concern, and strategic alliances became an important item on their agenda if they felt themselves to be deficient, in global terms, in resources, skills or, what Prahalad and Hamel (1990:79) call, core competencies (also see Hamel, 1990). If they additionally felt the urgent need to get new products on the market to take advantage of major opportunities that might not remain long enough for their research and development to develop the products internally, and if they felt the need to rationalise their finances and seek a partner to spread the risk, then they were strongly motivated towards seeking an alliance partner. Internally, the theory of the Resource Dependency Perspective frequently illustrates the underlying motive for the organisation’s realisation of its need for allies if it is to survive and prosper in the increasingly globalising economy. As Astley (1984:533) puts it, as environments become more turbulent and unpredictable, only cooperative activity can deal with them and the boundary between organizations and their environments begins to dissolve.
The partner selected would, of course, need to be one with complementary assets and capabilities, with identifiable synergies, ideally with a compatible culture, and with whom the initiating organisation believed it could achieve sustainable competitive advantage that it could not achieve alone. In short, the partners would perceive their relationship as having a "good strategic fit". Partner perceptions are an important intervening variable in strategic alliance intention.

The selection of alliance form is probably also important, as different situations may be perceived to be best accommodated by different forms (Gupta and Singh, 1991). It is suggested by them that the collaboration form is most appropriate for situations where there is high uncertainty at the outset as to what tasks will be involved in the cooperative enterprise, and there is a consequent high need for flexibility between the partners. It may also be most appropriate where the partners do not immediately seek visible and specific initial commitments from each other, and where the alliance boundaries do not encompass specific assets or describe a clearly distinct business within the partners’ portfolio.

Gupta and Singh (1991) maintain that joint ventures are often formed where the alliance covers a distinct business area, where the assets are distinct and separable from the partner companies, and where the partners feel the need to tie each other in.

Consortia may be formed where the task is very large and no two companies would be credible to undertake it, that is, circumstances ranging from the level of financial commitment required to the variety of skills and competencies, and perhaps credibility with major clients, especially governments.

In the most successful alliances, the partners’ intentions at, or even, before formation will generally be to learn from their partner, and hence remove some of their individual
competence deficiencies. This does not, however, necessarily mean that their intention is to absorb all their partner's know-how, and then subsequently establish themselves alone. As Beamish and Banks (1987:6) point out:

_The risk of leakage of proprietary knowledge also serves to limit the efficiency gains available through joint-venture arrangements._

3.2.2 Management of the Alliance

A strategic alliance is formed for the long term, as Bertodo (1990:36) underlines:

_Strategic alliances are not tools of convenience. They are important and, possibly, critical instruments in fulfilling corporate strategic objectives._

As such, the management system for running them needs to be established with as much care as that devoted to the choice of alliance form. Roehl and Truitt (1987) take the view that stormy open marriages are often the best in strategic alliances, but this seems to be a minority view. More common is the view that such relationships should take care that the long-term goals of the partners should not be in conflict although this does not mean that they need be identical. Levine and Byrne (1986) point out, however:

_... that over half the time top management spends on the average alliance goes into creating it, with involvement sharply trailing off over time._

Important principles in this area involve agreeing on dispute resolution mechanisms that are satisfactory to the partners, and if possible a "divorce" procedure to cater for the possibility that the alliance may cease to meet the needs of the parties (Taucher, 1988). Perhaps most important, attitudes need to be positive and flexible:

_...selection mechanisms favor actors whose repertoires of behavior are biased towards cooperation_ (Hill, 1990:503).

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It is highly unlikely that the partners’ companies or national cultures will be similar. If they are, of course, this may smooth the way for a harmonious working relationship. However, most strategic alliances are formed precisely because the partners are different, and valued the more for their difference. The national and organisational cultural atmosphere reflected in the partner company is therefore unlikely to be similar. A sensitive attitude to cultural differences is therefore necessary if the alliance is to prosper since the cultural differences in ways of operating are likely to lead to confusion in the partner companies; if partner attitudes are positive, sensitive and flexible, this need not have a negative impact on the alliance, and may lead to the partners’ absorbing what is best in each others’ culture to their mutual benefit. Once more, learning from the partner is a key to effectiveness.

It is suggested that two further attitudes are vital if the alliance is to be effective, namely commitment and trust. This has been previously mentioned (see pages 14, 26, and 60 ) and is taken up in this thesis in propositions about bonding (see Chapter 5.3.3, page 110). Granovetter (1985; 1988) argues that inter-personal relationships are mechanisms to attenuate opportunism, and hence reduce the need for hierarchy. Commitment is demonstrated in the degree to which partners dedicate time and other resources to alliance matters, and are not discouraged by problems that arise. Killing (1988) stresses that the greater the degree of organisational and task complexity in an alliance, the greater the need for high commitment on the part of the managers to make it work.

Trust is a more difficult area. Trust normally has to be earned in relationships and this takes time. In alliances, however, it is suggested that an attitude which says “I trust my partner, unless and until I have reason not to”, is more likely to lead to positive results than the attitude which says “I don’t know my partner well. He or she will have to earn my trust over time”. In Hill’s (1990:500) view, natural selection, which links into
Granovetter's (1985; 1988) view through the partners' being opportunistic with the situation, works here:

*In the long-run, the invisible hand deletes actors whose behaviors are habitually opportunistic. Consequently, as markets move toward the state of competitive equilibrium, the risk of opportunism will be low.*

A further important area is the establishment of systems to disseminate information throughout the partner organisations and the alliance organisation. In the absence of such systems, the risk is high that vital information, especially know-how, will remain with the partner, and be merely used but not absorbed, or that it will go no further than the executives directly interfacing with their alliance partners, and not become embedded in the partner companies' tacit knowledge fabric.

Hamel (1991:100) also stresses the need for companies to appropriate the value they create if they are to benefit from alliances in the future, and particularly if they are to maintain or increase their bargaining power in relation to their partner:

*Depending on its bargaining power a partner will gain a greater or lesser share of the fruits of the joint effort.*

Thus, one has the paradox that, to gain from an alliance, a partner needs to establish the ability to appropriate a substantial proportion of the value created by the alliance in the form of the successful internalisation of new core competencies learnt from the partner (see also Hamel, 1990). However, the more successful the organisation is in doing this, the less it appears to need its partner, and hence the weaker the bonds of the alliance might become.

Fortunately for the inherent value of alliances, like all good paradoxes, this is only an apparent contradiction and it arises from too static a view of an alliance. It assumes a finite set of competencies and skills, and that appropriation of value by one partner
diminishes the value pool available for the future. In fact, it is likely that a successful alliance will produce value for the partner companies, at the very least in the form of organisational learning, and also, in joint venture alliances, retain further value within the venture itself.

3.2.3. Alliance Evolution

A key factor in the life of an alliance seems to be that, if it ceases to evolve, it starts to decay, or as Thorelli (1986:43) suggests, that they tend to disintegrate under the impact of entropy. Despite the continuance of the original agreement, managements may start to lose interest in the liaison if nothing new comes from it. Bertodo (1996) of Rover is keenly aware of this, and is conscious of the need to maintain a balance between the two companies' relative need for each other. He sees it as trading "packages" of competencies on a regular basis. There have so far been five basic "trades" over the life of the Rover/Honda alliance, all leading to continuous evolution:

As guardian of the company strategy... I have got to have something ready to trade if the company decides it needs to trade, which will depend on how fast it is learning. I think we don't learn fast enough, but I would say that wouldn't I?

The trading view, however, underlies a static "fixed set of goods" philosophy. Yet the reality of a successful alliance is that it not only trades competencies but also realises synergies. Whereas the Resource Dependency Perspective (Pfeffer and Salancik, 1978) identifies a key part of a company's motivation for forming an alliance, the successful evolution of that alliance depends upon the realisation of synergies between the companies, and the establishment of a durable competitive advantage for the partners that each could not realise alone. Alliance evolution is about continuous value creation (Teramoto, Kanda and Iwasaki, 1991) which will, in a successful collaboration alliance, be appropriated by the partners in a balanced fashion (see Figure 3.1 on page 71 of this thesis). Some value will emerge in terms of increased profits for shareholders
or for future investment, and some will emerge in the form of increased core competencies. But another value will remain intrinsically dependent upon the continuance of the alliance and will form a strong bonding factor, about which more will be said later (Chapter 5.3.3 at page 110). For example, economies of scale and, to some extent, of scope would be difficult to realise by the partners separately, however adept their competence internalisation. There may be joint patents and designs, and frequently joint development of assets of a tangible or intangible nature, which live naturally within the alliance, and are not subject to individual appropriation. In addition, over time, and with evolution, the alliance as an entity will begin to develop a life of its own, even more so in the joint venture form of an alliance. Bertodo’s (1990) theory of alliances as a practitioner in alliances proposes that conditions for evolution include:

a) perception of balanced benefits
b) the development of strong bonding fac
c) the regular development of new projects between the partners and the adoption of a philosophy of constant learning by the partners.

Further explanation of what is meant here by learning and stability is probably necessary. Stability, perhaps due to the influence of the concept of equilibrium from economics, is felt to be a state to which all organisations aspire.

Teramoto, Kanda and Iwasaki (1991) indicate that it is often said that alliances are unstable but that this instability is based on a failure to understand business life. Stability is in instability, and instability in stability. All are based on change, and this is the norm. Alliances are therefore no more unstable or stable than any other organisational form. All react by changing as they adapt, *inter alia*, to a constantly changing environment, whether internal or external.
The often cited analogy of an alliance with a marriage is pertinent here (Roehl and Truitt, 1987; Taucher, 1988; Harrigan, 1998a). Western marriages might be regarded as unstable as they currently have a high failure rate. In fact, they have many of the qualities of strategic alliances. The partners retain separate identities but collaborate over a whole range of activities. Stability is threatened if one partner becomes excessively dependent on the other, or if the benefits are perceived to be all one way. But none the less, successful marriages are stable, and for the same reason as successful alliances. They depend upon trust, commitment, mutual learning, flexibility and a feeling by both partners that they are stronger together than apart. (This becomes part of the bonding proposition that is dealt with in Chapter 5.3.3 at page 110). Many businesses point to the need to negotiate decisions in alliances as a weakness, in contrast to companies where hierarchies make decisions. This is to confuse stability with clarity of decision making, and would lead to the suggestion that dictatorships are more stable than democracies.

In this analogy, it is commitment to the belief that the alliance represents the best available arrangement that is the foundation of its stability. Johanson and Mattsson (1991) claim that the cooperative alliance, by strengthening bonds, creates interdependence, and by establishing conflict resolution mechanisms, strengthens the relationship and creates space for the continued evolution of the relationship. The need for resolution of the inevitable tensions in such an arrangement can as easily be presented as a strength than as an inherent problem. It leads to the need to debate, to see and evaluate, and to reconcile contrasting viewpoints (Hampden-Turner, 1990).

The organisational learning perspective described in Chapter 2.5 (at page 40) suggests that alliances are a vehicle for the transmission of tacit knowledge, organisationally embedded, and often causally ambiguous to the outsider. How then is the learning issue handled in alliances and does it influence alliance evolution? In terms of the
Evolution Through Value Creation

(Author's Approximation)

Figure 3.1
possibilities presented by an alliance, there are a number of different types of learning, each with different implications (Hamel, 1990; 1991; Grant, 1991):

a) technological learning: this is a mixture of the technology describable in blueprints, plus the know-how involved in using them;
b) process learning: this is more deeply embedded in the culture of the partner, and therefore more difficult to transplant;
c) opportunity learning: this involves practical matters, such as, who are the best suppliers? what is the best way of getting skilled labour? who are the best agents? and
d) a learning philosophy: this is an attitudinal approach very difficult to translate but perhaps the most crucial to ultimate alliance success and the most guaranteed to transform the company.

The ease with which learning takes place within an alliance depends upon, firstly, the type of learning, and, secondly, the relationship between the nature of the learning and the condition of the would-be receptor. This latter situation can be analysed into:

a) intent - this represents the strength of the organisation's determination to learn. Without that, there would be little advantage in terms of growth of core competencies, and the alliance would be limited largely to resource substitution (Hamel, Doz and Prahalad, 1989);
b) receptivity - this represents the condition in the company with regard to its level of knowledge accumulation and sophistication and hence capacity to learn. A low-tech company can only learn from a high tech one, for example, after substantial education and preparation;
c) transferability - this relates to the ease with which the type of learning can be transferred, that is, tacit knowledge is difficult, overt product knowledge easier; and
d) transparency - this is the willingness of a partner to release information and
to explain difficulties.

Many alliances may be set up on the initial presumption of short term gains in order to deal with what are seen as temporary situations and look therefore more like the more fluid idea of a network. These presumptions obscure the nature of the likely successful strategic alliance, in which the intent is a learning one in the cause of joint sustainable competitive advantage, the extension of individual and joint core competencies, and in which long-term mutual benefit is supported by trust, commitment and a willingness to be flexible and robust in dealing with the tensions inherent in the genre. As Lorange and Roos (1992:271) stress, it is vital to emphasise the win-win rationale of the alliance, so that...this type of global strategic alliance could be the prototype for future transnational corporations.

Given appropriate attitudes, and perceived “good” strategic fit of the partners, it is suggested that strategic alliances can, through mutual learning, evolve into powerful unitary global enterprises able to challenge the multi-nationals on their own terms and sometimes win. The next chapter sets out specific propositions that the research will explore in an attempt to validate or refute this assertion.

3.3 Summary
This chapter has moved on from Chapter One’s discussion of the background considerations relevant to the research, to the specific consideration of existing theories of strategic alliances in the literature. Starting with the most commonly attributed motives for alliances, it then discussed the most commonly advocated groundrules for running alliances effectively. This, then, has laid the groundwork for the discussion in Chapters Nine, Ten and Eleven of alliance formation, alliance management and alliance evolution, respectively. Chapter Five sets out the research propositions which will be considered in relation to alliance effectiveness.
The consideration of alliances found in the more traditional approach to strategy largely based in economics does not appear to be significantly interested in the epistemological background to strategic alliances. The need for some sort of classification system, as proposed in Chapter Four, is an attempt to fill this gap, as the structure that the alliance organisation takes cannot be void of the influence of knowledge assumptions which one or more of the alliance partners bring to the alliance.

In this exploratory thesis academic theory and practitioner observations are juxtaposed in order to gain a more overall and concerted view of the future of strategic alliances as one cross-border set of organisational arrangements. This chapter does not, however, seek to privilege, epistemologically, a theoretical literature dealing with various schemata often not empirically supported, any more than later in this thesis is a claim made for the privileging of practitioner generalisations\textsuperscript{13}. This thesis attempts to juxtaposes relevant theoretical literature with the practitioner material later supplied in Chapters Six, Seven and Eight of this thesis. The case studies in those chapters reflect both publicly available documentation of the alliances as well as partner comment on the alliances. Academic theory and practitioner observations are juxtaposed.

\textsuperscript{13} For a more elaborate argument on this author’s declining to privilege the witness of theoreticians over against practitioner observations, and vice versa, see Hassard and Pym (1990), Denzin (1992), Rosenau (1992), Hassard and Parker (1993), Dickens and Fontana (1994) and Burr (1995:185).
CHAPTER FOUR
A CLASSIFICATION SCHEMA FOR ALLIANCE STRUCTURES

4.0 Introduction
A classification system consists of a system of classes constructed to fit the subject matter so that the relationships among classes deemed to be salient can be described. The classification “schema” (hereafter referred to as the schema) has three classes which reflect the reality as perceived by the alliance partners and as described in the case studies in Chapters Six, Seven and Eight. This thesis uses the perception of partner participants to the extent possible as a corrective to any absolute confidence in schema that may be naively epistemologically imposed by this researcher on his data.

Jones (1983:150) draws attention to the importance of needing participant’s perceptions when he says:

Only through the analysis of the processes thr.
create social reality can subjective meaning be grasped. This calls for an epistemological position that is interpretive rather than normative, being concerned with elucidating meaning rather than determining causality.

While practitioners may not be aware of macro-theories such as transaction cost economics, international trade theory and resource dependency, they may well use, from experience and well informed practitioner judgments one or more of these macro-theories from common-sensical experience - a conflating modus operandi. What the case studies in Chapters Six, Seven and Eight suggest is conflated with what macro- and even micro- theories say is salient. Sometimes new elements, like bonding, trust and commitment among alliance partners are added; sometimes economic-based concepts are found to be of no compelling significance to the practitioners.
4.1 Towards a Schema

There is a wide variety of classificatory schema of alliances in the literature. But a fully satisfactory schema that meets conventional key classification criteria of exclusivity of categories and usefulness of concepts and qualities may be difficult to find. Some of these schemata are reviewed below.

4.1.1 Currently Proposed Schemata in the Literature

The variety of different forms of alliance include technology development coalitions, marketing and distribution agreements, operations and logistics coalitions, single country and multi-country alliances, joint ventures creating a daughter company from two or more parent partners, minority share exchange agreements, and licensing agreements. Ghemawat, Porter and Rawlinson (1986) attempt to classify all alliances as either “x” (that is, vertical coalitions) alliances between partners carrying out different activities in the value chain, or “y” (that is, horizontal coalitions) partners carrying out the same activity in the value chain. In addition, there is a third variety, that is, “diagonal alliances” (Brønder and Pritzl, 1992) which apply to cooperative activity between companies in different industries, and there are of course many hybrid forms.

Classification of strategic alliances can be attempted in so many different ways simply because the interests of the research inform the classifications. In Ghemawat, Porter, and Rawlinson's (1986) research, strategic alliances are classified according to their legal nature (41% joint ventures, 16% licences, 12% supply agreements), also according to their functional areas of concern (20% technological including exploration, 42% operations and logistics, 22% marketing sales and service). Garrette and Dussauge (1990) speak of horizontal strategic alliances, linking competing organisations operating in the same industry, and vertical strategic alliances linking buyers and suppliers in separate industries but capable of being integrated in the same business system. They consider these two types of alliance as quite distinct in nature.
The horizontal alliance, by linking competitors, blurs the distinction between rivalry and cooperation at least within a defined domain. Vertical alliances, however, raise the issue of the internalisation of transactions (Garrette and Dussauge, 1990). This thesis has, however, already indicated that the focus of its enquiry is not on supply line arrangements where a heavy degree of dominance in relationships is normally apparent but rather on alliance arrangements between consenting partners.

Thus, instead of buying in components in a single arms-length market-priced deal, the vertical alliance between manufacturer and supplier removes much of the price and availability uncertainty from the relationship, at the cost of potentially sacrificing the efficiency-regulating power of the price mechanism. Garrette and Dussauge (1990) further classify alliances into three principal types:

a) shared upstream and downstream integration;

b) additive alliances in which each partner contributes assets to each other, for example, research and development, manufacturing and distribution functions as appropriate; and

c) those involving complementary assets.

Within this somewhat broad-based lumping together of categories, they arrive through their research at three clusters of arrangements in which shared integration is seen as the most common in research and development and manufacturing sectors. The relationships are frequently self-contained limited arrangements, and are often found in the semi-conductor and automotive industries, spanning continents and with multiple integrations. Additive alliances, Garrette and Dussauge (1990) claim, are broad-based large-scale ventures typically found, for example, in the aerospace industry, and covering whole value chains. The motivation behind these alliances is frequently to achieve an entry strategy on a major scale. Complementary alliances are frequently found in manufacturing and in marketing and are normally two-partner alliances.
Telecommunications is a typical industry for this configuration.

Pucik (1988) notes that, in the past, alliances were mainly concerned with reducing capital investment needs, and lowering the risk of entry to new markets. While these motivations are still present, the emphasis has shifted to taking advantage of the increased speed of technological change, and adjusting to the rapidly growing competitiveness of global markets. The types of alliance in Pucik's (1988:78) classifications are:

a) technical exchange and cross-licensing;
b) co-production and original equipment manufacturing agreements;
c) sales and distribution ties;
d) joint product development programs; and
e) the creation of joint venture firms.

All have the aim, Pucik (1988:78) states of *attaining the position of global market leadership through internalization of key value-added competencies*.

Kanter (1989) takes a similar line in arguing that getting the benefits of what another organisation offers without the risks and responsibility of owning it is the ultimate form of leverage. She identifies three fundamental types of alliance (Kanter, 1989:123-130):

a) multi-company service consortia, for example, for research and development;
b) opportunistic alliances set up to take advantage of specific situations, for example, most joint ventures; and
c) stakeholder alliances: these are what other researchers refer to as vertical alliances, or, with Ghemawat, Porter and Rawlinson (1986) and Porter and Fuller (1986), alliances between companies at different parts of the value chain, for example, supply/producer complementary coalitions.
Consortia, Kanter (1989) notes, try to achieve the benefit of large-scale activity by pooling of resources; for example, Microelectronics and Computer Corporation (MCC) was set up to compete with the Japanese in research and development. These alliances are very popular in new technology areas between companies that are normally competitors. They often founder though, Kanter (1989) states, as a result of a low level of commitment by their members, and from having mediocre, seconded staff. Opportunistic joint ventures are, Kanter (1989) believes, the most unstable of alliance forms. Each partner supplies the competencies that the other lacks. The principal driving forces are technological transfer and market access. However, due to their opportunistic nature, these alliances find difficulty in achieving the necessary robustness when circumstances change, especially if they change asymmetrically, in power terms, for the parties. Stakeholder alliances institutionalise previous inter-dependence, and are often quality or innovation-driven, that is, an organisation treats a supplier as a partner in order to increase quality and cement the alliance. These alliances should be stable, as they have high commitment and little competition.

Collins and Doorley (1991) identify six forms of alliance:

a) strategic partnerships between large companies, for example, General Motors and Toyota, or ICL and Fujitsu;

b) collaborative R & D alliances;

c) relationships with suppliers, especially for Just-in-Time (JIT) purposes;

d) venture capital-backed joint ventures, normally in new technology areas;

e) value-added distribution alliances, customising for local markets; and

f) partial mergers, often in mature markets to organise phased withdrawal from a market by one partner.

Due to a relative lack of importance attributed to the role of epistemology within research under the broad disciplinary label of "management," there is noticeably little
unanimity on schema to amongst researchers into strategic alliances. Some classify according to legal form, for example, distribution agreements; others by the position in the value-chain of the partners, for example, vertical alliances, horizontal alliances; others by the functions performed, for example, sales and distribution, or manufacturing, or research and development alliances; and still others, like Kanter (1989), by a more eclectic schema, for example, opportunistic alliances, service consortia, stakeholder alliances. Such schemata as exist in the literature are empiricist in nature and offer little scope for research into the matter of interest to this thesis, namely formation, management and evolution of alliances and the likelihood of success being attributable to factors underlying such stages.

4.2 A Proposed Schema

A form of schema can be adopted that reasonably fits the database material under investigation and leads on to a more satisfactory set of propositions than would seem to emerge from the schemata already surveyed in the literature (see Chapter 4.1.1 at page 79). The proposed schema will be classified along three axes, namely:

a) the scope of the alliance: that is, whether perceived by the alliance partners as specific purpose or broad based;

b) the creation of a new corporate legal entity, that is, a joint venture; and

c) the number of alliance partners, that is, two or a multi-partner consortium.

Thus the schema can be represented as in Figure 4.1, on the following page, with specific/broad based, joint venture/non-joint venture, and two partner consortium as the three axes.
4.2.1(a)(i) A Specific Purpose Alliance

A specific purpose alliance is a collaborative arrangement between two or more companies set up to meet what is perceived as a clearly defined set of circumstances in a particular way. Thus, for example, a USA company seeking to enter the European Union market with a given set of products, may form a specific purpose alliance with a European distribution company as its means of market entry. The USA company will provide the product and the market and sales/promotional literature, while the European company provides the sales force and local know-how. The precise form of arrangement may vary, but the nature of the alliance is a specific purpose one with clear remits and understanding of respective contributions and rewards. Thus, in November 1989, Cincinnati Bell Information Systems (CBIS) of the USA set up an alliance with Kingston Communications of Hull, England to market CBIS’ automated telecommunications equipment throughout the European Union. CBIS provides the equipment and Kingston the sales effort (Cincinnati Bell, 1990).
4.2.1(a)(ii) A Broad Based Alliance

The broad based alliance may involve large parts of, or even the complete value chains of, each partner. The companies recognise that, together, potentially, they form a far more powerful competitive enterprise than they do apart. Yet they wish to retain their separate identities and overall aspirations, while being willing to cooperate with each other over a wide range of activities. Rover/Honda is an example of a broad based alliance (see Chapter 8.1 at page 146). It included joint research and development, joint manufacturing, joint development and sourcing of parts. The companies remain separate, however, in the marketing and sales areas, and both companies retain clearly distinct images. The alliance involves a 20% share exchange between Rover and the Honda (UK) manufacturing company, but this does not appear to be necessary condition for this type of alliance.

4.2.1(b)(i) A Joint Venture

A joint venture involves the creation of a legally separate company of which the alliance partners are normally founding shareholders. Thus a USA company may set up a joint venture with a United Kingdom company to market in the European Union. The partners normally provide finance and other support resources, including some personnel, until the venture is able to develop its own. The aim of the joint venture is typically that the new company should ultimately become a self-standing entity with its own aims, employees and resources, quite distinct from its parent shareholders. Unilever is an example of a successful joint venture set up in the 1920s by Dutch and English parents, and now a major multi-national enterprise.

4.2.1(b)(ii) A Collaboration - a Non-Joint Venture Alliance

A collaboration is an alliance form that has no joint venture company to give it boundaries. It is both the most flexible form and potentially the least committed form at the outset of the arrangement. Companies can set up a collaboration on a very minimal
basis to see how matters develop, and then allow it to deepen and broaden by feeding
new projects into it over a period of time. Just as the collaboration requires no major
initial commitment, it also has few limitations. It is probably the most appropriate form
where the extent of the possible relationship is impossible to foresee at the outset, when
the alliance is not bounded by a specific business or set of assets, and when joint
external commitment at a certain level is not specifically sought. It may be that the
collaborative form is most appropriate if the activity concerned is a core
activity/competence of the partners. If it is non-core, a joint venture may be more
appropriate. Such guidelines, however, are often not crucial in choice of alliance form.

4.2.1(c) A Consortium

The consortium is a distinct form of strategic alliance in that it has a number of
partners, and is normally a large-scale activity set up for a very specific purpose, and
managed in a hands-off fashion by the contributing shareholders. Consortia are
particularly common for large-scale projects in the defence industry, where massive
funds and a wide range of specialist skills are required for success. Airbus Industrie is a
consortium where a number of European shareholders have set up an aircraft
manufacturing company to compete on world markets with Boeing and McDonnell-
Douglas. The European shareholders, although asset-large themselves, felt the need to
create a large enough pool of funds and skills to ensure that they reached critical mass
in terms of resources for aircraft development, and chose to form an international
consortium to do this.

There are, then, eight possible combinations of strategic alliance as illustrated in Figure
4.1 on page 81:

- a) Specific Purpose Joint Venture (specific purpose/joint venture/two partners -
SPJV2);
- b) Specific Purpose Consortium (specific purpose/joint venture/consortium

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(greater than two partners - SPJV>2);
c) Specific Purpose Collaboration (specific purpose/non-joint venture/two partners - SPNJV2);
d) Specific Purpose Multi-partner Collaboration (specific purpose/non-joint venture/consortium - SPNJV>2);
e) Broad Based Joint Venture (broad based/joint venture/two partners - BBJV2);
f) Broad Based Consortium (broad based/joint venture/consortium - BBJV>2);
g) Broad Based Collaboration (broad based/non-joint venture/two partners BBNJV2); and
h) Broad Based Multi-partner Collaboration (broad based/non-joint venture /consortium - BBNJV>2).

Within this schema, it is apparent that some alliance arrangements are simpler and less irretrievably committing than others. It seems probable also that some types are likely to develop out of others which perhaps reflect the common terminology used by the alliance partners in the case studies located in Chapters Six, Seven and Eight of this thesis.

The simplest type of all is the specific purpose collaboration [(c) above] where two partners agree to work together on a defined project. Given successful interaction, this form of alliance may develop into a broad based one (as did Rover/Honda [see Chapter 8.1 at page 146]), or it may lead to the creation of a joint venture. Similarly, two partner alliances may recruit further partners, and move into the consortium form. It is also possible for the alliance to develop hybrid characteristics. Perhaps intuitively less likely paths of evolution may be from consortium to two-partner form, or from joint venture to non-joint venture collaboration.
There are three composite schema categories that would cover a very high proportion of all alliances, provide useful boundaries to the research, and might be expected to yield valuable insights and propositions. The composite categories are the joint venture (which has corporate off-spring), the collaboration (which has no corporate off-spring) and the consortium (communal living).

4.3 The Schema Under Examination

In order to discover whether the schema can be used to classify alliances, the Predicast database\(^\text{14}\), from 1989 to 1996, and its abstracts were searched. The abstracts revealed, on a content analysis, three schema categories of joint venture, collaboration and consortia. The results of the search were then scanned for alliances that were cross-border in nature. The specific nature and purpose of the alliance was also noted, as well as the countries to which it applied and the industries it served. Appendix 2 (at page 230) lists the classified alliances involved in this part of the research. It should be noted that, even though some references from the Predicast database are to alliances with Asian partners, this writer has excluded Asian partners from the scope of this thesis even though the database makes reference to Asian partners. The exclusion was intended to avoid the particular complexities that inter-Asian cultural differences might introduce into what is an exploratory study.

It became apparent that the schema could readily be applied without ambiguity along two axes, namely, joint venture to non-joint venture collaboration, and two partner alliance to multi-partner consortium. However, considerable judgment, not only on the part of the alliance partners but also for the author, was required to discern whether the alliance was specific purpose or broad based. The criterion of one-value chain activity as against a whole-value chain activity proved unduly restrictive in that many alliances

\(^{14}\) The Predicast Database is a database available on subscription on CD-Rom. It has two versions that may be searched. The first deals with the financial press of the U.S.A. and the second version deals with the financial press in Europe.
were clearly specific purpose but involved more than one value chain activity from each company. The relevant aspect of focus might then be in the nature of the objective set for the alliance. The further criterion of the degree to which the aims and objectives of the alliance were closely defined at the outset was added to assist in distinguishing between the specific purpose and the broad based alliance forms.

The establishment of joint venture companies to define the alliance boundaries was carried out in 69.5% of the sample of alliances. This is intuitively sensible since the creation of such a new entity can help to overcome many of the cultural and ambiguous boundary issues that tend to make alliances so difficult to manage. The alliance was given a clearly defined focus, based on the interpretation of the database, in 67.5% of the sample cases. Lack of longitudinal data, of course, prevented a view being taken on how often a specific purpose alliance evolved into a broad based one. Consortia accounted for 32% of the sample, and these were generally major examples of international collaboration between giant global corporations often related to the defence and aerospace industries.

Perhaps unsurprisingly, the least popular alliance form was the broad based multi-partner collaboration (BBNJ>2). This could be regarded as virtually unmanageable, with its multiplicity of partners, broad based agenda and lack of a joint venture company to concentrate attention. As such, it has more of the characteristics of a network than of an alliance.

The schema of alliances, when applied to the Predicast database, was shown to have a general ease of application, with only the specific purpose/broad based classification perhaps in need of more precise definition. The parameters of a number of partners, and the creation (or not) of a new joint venture company of separate legal status from its corporate parents can be recognised straightforwardly, and are clearly important
parameters in any characterisation of an alliance.

Some writers (for example, Porter and Fuller, 1986; Powell, 1990) claim that it is not possible to assign particular alliance forms to particular sets of industrial or environmental circumstances in anything more than a very general way, and the adoption of particular forms may be idiosyncratically dependent on the preferences of the partners. However, it seems plausible that companies seeking a strategic alliance with a partner for the first time are likely to start with a specific purpose joint venture or collaboration between the two partners in order to get to know their partner better before attempting a more involved relationship.

A few other general points can be made from an examination of the information contained in the database data (see Appendix 2, page 230):

a) major international projects involving massive capital and a wide variety of specialist skills seem to be generally carried out in consortium joint ventures (SPJV>2 and BBJV>2). Examples of this form abound: for instance, the consortium set up by Electricité de France, with Powergen, and National Power of the United Kingdom, a number of German power company partners, to develop the electricity distribution system in the former East Germany; or the project commissioned by the Japanese government to develop a supersonic aeroplane and comprising an international consortium composed of Mitsubishi, Kawasaki, and Ishikawayima-Harima of Japan, General Electric and Pratt and Whitney of the USA, Rolls Royce of the United Kingdom and SNECMA of France;

b) less commonly, alliances are set up in the purely collaborative form without a joint venture company (SPNJV>2 or BBNJV>2); for example, the consortium of Motoren und Turbinen Union of Munich, Rolls Royce of the
United Kingdom and Turbomeca of France to develop dual shaft modular
design engines for the MTR390 of the Tiger anti-tank helicopter. In this
case, the work is to be shared out between the partners: 40% Motoren und
Turbinen; 40% Turbomeca; and 20% Rolls Royce, without the creation of a
joint venture vehicle; and

c) despite the popularity of the joint venture, a substantial percentage of
alliances operate without a separate company to define their relationship.
22.5% of the Predicast data-base were alliances between two partners, and a
further 8.0% were multi-partner alliances, all without joint ventures. Indeed,
the Rover/Honda alliance had operated for fourteen years very successfully
without a separate joint venture company to define it but also possibly to
limit its development (see Chapter 8.1 at page 146).

Further research needs to be done to establish any possible linkage between industry,
company size, or alliance purpose before a view on the possible linkage between
alliance form and appropriate environmental circumstances can be confidently asserted.
The limited exploratory nature of this part of the research prevents the drawing of more
dramatic conclusions in relation to the links between alliance forms and specific
environmental circumstances. The research, however, does demonstrate the use, as a
valuable tool for alliance research, of the proposed schema based on the criteria of
essential scope of alliance, specific structural form, and the number of partners. The
schema is relatively straightforward to apply (once the issues surrounding specific
purpose versus broad based alliances is clarified), deals with the fundamentals of
alliance nature and form, and, it is suggested, differentiates between types of alliance,
providing a robust schema for research into the conditions influencing alliance
creation, and the identification of possible guidelines for the establishment of alliances
that are effective and enduring.
The empirical sorting, on the basis of the schema, of the results of the search of the Predicast database showed that three composite types accounted for 91.5% of the sample. The two-partner joint venture was the most popular form (45%), followed by the consortium joint venture (24%), and the two partner collaboration (22.5%). Thus, these three forms principally emerged from the schema, that is, the joint venture, the consortium, and the collaboration, and it is these three basic forms that are addressed in this research.

4.4 The Schema Applied

The purpose of this thesis is to give a practising manager a tool to make a strategic alliance an effective and viable long-term organisational form of organisational structure. The schema proposed in this chapter by the researcher is intended to permit an analysis of the alliance literature alongside of the alliance partner’s perceptual data and to facilitate an analysis of the data contained in the case studies in Chapters Six, Seven and Eight.

The case studies which are used for illustrative purposes to tell the story of the alliance from the alliance partner perspective cannot be held to be definitive. The experience of the participants in the case studies shows that the application of the schema is a “good fit” with the ideal-typical form yielded by the proposed schema.

As von Krogh and Roos (1995:137) point out:

...each time a group of managers meets... their viewpoints, their arguments, their concealed and revealed warrants etc., will have changed. In short, the socialized organizational knowledge is highly dynamic. In the language of general process theory... the reference... is recurrent but not cumulative. New knowledge...developed under a management meeting does not add cumulatively to previous knowledge... Each time the management team meets they develop
new knowledge of the plan referring to their previous knowledge, forgetting parts of the conversations, including new experiences, or innovating new interpretations... This perspective is very different from most normative strategic planning models in literature. Here knowledge accumulation is assumed as management work through different phases of a strategy process.

The results of the search of the Predicast database have not been violated by the organisational-form schema (Joint Venture, Collaboration or Consortium). The result is also an organisational-form schema using terms that are familiar to practising managers and supported by these managers' own partnership classifications.
5.0 Introduction
This thesis is concerned in part with identifying the circumstances and behavioural conditions most favourable to ensuring the long term "effectiveness" of strategic alliances as perceived by the alliance partners. It is proposed that these factors involve prospective partners confronting a set of circumstances deemed to be conducive to alliance formation, taking the decision deemed appropriate, and adopting the appropriate strategic stances. Figure 5.1 below sets out the proposed salient factors in a diagrammatic form:

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FORMATION CONDITIONS AND DECISIONS

External Drivers
- Right Partner
- Speed to Market
- Low Cost Solution
- Resource Deficiency
- Appropriate Alliance Form

Organisational Arrangements
- Congruent Objectives
- Risk
- Positive Partner Attitudes
- Expanded Scope
- Balanced Benefits
- Organisational Learning

The Proposed Factors Deemed Salient in the Theoretical Literature Reviewed
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Figure 5.1

Figure 5.2 on the following page comprises two elements. The first elements are the factors that the theoretical literature, from Figure 5.1 above and reviewed in the thesis, offered as salient and predominant. These factors are not necessarily differentiated by the literature into the chronological stages, that is, the second element, namely of formation, management and evolution of alliances which the author has imposed, based on the case studies presented in Chapters Six, Seven and Eight. The imposition derives from the alliance partners' own responses to the factors seen as important as the alliances developed. This new configuration is the serendipitous outcome of the interaction between this researcher and the alliance partners who were interrogated, and displays a significant addition to the static representation of salient factors.
encompassed by the theoretical literature review represented diagrammatically in Figure 5.2 below.

![Diagram](image)

**Figure 5.2**

The author of this thesis has found it necessary to include Factor C3 (Trust, Commitment and Bonding between Partners) for attention even though it may not have the same predominance in the theoretical literature as the other factors. While trust appears in the marketing discipline related theoretical literature in relation to supply chain management (Achrol, Scheer and Stern, 1990; Bucklin and Sengupta, 1992; Sengupta and Bucklin, 1994; Smith and Barclay, 1995; Campbell, 1995) it is done in a way that sees trust reduced to a functionalist component of supply chain management. This thesis and the case studies in Chapters Six, Seven and Eight take a different view of trust as the alliance partners deemed it as salient to the ongoing relationships.

For convenience sake the groups labelled A, B, and C in Figure 5.2 are added here ahead of the detailed justification provided in Chapters Six, Seven and Eight. In that sense they are anticipatory groupings but will be used for discussion purposes in this
Of the fourteen salient factors identified for examination in this thesis, all are either widely or occasionally mentioned in the literature on alliances. Only Trust, Commitment and Bonding (Factor C3) was developed specifically as a result of grounded theory (Glaser and Strauss, 1967; Strauss and Corbin, 1990), in that it was identified through the writing up of the case studies when alliance partners raised bonding, trust and commitment as being critical to the development of inter-personal relationships of alliance partners. (Trust, Commitment and Bonding are reflected here in anticipation of the arguments to be developed in Chapter 11.4 at page 204).

The factors no doubt vary in their importance for the alliance partners as part of a model for an “effective” alliance; it was a key part of the research to attempt to identify those factors with which alliance effectiveness is more closely associated by the literature and by participants where this evidence was available.

It is recognised in this thesis research that a wide variety of circumstances is inevitably present at alliance formation, that the systems adopted for setting up and running alliances are also likely to vary widely and to be highly contingent upon the specific nature of these circumstances. Therefore, simple replicable formulae for setting up and running alliances will have only limited specific appositeness in particular instances.

However, the thesis intention is to attempt to identify the “ideal” typical\(^{15}\) character of the effective alliance behind the varying specifics and contingent circumstances of any particular alliance.

\(^{15}\) A type, constructed by emphasising certain traits of a given social item which do not necessarily exist anywhere in reality. The traits are defining, not necessarily desirable ones. An example is Weber’s ideal type of bureaucratic organisation (Weber, 1947).
A number of basic assumptions underlie the propositions to be investigated, namely that:

a) strategic alliances, if appropriately set up and run, can be more than transitory organisational forms;

b) their stability can be as high, or indeed as low, as other more traditional organisational forms like joint stock companies or legal partnerships;

c) to help create this stability, the alliance form deemed appropriate by the alliance partners to the external and internal circumstances needs to be adopted;

d) certain ground rules and attitudes towards running the alliance need to be consistently followed that stem from partner bonding (see Chapter 5.3.3 at page 110); and

e) constant attempts need to be made by alliance partners to cause the alliance between the partners to evolve.

It is proposed that, if these guidelines are consistently followed, the alliance should have a favourable prognosis for successful evolution in terms of both economic performance, and equally important, internal morale. In fact, the potential, if any, of alliances for instability may itself be an advantage, since a degree of instability may be necessary for innovation and creativity (for example, as suggested in chaos theory (Gleick, 1987; Stacey, 1991; 1992b)).

5.1 Alliance Formation
For an alliance to be set up with the most favourable chances of being effective, an appropriate match needs to be arrived at between the external conditions provoking the need for action; the circumstances in the partner companies leading the partners to decide that an alliance is the most favourable solution for them to a felt need; the choice of partner; the nature of the circumstances in the partner companies leading the
partners to decide that an alliance is the best solution for them to a pressing need; and finally the nature of the structural and organisational form chosen for the cooperative enterprise.

In general, of the formation factors (see cluster A in Figure 5.2, page 92), those related to choice of form attempt to identify circumstances under which particular forms will be most appropriately, and are most commonly, chosen. Clearly the “most commonly” issue is easier to solve than the “most appropriately” one. Of the external and internal “drivers”, it is proposed that, for an alliance to be likely to form, at least one external and one internal factor is a necessary condition. It is not held, however, that the list of operationalised factors in these particular propositions (propositions 2 and 6) is exhaustive, or that all or any particular combination is necessary. The other circumstantial formation factors (that is, propositions 3, 4, and 5) are conditions commonly identified in the literature as important. The research aims to show whether or not these propositions are borne out by the perceptions of managers in the case study database (see Appendix 2 at page 230).

It is proposed that all the criteria identified for choice of partner (Factor A7) are important, although it is recognised that answers given to the question on the qualities of “compatible cultures” are likely to be chosen according to perceptions of a management-estimated kind.

The propositions advanced by this writer in this chapter of the thesis, then, explore the nature and constraints of particular alliance forms, identify some of the major internal factors that motivate organisations to seek alliances, set out the key external conditions most frequently encountered in times of high alliance formation, and suggest the most

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16 Hereafter, references to the Factors associated with clusters A, B, and C in Figure 5.2 (page 92), that is the formation, management and evolution stage, are always to such cluster factors.
important criteria for partner selection. The propositions relating to each factor (at page 92 above) are the collected hypotheses deriving from the study of the literature. Not all the sub-propositions can be found in each writer examined but, taken collectively, they represent the wisdom of the literature overall as distilled by this researcher.

5.1.1 Appropriate Alliance Form

The first proposition concerns itself with the conditions appropriate to the choice of a particular alliance form.

Proposition 1a - Appropriate Alliance Form (Factor A1): A strategic alliance may be deemed appropriate as a separate joint venture company if:

a) the alliance scope constitutes a distinct business;

b) the alliance assets are
   i) specific;
   ii) easily separable from the parents; and
   iii) need to be jointly managed;

c) the alliance objectives can be clearly measured in relation to the use of the assets;

d) there is a perceived need to contractually bind the partners;

e) it is legally necessary, for example, to get into new country markets where legislation requires foreign organisations to be in an alliance with a local partner;

f) the partners wish to allocate a predetermined level of resources to the venture.

It is proposed that the conditions appropriate to joint venture formation, thus, are ones which enable the partners to regard the alliance as something distinct from their overall relationship, like the offspring of a marriage. Little definitive work has been done relating alliance form to appropriate internal and external conditions. Lorange and
Roos (1992:267) take a contingency approach, claiming that:

No particular type of strategic alliance is better or universally more correct than others; what matters is to make the appropriate choice of strategic alliance form given the particular conditions at hand.

This can be justified on the basis of managerial judgment among the alliance partners. Gupta and Singh (1991), however, try to be more specific, and recommend the selection of the joint venture if the assets are specific and separable, and if there is a need to manage them separately, and, as Johnson and Scholes (1993; 1997) add, if there is a low risk of asset appropriability. If the joint venture develops in such a way as to make it grow apart from the partners, is found ultimately to be a self-standing entity ripe for divestment and capitalisation of the investment, then this may be more a sign of success than failure of the alliance. Such potential is always present in the joint venture form, and may be seen by the partners, even at the alliance outset, as a possible and acceptable outcome.

**Proposition 1b - Appropriate Alliance Form:** The collaborative alliance form may be deemed appropriate if:

a) there is high uncertainty as to what tasks will be involved in the cooperative enterprise;

b) there is a great need for flexibility between the partners;

c) market or corporate level of visible commitment by the partners is not Sought; and

d) the boundaries of the alliance do not circumscribe a distinct business area of the partners.

It may be the case that, when potential partners identify each other, they cannot, at the outset, determine the extent or the nature of their possible collaboration as it may develop over time. Also, the alliance partners may not wish to announce, internally or
to the world, the nature of their cooperative strategy, and may prefer to allow the relationship to develop in a flexible and incremental way (as is the case with Cereal Partners Worldwide S.A., see Chapter 6.1 at page 116). In these circumstances the collaborative form, with its inherently flexible nature, may be the preferred alliance form.

Proposition lc - Appropriate Alliance Form: A consortium may be deemed the appropriate alliance form if:

- a) two partners alone cannot realistically provide sufficient continuing resources to meet the identified challenge or opportunity;
- b) large size by gross revenue, market share or geographic coverage is necessary for the enterprise to be credible to potential customers, or regulatory agencies;
- c) the specialist skills required are so numerous and varied that two companies could not continue to provide them adequately;
- d) extensive geographical coverage is needed to achieve strong market presence; and
- e) there is the need to spread and limit the financial risk to each partner.

Consortia are generally difficult to manage as they involve a number of simultaneously transacted relationships; as a result, they may evolve to require a joint venture form to prescribe and set limits for their boundaries. Even in these circumstances the varied agendas of the partners, the different organisation cultures, and the dilution of management control inherent in working with a number of partners makes the consortium a difficult form to manage. Consortia seem therefore to be resorted to principally when the scope and scale of the challenge is judged to make this the only practicable solution. However, most defence and aerospace enterprises and other industries requiring very high levels of R&D have the characteristics of a consortium,
and the consortium form is most frequently met in these sectors (Collins and Doorley, 1991; Kanter, 1989; Lei and Slocum, 1991).

5.1.2 Internal Motivations Deemed Relevant in the Literature and by Alliance Participants

Borys and Jemison (1989:235) sum up many of the considerations motivating alliance formation:

Although they arise for many reasons, a generic goal of hybrids is to avoid the disadvantages of conventional (unitary) organizations. Unitary organisations often suffer from, among other things, operational inefficiency, resource scarcity, lack of facilities to take advantage of economies of scale, or risks that are more appropriately spread across several business units.

Companies are motivated to form alliances for a wide variety of reasons, but most often cited reasons are those that come under the heading of perceived resource dependency. Proposition 1(c) above captures the basis of the Resource Dependency Perspective (Pfeffer and Salancik, 1978; Kotter, 1979; Spekman and Sawhney, 1991.) Alliances may be of the defensive variety; for example, the partners collaborate in order to defend their domains in the face of an external threat from a common enemy; or they may be aggressive; for example, the globalisation of their market affords opportunities for companies able jointly to operate on this scale. In both cases, the motivation for the alliance is resource-based. Alone, the potential of each partner’s value chains, financial and other resources, core competencies and skills, and networks of contacts are perceived by the respective partners to be inadequate to achieve the identified objectives; together, the potential synergies from cooperation are perceived as leading to a competitive advantage, which is jointly but not separately available (Porter and Fuller, 1986).
The nature of the resource dependency may vary widely; for example, technology or know-how (Kogut, 1988; Goldenberg 1989; Contractor and Lorange, 1988; Patterson, 1993; Bronder and Pritzl, 1992), market access (Hennart, 1988; Killing, 1988; Goldenberg, 1989; Kogut, 1988); brand names and reputation (Thorelli, 1986; Pfeffer and Salancik, 1978). In addition, resource dependency may take the form of a resource imbalance; for example, when partners form an alliance to withdraw capacity in an ageing industry (Mariti and Smiley, 1983; Contractor and Lorange, 1988; Collins and Doorley, 1991).

**Proposition 2 - Resource Deficiency (Factor A2):** A key perceived motivation for alliance formation is to gain skills or resources needed to respond to external challenges.

There are, of course, more ways of dealing with a presumption of resource dependency than one. Alternative action might involve raising further capital in the market; recruiting key personnel in areas of perceived expertise weakness; a merger or an acquisition; or the development of a contractual arrangement to license technology in or distribution out. Resource dependency, then, may be a necessary condition for alliance formation, but not a sufficient one, in the face of the alternative ways of dealing with the perceived deficiency. A further factor advancing alliance formation in the face of merger/acquisition or organic development is the need to limit risk (Astley, 1984; Buckley and Casson, 1988; Jarillo, 1988; Porter and Fuller, 1986; Mariti and Smiley, 1983; Borys and Jemison, 1989).
Proposition 3 - Risk (Factor A3): A key motivation for alliance formation is to spread financial risks.

Even if a company had sufficient funds to approach an opportunity by means of organic development, that is, the eradication of a resource deficiency by means of recruitment, greenfield business unit development, and training, this strategy might not lead to substantial market presence fast enough to take successful advantage of the opportunity (Powell, 1990; Bronder and Pritzl, 1992; Brooke and Remmers, 1970).

Proposition 4 - Speed to Market (Factor A4): Alliances may be formed when partners need to strengthen market presence faster than could be done by other means.

The efficiency criterion is encapsulated in transaction cost theory (Williamson 1975; Jarillo, 1988; Miles and Snow, 1986; Kogut, 1988; Beamish and Banks, 1987). Transaction cost theory holds that companies will only form alliances, rather than adopt other strategic options, if the transaction costs involved in doing so are perceived to be lower than those for the other options. Transaction “costs”, of course, are in many respects highly judgmental and time-oriented in origin, since they involve such basically unquantifiable “costs” as the cost of loss of proprietary expertise to a partner who subsequently becomes a competitor. Although these costs cannot easily be computed, as can costs of production or of marketing, it is proposed that they are frequently considered, at least in concept, before deciding to set up an alliance.
Proposition 5 - Low Cost Solution (Factor A5): An alliance may be set up if the partners consider that the transaction and other costs involved in the proposed alliance are less than those that would be incurred by alternative strategic actions.

Given a perception of resource deficiency, a perceived need to spread risk, and/or a perceived need to get into the market fast, and a judgment that the transaction costs of the alliance are less than would be borne by adopting other strategies, it is proposed that the probability of alliance formation is high.

5.1.3 External Drivers

Alliances may not merely be the products of perceived external or internal needs. The perceived conjunction of certain conditions in the nature of the external environment may make alliances more likely at some periods of economic and political history than at others. Periods of trade protectionism, and periods when anti-competitive philosophies are strong may militate against alliance formation; and cooperative activity between companies has tended in these periods to be judged to be denigrated by governments as anti-competition or as cartels (Jorde and Teece, 1989). Correspondingly, during periods when the power of the “giant” multi-national enterprise is perceived as being excessive, the less threatening nature of the strategic alliance set up to combat the perceived threat of a “giant” multi-national may come into favour.

In recent years, the growth of globalisation and also regionalisation of markets, with the concomitant reduction of trade barriers, has led to the dramatic growth of cross-border alliances (Pucik, 1988; Ghoshal, 1987; Collins and Doorley, 1991; Lyons, 1991), particularly from the mid 1980s to the present. This growth has been accompanied by considerable economic turbulence and uncertainty (Kogut, 1988; Astley, 1984; Spekman and Sawhney, 1991) in world markets, and a growth of a free
market ideology to overshadow economic thinking. This growth is in contrast to the immediately preceding period of economic history, when the ideology of the “planned” economies of the socialist and communist world stood as an apparently viable alternative economic system to that based on free markets.

The existence of major scale and scope economies has also been important in achieving the low costs associated with potential competitive advantage (Mariti and Smiley, 1983; Porter and Fuller, 1986), but to achieve them very large investments in new technology have become necessary (Porter and Fuller, 1986; Mariti and Smiley, 1983; Collins and Doorley, 1991; Patterson, 1993).

External economic conditions may also have considerable effect on the survival of an alliance. Thus alliances set up in “hostile” environments, like say the polychloride market because polychloride is an envirc automobile market because of increasing comq use of government-imposed tariffs and quotas to protect the local product, may have greater difficulty surviving than those set up in the, perhaps, more munificent pharmaceutical or marine paint markets. Research in the area of external economic conditions has not considered in any depth the “hostility” of environmental factors in determining the success or otherwise of strategic alliances as perceived by the alliance partners.

Proposition 6 - External Drivers (Factor A6): Alliances are most likely to come about when certain external conditions obtain in the external environment.

Examples of such conditions may be:

a) turbulence in markets served by the partners;

b) economies of scale and/or scope existing in the partner’s industry;

c) globalisation of the industry and markets, or at least;
d) regionalisation of the industry or markets;

e) fast technological change leading to ever increasing investment requirements
   if the competing organisation is to maintain competitive advantage;

f) shortening product life-cycles; and

g) conditions of high economic uncertainty.

It is not held that any or all of the above circumstances are necessary for alliance
formation, or even that the list is an exhaustive one. However, it is suggested that if any
of a number of the identified conditions are present, this in itself may be conducive to
alliance formation, and that, correspondingly, the absence of all such conditions from
the organisation’s perceived external environment makes alliance formation less likely.

It was felt, indeed, at the outset of the author’s research that the globalisation of
technologies and markets were probably the most important such conditions; this
contention seems also to have been held by the majority of those partners in the case
studies discussed in Chapters Six, Seven and Eight.

5.1.4 “Right” Partner Criteria

Choice of partner is probably key to the “success” of the enterprise. Since resource
deficiency is frequently felt to be a strong motivating factor in the search for an ally,
the identification in that potential ally of complementary assets and possible synergies
is an important factor in qualifying as the potential partner (Porter and Fuller, 1986;
Lorange and Roos, 1992; Lynch, 1990; Devlin and Bleakley, 1988). Other factors that
should probably be borne in mind are not to select a partner of very different strength,
either stronger or weaker (Bleeke and Ernst, 1991), or the alliance is likely to fall into
one-sided dependency (Bertodo, 1990). Although similar cultures are not vital in
partner selection, it is felt to be important that cultural compatibility exists however
defined, or the alliance may be unlikely to succeed (Kanter, 1989; Lorange and Roos,
Proposition 7 - "Right" Partner (Factor A7): Key criteria for partner selection are:

a) complementary assets;
b) the existence of potential synergies between the companies;
c) approximate balance in size and strength; and
d) compatible cultures.

5.2 Managing the Alliance

The propositions so far laid out suggest criteria for the selection of the appropriate alliance form (that is, a joint venture, collaboration or consortium); propose some commonly observed factors in the literature explaining the internal formation; and suggest some key criteria for partner selection. They do not, however, provide insight into the problems of running an alliance effectively.

5.2.1 Organisational Arrangements

A factor that needs to be considered in maintaining an alliance is the nature of the organisational arrangements both between the partners and internally within the partner companies. While such arrangements may well, in detail, be contingent upon specific circumstances, it is proposed that there will be certain "principles" underlying the organisational arrangements if friction and other problems are to be avoided, and that their clear adoption is important to a smoothly functioning alliance:

a) in joint ventures, a chief executive should be appointed to run the joint venture company, and empowered to get on with the job without unnecessary interference (Lorange and Probst, 1987);
b) in all alliances, clear dispute resolution mechanisms should be set up to cope with inter-partner problems (Spekman and Sawhney, 1991; Collins and Doorley, 1991);
c) information on the alliance should be widely disseminated throughout the
partner companies (Kanter, 1989);
d) it is advisable to agree on a system for “divorce” at the outset, should the alliance need to be dissolved (Taucher, 1988); and
e) attention should be given to the boundary-spanning activities, particularly in relation to the dispute resolution mechanism.

Proposition 8 - Organisational Arrangements (Factor B1): Clear organisational arrangements need to be set up in the alliance if it is to be managed effectively.

It is possible to hold the view that the absence of clarity in such arrangements implies greater flexibility and allows such arrangements to evolve in a more adaptive fashion to the benefit of the alliance.

5.2.2 Congruent Objectives

Proposition 9 - Congruent Objectives (Factor B2): The long-term goals of the partners must not be in conflict.

A further condition for continuing “success” in an alliance is, it is suggested, that the long-term objectives of the partners do not conflict (Spekman and Sawhney, 1991). This does not mean to imply that they need be identical. This condition is unlikely in two or more companies determined to retain their separate identities. So, in an alliance, one company may be concerned to develop its technology world-wide, while the other wishes to economise on R&D expenditure by employing the partner’s technology on developing its local market.

There is no necessary conflict in this. However, if both wish to develop globally, yet the one importing the technology has limited itself at the outset to being a local partner, future conflict may be difficult to avoid.
5.2.3 Partner Attitudes

It is possible that an alliance will show tangible results, justifying itself unconditionally on the grounds of meeting the declared objectives of one or more alliance partners, but will still be in danger of foundering due to friction between the partners. This demonstrates the importance of cultural factors, *inter alia*, in the smooth running of an alliance (Kanter, 1989; Lorange and Roos, 1992). It is not important, it is suggested by the alliance partners from the case studies in Chapters Six, Seven and Eight, for the cultures of the partners to be similar. If it were, few alliances would succeed since cross-border and organisational cultural similarity between companies is rare, especially between partners from different nations. However, an attitude of understanding of cultural difference, and a willingness to compromise in the face of cultural impediments, may well be vital to alliance “effectiveness”.

It is one thing to set up systems and devise organisations. If mutual trust does not exist it is suggested, from the case studies in Chapters Six, Seven and Eight, that there will not be a “successful” alliance. Trust is, however, difficult to insist upon at the beginning of any relationship, since it normally takes a long time to build, and a very short time to destroy (Fukuyama, 1995; Kramer and Tyler, 1996; Roos and von Krogh, 1996; von Krogh and Roos, 1995). Alliances require it in their basic essence (Lynch, 1990) and a philosophy which decrees - I will trust my partner until I have cause not to do so - is more likely to lead to success than one which says - All partners are out for themselves. I will not trust mine until they have proved themselves worthy of trust.

Commitment appears to be a factor allied to trust, in that it seems vital to alliance “effectiveness”, even if difficult to pin down, but exemplified either positively or negatively in much partner behaviour (Spekman and Sawhney, 1991). It is exemplified by sticking with the alliance even during difficult times. It may, like trust, be evidenced from the very top, and can be seen in the priority which alliance matters are given in
Board discussions, the quality of personnel allocated to alliance responsibilities, and the resources devoted to the alliance (as illustrated in Chapters Six, Seven and Eight). It is equally important further down the organisation, however, if the alliance is to work well on a day-to-day basis. An alliance without trust and commitment from the top down may soon wither away in its performance and importance to the partner companies.

**Proposition 10 - Positive Partner Attitudes (Factor B3):** For the alliance to be “effective” the partners should have positive attitudes towards the alliance, notably:

a) a sensitive attitude to national and corporate cultural differences;

b) mutual trust; and

c) strongly evidenced commitment.

If no more than a short-term relationship is expected, in dealing with a transitory situation, and it is envisaged that the alliance will eventually be resolved by merger or dissolution, then the above characteristics are perhaps less necessary, and a regimen of mutual caution and detailed adherence to closely negotiated contractual arrangements may well be the most appropriate alternative policy. Such situations, however, fall outside the intended boundaries of this research.

### 5.3 Alliance Evolution

#### 5.3.1 Expanded Scope

**Proposition 11 - Expanded Scope (Factor C1):** For the alliance to “succeed” in the long-term, it needs to evolve through the partners constantly:

a) seeking new markets or products to be involved with together;

b) accepting new responsibilities within the existing alliance arrangements or within the new arrangements resulting from (a); and

c) adjusting flexibility to change the scale and/or scope of the alliance.
An alliance may run effectively for a time, but never reach its full potential as envisaged by the alliance partners, and ultimately wither away. Such a fate may well be very largely dependent upon whether constant attempts have been made to ensure the perpetual evolution of the relationship between the partners (Lorange and Roos, 1992; Achrol, Scheer and Stern, 1990). This may be done by regularly looking for significant things that the partners can do together, and adopting an exceptionally flexible attitude to change in relation to alliance arrangements (Lorange and Probst, 1987). As Bleeke and Ernst (1991:127-128) put it:

*The hallmark of successful alliances that endure is their ability to evolve beyond initial expectations and objectives.*

5.3.2 Balanced Benefits

Proposition 12 - Balanced Benefits (Factor C2): If the alliance is to evolve positively for the alliance partners, then:

a) approximately equal benefit in relation to contribution should be perceived as being received by each partner;

b) one partner must not gain strategic advantage over the other/s; and

c) one partner must not become over-dependent on the other/s.

It may be important for the alliance to be perceived as giving approximately equal benefit to each of the partners in relation to the size and importance of their contributions (Bertodo, 1990; Kanter, 1989; Lorange and Roos, 1992). If one partner is perceived to profit in an unbalanced way in relation to the other partner/s either in terms of strategic position, or calculable benefits, the future of the alliance may be placed in jeopardy. The only way to ensure that this condition is met is perhaps to maintain a flexible attitude to alliance arrangements, and be willing to re-negotiate alliance terms if they are seen to be getting out of line to the benefit of one partner and to the disadvantage of another. Close guard should also be maintained to avoid the
situation where one partner becomes excessively dependent on the other (Bertodo, 1990).

5.3.3 Partner Bonding

Proposition 13 - Trust, Commitment and Bonding Between Partners (Factor C3): The partners need to develop strong bonding factors to enable the alliance to withstand any possible stresses tending towards its dissolution.

The alliances which evolve to the satisfaction of the partners are often those in which the partners believe that bonding factors have developed (see the case studies in Chapters Six, Seven and Eight). Bonding factors may come about in a variety of circumstances. They may result from a prolonged and ultimately successful fight by the partners against a common enemy; they may come about when one or another partner shows itself vulnerable in some unforeseen circumstance and the other partner behaves sympathetically and helpfully; they may happen when one partner develops the upper hand strategically and is clearly perceived as not taking unfair advantage of the other to strengthen its position in the alliance. They may also be created less opportunistically by a policy of personnel exchange on secondment between the partners. Whatever the reason for the bonding, it may be a vitally important factor in ensuring long-term survival and stimulating alliance evolution (as shown in the Rover-Honda alliance in Chapter 8.1).

5.3.4 Organisational Learning

Proposition 14 - Organisational Learning (Factor C4): For a favourable prognosis of “successful” evolution, a philosophy of constant learning should be adopted by the partners.
An alliance can be viewed as a learning arrangement between companies with different things to teach and learn (Hamel, 1991). If the partners enter the alliance understanding this, the continual evolution of the arrangement for mutual benefit is highly probable. The implication of the learning philosophy is that the partners disseminate the new knowledge widely within their respective organisations, and are constantly on the lookout for new things to learn from each other (Kogut, 1988; Nelson and Winter, 1982; Collins and Doorley, 1991). This means that a questioning attitude by one partner is not met by suspicion on the part of the other, but by an equal determination to extract as much new knowledge as possible from the situation as the questioning partner.

The most important factor in running an “effective” alliance is for the partners to see positive results (Teramoto, Kanda and Iwasaki, 1991), and feel that they are benefiting from the formation of the alliance, ideally in a measurable but certainly in a clearly perceived way. In the absence of this factor, the doubters in the partner companies may gain the ascendant, and the morale and political power of those involved in running or championing the alliance may suffer.

5.4 Alliance “Effectiveness” (“D” in Figure 5.2, page 92)

Some demonstration that the alliance is in the process of achieving the competitive advantage that the alliance presaged to the partners, and is achieving the results expected, at least to a degree acceptable to the partners, is important to its effective running. The concept of “effectiveness” for an alliance is one of the most difficult concepts to define. As Anderson (1990:21) points out:

A large literature addresses the issue of performance assessment, without offering much resolution. “Organizational performance” is a controversial term. Researchers have been unable to resolve these issues theoretically, and little research has addressed organizational effectiveness empirically. Indeed,
some writers have suggested abandoning the effort: why, they argue, do we need to “keep score” anyway.

Different researchers use a variety of effectiveness criteria by which to evaluate alliances. For example, Beamish and Banks (1987) judge an alliance to be effective if both partners declare themselves to be satisfied with the relationship, whereas Achrol, Scheer and Stern (1990) adopt a far more complicated schema relating to the partners’ motivations for engaging in the alliance. Achrol, Scheer and Stern (1990) cite other commentators (such as Venkatraman and Ramanujan, 1986; Woo and Willard, 1983; Janger, 1980) as relying principally on financial measures. Bleeke and Ernst (1991) attempt a combination of both criteria, that is, that both partners believed they achieved their ongoing strategic objectives, and both recovered their financial costs of capital.

“Effectiveness” or “success”, however, unless explicitly specified by the alliance partners in relation to defined criteria, is a normative term. In general elections, it is common to hear both the winning and losing candidates claiming “success”; the one having achieved the majority of the vote, the other, perhaps, for having a substantially reduced losing margin. There are, therefore, three possible options for dealing with the problem of whether or not an alliance is to be considered successful or effective or not. One is to leave the term undefined and leave the respondent to perceive its criteria according to the norms individually/corporately chosen. The second is to define it in such a way that the researcher’s norms are clearly specified, thereby making the term a normative one for the research but, of course, leaving the criteria selected by the researcher open for debate. The third course of action, which has been chosen in this research, is to have the alliance partners define effectiveness and success as applicable in their own situation.
Proposition 15 - An “Effective” Alliance: For the alliance to be considered “effective”:

a) agreed objectives need to be achieved to a degree deemed acceptable to the partners;

b) spin-off benefits should be realised;

c) internal morale amongst alliance personnel should be high;

d) the alliance should have a “good” reputation in the partner companies; and

e) the reputation of the alliance in the industry should be high.

Of these five criteria, the first two relate to achievements more or less objectively definable. Criteria (c), (d) and (e) refer to reputational aspects of the alliance perceived in the alliance itself, in the partner companies, and in the industry generally. It may be argued that, at least, a threshold score is required on all five criteria for the alliance to be considered “effective”. However, for the purpose of this research this view has not been adopted because this thesis is exploratory and gaining a greater knowledge of the reputational, bonding and cultural aspects is a driving force for the research.

It should be noted that longevity, and/or ultimate buy-out, merger, takeover, or dissolution of the alliance, are not considered as part of any “effectiveness” ranking for the alliance. An alliance may well have created value for the alliance partners during its life; circumstances may then have changed and rendered the arrangement no longer appropriate. This does not detract from its deemed level of “effectiveness” during its lifetime.

It is proposed that the adoption of the maxims, and adherence to many of the conditions contained in the above propositions, will make a strategic alliance more likely to display qualities of “successful” evolution over the long term, but that, if these factors
are ignored and the alliance is approached with an attitude of cynical opportunism meeting a short term need but destined ultimately for dissolution, then an early demise for the alliance is predictable.

5.5 Summary

This chapter has set out the propositions that the research will attempt to address. They relate to the motivations to set up alliances, partner selection criteria, selection of alliance form, and maxims to adopt in managing an alliance and assisting the alliance to evolve. All the propositions except one, Trust, Commitment and Bonding Between Partners (see Figure 5.2, C3, on page 92), are to be found in the micro-theory approach to alliance literature outlined in Chapter Three. However, the propositions appear to form an internally congruent model from the alliance partners’ perspective for the creation and running of an effective alliance. No two propositions are mutually in conflict; thus, research which supported all of them would not lead to inconsistent results, and would provide a rather long list of features to consider in setting up and running alliances. The author’s research in both the literature and illustrative case studies, of course, has offered evidence to support some of the propositions more strongly than others.
PART TWO

Alliances are like sex,
anything is possible between consenting partners
(Harrigan 1998b)
CHAPTER SIX
THE JOINT VENTURE STUDIES

6.0 Introduction
As indicated in Chapter 4.4 (see page 89), the case studies in this Chapter and Chapters Seven and Eight are meant to be exemplary and illustrative in purpose as they tell the story of the alliance from the perspective of the alliance partners and the relevant literature and as such cannot, of themselves, claim a high level of validation or generalisability. The perceptions of the participants set out in this chapter and in the two following case study chapters do not always bear out the factors in Figure 5.2 (page 92) deemed in the literature reviewed in Chapters Two and Three to be the most significant factors (see Appendix 3 for a simple comparison of confirmations and omissions of macro and micro theory factors across the case studies). Appendix 4 (see page 239) explains how the material used to co

This chapter sets out the events involved in the two case studies of alliances involving joint venture companies with two partners, namely Cereal Partners Worldwide S.A.; also European Vinyl Corporation. Each includes qualitative analysis relating the events to the propositions of the research. The events rely on accounts contained in widely disseminated secondary literature and are therefore open to rebuttal, as well as accounts of participants, also open to rebuttal. As already indicated in Chapter Four, no epistemological privilege can be claimed for practitioner comments any more than can be claimed for empirically unsupported theoretical or speculative literature. Access granted to participants in the Cereal Partners Worldwide S.A. joint venture was quite limited. The case studies presented can only be illustrative but they do contain the perceptions of participants by whose perceptions the success of the alliance is deemed.

6.1 Cereal Partners Worldwide S.A.: the Joint Venture of Nestlé and General
Mills, Inc.

In December 1989 General Mills of Minneapolis, USA and Nestlé of Switzerland set up a 50:50 joint venture to be called Cereal Partners Worldwide S.A., with headquarters based in Morges, Switzerland; the objective was the building of a major breakfast cereal business, first in Europe and eventually in the rest of the world outside the USA and Canada. General Mills had initiated moves to form the alliance, their Chairman and Chief Executive Officer, Brewster Atwater, contacting Helmut Maucher, Chairman and Chief Executive Officer of Nestlé, in November 1989. Specifically, the venture was to provide a powerful competitor for the market leader, Kellogg. Kellogg had a 41% share of the U.S.A., United Kingdom and German markets in 1993 and an even higher proportion of the French and Italian markets. No other organisation came close to this level of market penetration. General Mills, led by its successful Cheerios brand, was second in the U.S.A. with a 23% share, but had virtually no sales outside North America. Although Kellogg was an American company, it had moved into the major European markets early, entering France, for example, in 1952, and Germany in 1958.

6.1.1 Objectives and Rationale of the Alliance

The venture was initially set up to concentrate on the continental European market. Cereal consumption in continental Europe is far lower than in the United Kingdom but according to General Mills (Killing, 1993) is expected to grow fourfold from 1992 to 2002. The United Kingdom market accounted for two thirds of the total European market by 1996. The joint venture draws on the cereals expertise, marketing and technology of General Mills, and the local marketing expertise and sales distribution systems and brand name umbrella of Nestlé.

In July 1990 a major event changed Cereal Partners Worldwide S.A.'s initial strategy.
The company bought the Rank Hovis McDougall (hereafter RHM) United Kingdom cereals business, including such United Kingdom household brand names as Shredded Wheat and Shreddies. RHM had only bought these brands from Nabisco in 1988 but lacked the financial muscle to exploit them. RHM had 14% of the United Kingdom cereals market, which meant the newly formed Cereal Partners (United Kingdom) PLC had taken a major initiative in pursuit of a market share comparable with the leader, Kellogg. Cereal Partners Worldwide S.A. declared itself to be targeting US$1 billion turnover by the year 2000 in a market it forecast at $4 billion by that date and saw the United Kingdom as the ideal launching pad for this endeavour (Nestlé, 1991; 1992).

6.1.2. The Nestlé Group

The Nestlé Group based in Switzerland is one of the largest food companies in the world. It celebrated its 130th anniversary in 1996. It owes its origins to a merger in 1905 between The Anglo-Swiss Condensed Milk Company and Farive Lactée Henri Nestlé. Its world-wide sales totalled over SFr (Swiss Francs) 55 billion in 1993 and SFr 60 billion in 1997, just under half in Europe, one quarter in North America, and most of the rest in Latin America and Asia. Sales to the USA are highest at SFr 11 billion, followed by France, with SFr 6 billion, Germany, with SFr 5.8 billion and the United Kingdom with SFr 3.8 billion (Nestlé, 1996; 1997). Despite the growing world recession in the late 1980s and early 1990s, both sales and profits grew in 1991, net profits reaching SFr 2.470 billion.

Its range of food products includes drinks, milk products, frozen foods and refrigerated products, culinary products, and, from a recent acquisition, Rowntrees chocolate and confectionery products. Its original business was based on milk and dietetic foods for infants but many other product lines have been added over the years. Although its primary concern is still the field of human nutrition, it has expanded into cosmetics, pharmaceuticals, and pet foods. Prior to the establishment of Cereal Partners
Worldwide S.A., Nestlé was not in the cereals market in a major way; Nestlé’s existing product range were in breakfast cereals; its sales force covered retail outlets that stocked cereal products. Nestlé includes some very large brand names in its portfolio in addition to its own, for example, Nescafé, Carnation Milk, Crosse and Blackwell, Libby’s, Lean Cuisine, Chambourcy, and Stouffer; it also has a minority interest in L’Oréal (Nestlé, 1996; 1997).

Nestlé is wary of alliances; the only other is with Coca-Cola in canned coffee and tea. Helmut Maucher, the Chairman of Nestlé, has said:

*I don't share the euphoria for alliances and joint ventures... First, they're an excuse, and an easy way out when people should do their own homework. Secondly, all joint ventures create additional difficulties - you share power and cultures, and decisions take longer* (cited in Lorenz, 1992).

However with Cereal Partners Worldwide S.A., Nestlé gains valuable learning, as well as gaining time (Factor A4) and access to new markets, difficult to achieve in any other way.

### 6.1.3 General Mills

General Mills is a Minneapolis-based major USA food corporation. In the USA it has been second to Kellogg in the USA cereals market for over twenty years, and is the world’s second largest cereal producer after Kellogg. Its brand names include Wheaties and Cheerios, which are market leaders in the USA. It had attempted to gain entry to the United Kingdom market, and had achieved distribution through Sainsburys, Waitrose, and Safeway, but it had made little market impact. Prior to setting up Cereal Partners Worldwide S.A., its sales of cereals outside North America were comparatively small. It adopted the joint venturing strategy to increase its European presence (Nestlé, 1996). In addition to the Cereal Partners Worldwide S.A. alliance
with Nestlé, it has also set up an alliance with Pepsico, merging both companies’ European snack foods operations to create a joint venture with wide distribution, a strong brand portfolio, and backed by a shared R&D for product innovation.

6.1.4 The United Kingdom and European Cereals Market

Breakfast cereals are estimated to account for a market of approximately £900 million in the United Kingdom in 1995. Sales there rose from £440 million in 1983 to £700 million in 1988 compared to US$3.9 billion in 1983 increasing to US$6.1 billion in 1988 (Killing, 1993). In fact, at an estimated 7.5 kg per head, the United Kingdom consumer is the world’s largest cereal eater. According to Nestlé, the rest of Europe does not have cereals as a strongly based breakfast tradition, and the total market for the rest of Europe was estimated, as at 1996, at no more than a further £300 million. While the United Kingdom market is a mature one and unlikely to show much long-term growth in volume, perhaps 1-2% per annum, the rest of Europe is a growth market and forecast to grow at an average of 10-20% per annum over the ten year period 1992 to 2002 (Nestle, 1991).

The cereals industry has two parts, “ready to eat” (RTE), and “hot”. RTE has been the faster growing part in the United Kingdom, and is now responsible for over 90% of that market. It has four major segments:

a) staple - this segment is the oldest and still the largest with 44% of the total RTE market (Killing, 1993; General Mills, 1993; 1995). It includes cornflakes, invented by Dr. W.H. Kellogg at the turn of the century, Weetabix and Shredded Wheat. The segment is declining slowly in the face of aggressive marketing of the newer value-added cereals that dominate the health and children’s segments;

b) health cereals are the second largest segment, with 32% of the market in 1996. In accord with growing public concerns about healthy eating, this
segment has been fast growing in recent years. It includes all the bran cereals and, more recently, the oat-based cereals which are said to reduce cholesterol. It is fast growing, having increased 70% in consumption in the United Kingdom between 1985-89 (Killing, 1993);
c) childrens’ cereals account for 22% of the market. Although they are cheaper to market, since they require less prime-time TV, they do require character merchandising, presents in packets, and competitions. They are also fast growing; and
d) a further segment cuts across the others. It is the “own” brand segment developed by the major supermarket chains. It is responsible for approximately 20% of the market, and until recently was largely confined to the staple area of cornflakes, muesli and porridge oats. The supermarkets are now getting more adventurous, and are moving directly into the value-added segments.

The industry is very much a brand one, in which market share is dominated by players with high advertising expenditure. Currently the dominant player in the market is Kellogg, with an estimated 1994 share varying between 42-50% of the world market. Weetabix comes next, followed by Cereal Partners Worldwide S.A.. The fourth major player is Quaker. “Own brands” then complete the scene with around 20%. The great growth area in recent years has been in “own brand” cereals, with the major supermarkets, particularly Sainsburys and Tescos, competing strongly for market share at the retail level, but of course buying their product from the manufacturers. Here Cereal Partners Worldwide S.A. has an edge over Kellogg, since the latter does not serve the “own brand” market, while Cereal Partners Worldwide S.A. due, to its RHM acquisition, which included the own brand company, Viota, has been traditionally strong in this area.

6.1.5 Formation
Cereal Partners Worldwide S.A. has been set up to build on the strengths and reputation of the partners, and to complement their weaknesses (see Factors A2 and A7 in Chapter Five). Nestlé is strong in the United Kingdom and Europe, has a strong reputation for high quality products, and an extensive sales network. But it has limited experience in cereals. It had an embryonic cereals business in France, which was just large enough to convince them that Nestlé managers did not have the expertise to become a major player in the market. General Mills is very strong in cereals in the USA, a close second to Kellogg, and has great experience in cereals marketing, branding and technology. It does not, however, have a substantial position in the United Kingdom or continental Europe. Prior to the alliance it was represented in Europe in snacks, but not in the manufacture of cereals.

It might have been argued that a collaborative relationship between Nestlé and General Mills would have given the flexibility needed to develop an alliance, given that it was primarily an alliance for distribution and sales. However, the joint venture form became the appropriate one, on the basis of the proposed criteria for joint ventures, that is, when the partners acquired a distinct business, RHM, and the legal and accounting implications associated with ownership of assets. However, this author believes the form may have been better used by allowing Cereal Partners Worldwide S.A. more control over their own assets, for example, the sales team who were still Nestlé employees rather than employees of Cereal Partners Worldwide S.A..

The external motivation (see Factor A6 in Chapter Five) for the joint venture was the increasing globalisation of the markets, and the opportunities for achieving together the scale economies of advertising, sales merchandising and distribution (see Proposition A6, at page 103). The internal motivations were Nestlé’s and General Mills’ complementary core competencies and deficiencies in specific areas (see Factors A2 and A7), necessary to achieve success in the European cereals market; Nestlé’s, in
...for the Cereal Partners alliance, the use of the Nestlé name on breakfast cereals in Europe may provide reasonably fast acceptance. The key is the extent to which an existing high recognition corporate umbrella is being leveraged. (Barwise and Robertson, 1992:281).

The partners rightly identified complementarities in functional terms, though it was less clear whether they had cultural complementarity over the longer-term. Chris Fryt, the Sales Director of Cereal Partners Worldwide S.A., said:

There have been whispers on the grape-vine that the partnership won’t last after the ten year moratorium on share sales. In Nestlé there is the view that they don’t like partnerships, and only have them to get their foot in the door, and will buy out General Mills in the fullness of time. There is a view that this will happen (Cereal Partners Worldwide S.A. 1990).

The story of Cereal Partners Worldwide S.A., for the purpose of this study, starts from the RHM acquisition in July 1990, rather than from the earlier Cereal Partners Worldwide S.A. formation in Switzerland in December 1989, as the alliance now had its own assets, production facilities and administration facilities rather than relying on the alliance partner. General Mills supplied the marketing and the technology expertise at top and middle management level. In terms of organisation culture, General Mills tended to think in terms of the next quarter’s reported results in a typically USA fashion, whereas Nestlé was more long term in its outlook.

However, even if this was possibly the case, it did not necessarily mean an ineffectual
alliance if a successful challenge to Kellogg were to be mounted and sustained. The partners, too, have the further combined motivation of feeling a sense of urgency to get to the market fast (see Factor A4, page 101) and at the same time to spread their financial risk (Factor A3) (Killing, 1993).

6.1.6 Management

The first challenge after the acquisition was to establish a management team and a distinct Cereal Partners Worldwide S.A. culture. The RHM staff were inherited with the business, and were largely in production and general management. Nestlé supplied the sales force but they remained Nestlé employees. Nestlé also supplied buying, taxation and a range of general services. There was, as it transpired, little rationale for using the Nestlé sales force since it was dedicated to Cereal Partners Worldwide S.A. and mostly inherited from RHM; the sales force could well have been part of the Cereal Partners Worldwide S.A. team. A dedicated sales team could have given the alliance strategic knowledge of the marketplace that Cereal Partners Worldwide S.A. may not have gained from the structure decided upon. However, that was not how the joint venture contract was written.

The objective was to get Shredded Wheat and Shreddies sales to grow once more and, to this end, £1 million was spent from March 1991 till the end of 1991 in strong TV advertising to support Shredded Wheat and its variants, Frosties and Coco Shreddies, to appeal to the older traditional consumer and focus on taste rather than health. Brian Clough, the high profile Nottingham Forest football manager at the time, was brought in to do character advertising, and sales climbed strongly in the initial launch period.

In April 1991 came the first concerted launch. This was Golden Grahams, a General Mills derivative, targeted at the childrens’ market and launched under the Nestlé umbrella brand. Kellogg, aware of the impending competition, responded with Golden
Crackers, and also launched Honey Nut Loops to pre-empt a possible launch by Cereal Partners Worldwide S.A. of Cheerios, a General Mills brand leader of similar composition in the USA. Initial signs looked good for Cereal Partners Worldwide S.A. in that Golden Grahams captured 1.4% of the market within its first six months (Nestlé, 1992).

In January 1992, Cereal Partners Worldwide S.A. launched the General Mills, USA brand, Lucky Charms, on the United Kingdom market, also aimed at the childrens’ market segment. It was backed by an advertising budget of £4 million. Malcolm Summerfield, Managing Director of McCann-Erickson in the United Kingdom, commented:

_Cereal Partners is waking up a once sleepy market factor. It was all a bit too easy for Kellogg before_ (Cereal Partners Worldwide S.A. 1992).

In February, 1992, Brewster Atwater, Chairman and Chief Executive of General Mills, claimed that Cereal Partners Worldwide S.A. were meeting their market share targets (General Mills, 1992) and in May 1992 they launched Clusters, their third US derived product in two years.

Behind the high exposure of new brand launches with large TV advertising budgets is the quieter but probably equally profitable "own brand" sales to the large supermarket chains. The Cereal Partners Worldwide S.A.s' share of the market is understated since

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16 _It is not possible to comment on the significance of the amount of expenditure on advertising because it depends on the following: Is the expenditure for a company or a brand? For a single execution or variety? Is it spread across many media or concentrated on one? If so which media (TV, radio, press, outdoor) is (sic) being used? Is it for a national, regional or metropolitan campaign? What is the target audience - professionals, housewives, kids, of what ages and demographics? (Blampied, 1997). The measure of significance of the level of expenditure, according to Saatchi and Saatchi Australia (1997), would also be impacted by issues such as: What is the share of voice before and after the campaign? What are the industry levels for success for the various campaigns and media types (and these change from city to city, state to state, and country to country)._
its products reach the breakfast table both under its own brand but also under Sainsbury, Tesco or other “own label” brands. This may not be so satisfactory for Cereal Partners Worldwide S.As’ advertising agency but it is satisfactory for their profit and loss account. Cereal Partners Worldwide S.A. have invested substantially in their factories to improve the quality of their private label products, particularly in the core products of corn flakes, crisp rice, coated flakes and bran flakes. General Mills were reluctant partners here since they did not offer private labels in the USA, but the results achieved in this market are converting them to a positive view of its value. Cereal Partners Worldwide S.A. can attack Kellogg (in 1994-1996, 50% of Kellogg market share of the world corn flakes market was through its private label sales [General Mills, 1997]).

The systems for managing the venture are not as clear as they might be; in particular, the independent authority granted to the Worldwide S.A. is very limited. He responded affirmatively.

Cereal Partners Worldwide S.A. could be regarded as a production and marketing subcontractor to Nestlé (Fryt, 1995). However, objectives and attitudes are generally regarded as positively aligned, and trust and commitment (Factor C3) (see Chapter 2.8 on page 53 and Chapter 5.3.3 on page 110) is generally felt by the alliance partners to be high (Fryt, 1996). There is an element of ambiguity on the question of sensitivity to each others’ cultures, however. General Mills are hard driving towards immediate results and do not tolerate sub-performance. Nestlé look far more to the long term and have traditionally not been “hire and fire” in company philosophy. They often support poor performing products with the profits made from successful ones (Parsons, 1996).

6.1.7 Evolution

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The alliance is nearly ten years old, so some evolution has to be expected at this stage. It is a daunting enough task to challenge Kellogg in the United Kingdom market for the present. However, not only is there no sign of evolution, but bonding (Factor C3) is also not in evidence, and learning (Factor C4) is less clear than the easier-to-achieve deficiency substitution (Factor A2). Nestlé make use of General Mills' technology and marketing expertise but have not shown signs of developing its own.

From 1992 to 1995 many positive actions have been taken to improve Cereal Partners Worldwide S.A.'s core competencies. Several million pounds have been spent on the factories to improve the product quality; management has been improved; and technology and marketing are now a strength (General Mills, 1992; 1993; 1994; 1995; 1996; Nestle, 1992; 1993; 1994; 1995; 1996).

On the "own brand" side, Cereal Partners Worldwide S.A. are making the most of their advantage. Furthermore, Kellogg's attitude to pricing is inflexible (a take-it or leave-it approach), whereas Cereal Partners Worldwide S.A. are willing to do deals which gives them a further commercial advantage. The joint venture's culture is also developing as one distinct from the partners, a fact which helps create bonding (Factor C3); there are, however, no systems set up to disseminate learning (Factor C4). Of the four forms of learning outlined in Chapter 2.5, Cereal Partners Worldwide S.A. would seem to have made progress on opportunity learning (see Chapter 11.5) in getting the business under way. They have also achieved substantial technology and process learning, compared with the RHM level of efficiency (Fryt, 1995).

6.1.8 Summary

A limitation of this study was that the General Mills side of the partnership resided in the USA and were less accessible to this researcher, and the Nestlé personnel were not only in Europe but cautious in putting their pronouncements in writing. (They were the
only organisation to require this writer to sign a confidentiality agreement limiting the use of their names and data in the thesis, and prohibiting further publication of their material or any of the information supplied that was used to base the case study on.)

Overall, the alliance is judged by the alliance partners to be successful to the time when the data of this chapter were collected, based on financial performance (21% sales growth in 1995 and 20% sales growth in 1996) and on the fact that the joint venture activities have now been expanded to Europe, South America (General Mills, 1995; 1996). For it to prove successful in the longer term there may be attitude adjustments necessary, the seeds of which are only just beginning to reveal themselves. Nestlé is traditionally uncomfortable in joint ventures. Cereal Partners Worldwide S.A. has not been given true autonomy to do its job, and the characteristics of an evolving learning organisation cannot yet be seen.

Ultimately, however, the success of the challenge to Kellogg will be determined by the brand market not the private label market; here, it is difficult to see any obvious advantage for Cereal Partners Worldwide S.A. Retailers are concerned that both companies are committing large amounts of advertising expenditure in a mature market (Borys, 1997). While advertising may get the first sale, taste is more likely to ensure the repeat, and here the future is still uncertain as the sustainable competitive advantage is difficult to discern. However, as Barwise and Robertson (1992:278) emphasise, Cereal Partners Worldwide S.A. is intent on creating a strong brand portfolio fast and:

*Brand portfolios are a response to four key objectives that managers have in the 1990s - especially in consumer markets.*

1. *To develop global brands.*

2. *To pursue multiple market segments.*

3. *To respond to the changing power equation in channels of distribution.*

4. *To take advantage of scale economies in advertising, sales merchandising, and physical distribution.*

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The future will then be awaited with considerable interest in the European cereal market. The joint venture is a maturing one, and it is by no means clear yet whether it will pose a major challenge to Kellogg in the longer term since Kellogg had six of the top ten brands in the United Kingdom in its portfolio and Cereal Partners Worldwide S.A. two in 1995. By the end of the 1996 financial year, Cereal Partners Worldwide S.A. was operating in over 60 countries (having expanded from the original markets of France, Portugal, Spain and the United Kingdom to non-European markets such as Mexico, Argentina, Brazil and Chile) with an annual turnover approaching SFr 1 billion - its year 2000 goal is US$1 billion in sales and a strong second position in the cereal market outside North America (Borys, 1997).


In the last quarter of 1984 Imperial Chemical Industries PLC (commonly known as ICI) began discussions with EniChem S.p.A. of Italy with a view to setting up a manufacturing and marketing joint venture to provide leadership in the rationalisation of the ageing vinyl chloride and polyvinyl chloride (PVC) market in Europe which was plagued with excess capacity. ICI had already started the process by acquiring the PVC interests of BP and Lonro. Similarly EniChem, with the same purpose in mind, represented a consortium of the PVC interests of the Italian companies ANIC, Pozzi, Rumianca, SIR, Montedison and Liquichimica. After a long drawn-out process of negotiation between the companies and with the European Commission (the joint venture was officially announced in September 1985 after 18 months of discussions), the joint venture was set up and began trading as the European Vinlys Corporation International SA/NV (hereafter EVC) on 1 October, 1986 (Imperial Chemical Industries, 1986a).

6.2.1 The Market
Until the early 1980s, the European commodity plastics market was regional, with few imports from outside the region. Western Europe had a demand level of about 4 million tonnes, North America had about 3.25 million tonnes, and south east Asia was growing fast with one million tonnes in Japan, and 1.5 million tonnes elsewhere in the region. Most of the Asian demand, surplus to capacity to produce, was met by imports from North America and Europe at that time. In 1982 there was about one million tonnes of excess capacity in Europe, much of which was exported to Asia (Imperial Chemical Industries, 1986a).

The 1970s had caused underlying structural changes in the level of demand for bulk chemicals that worked their way through in the early 1980s. The oil price shocks of 1973 and 1978 had led to a dramatic reduction in demand for oil-based products by 1982. This was compounded by the onset PVC fell 20% in that year. There was also the fact that throw-away material, and faced a largely saturated market was forecast to be negligible in the foreseeable future, and efforts to increase the recycling characteristics of PVC only made matters worse in terms of demand for new product (Imperial Chemical Industries, 1986a).

In the meantime ICI had built a new PVC plant at Wilhelmshafen in Germany, with capacity for 120,000 tonnes which came on stream just when demand was very low, so ICI had a lot of surplus capacity. EniChem had been put together by the Italian government from six Italian chemical companies, all of which were technically bankrupt. In 1983 there were four million tonnes of demand in Europe and 5 million tonnes of capacity, and the United Kingdom and Italy were the countries with the biggest surpluses of supply over demand (Imperial Chemical Industries, 1986a).

As the 1980s progressed, the market changed from being basically regional to clearly
global, largely due to the growth of Asian producers. Shintec Shinetsu of Japan and Formosa Plastics of Taiwan both established manufacturing bases in the USA and are now the biggest producers in the USA and in the world. It is believed in the industry that they will, by the end of the century, probably establish bases in Europe too (see Imperial Chemical Industries, 1986-1994). They are already major exporters into the region. In 1986 this was not foreseen by either EniChem nor ICI, and did not feature in their strategic planning. In 1992 however, EVC was the largest western European commodity plastics company.

The European Plastics Market

<table>
<thead>
<tr>
<th></th>
<th>1992 capacity (kilo tonnes)</th>
<th>% Market Share</th>
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<tbody>
<tr>
<td>EVC</td>
<td>1200</td>
<td>20</td>
</tr>
<tr>
<td>Solvay</td>
<td>1000</td>
<td>17</td>
</tr>
<tr>
<td>ATO</td>
<td>680</td>
<td>12</td>
</tr>
<tr>
<td>Rovin/Shell</td>
<td>485</td>
<td>8</td>
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<tr>
<td>LVM</td>
<td>390</td>
<td>7</td>
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<td>Wacker</td>
<td>360</td>
<td>6</td>
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<tr>
<td>Norsk</td>
<td>355</td>
<td>6</td>
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(source: Imperial Chemical Industries, 1994a)

6.2.2 Formation

The creation of a joint venture between EniChem and ICI to attack the problem of excess capacity in the plastics industry was the appropriate approach judged on the basis of the proposed criteria for choosing joint ventures. The joint venture did describe a separate business area with potentially distinct, separable and measurable assets. However, the detailed arrangements for joint venture were less happy. A distinct company able to deal at arms length with the shareholders was not created. The key production assets remained in the shareholder companies and the joint venture chief executive had only limited authority over some of his key staff. Prices of raw materials were set for him by the shareholder suppliers, and he was permitted to go to the market for only 10% of his needs (York, T., 1996).

The motivations behind the venture were unambiguous; insofar as resource dependency
(Factor A2) was a motive, it was resource surplus rather than deficiency; perhaps resource imbalance is the best description, as neither was deficient but there were obvious differences in the level of resources available to each alliance partner. Cost limitation (Factor A5) and risk spreading (Factor A3) were at the forefront of the internal motives for the venture creation, and the achievement of scale economies in response to the globalisation of the market (Factor A6) was the key external driver (York, J., 1996b).

The selection of partners was based upon the appropriate factors of complementarity of assets, and recognition of potential synergies (see Chapters Three and Four). However, similarity of culture was not a factor that received much consideration, and the dissimilarity of the cultures of the two shareholders was to require some mutual and painful adjustment (York, J., 1996a and 1996c).

The combined capacity of EniChem and ICI was 1.5 million tonnes of vinyl chloride, 1.25 million tonnes of polyvinyl chloride; the judgment of ICI was that about 25% of this, that is, 300,000 tonnes of capacity, needed to be withdrawn. ICI and EniChem conducted an enquiry in 1985 (York, J., 1996c) to determine which plants should be withdrawn, as it was realised that the decisions might not affect the partners equally. The aim was to withdraw capacity without losing sales, and hence reduce the losses the two companies were suffering. Partly for this reason, it was decided to retain ownership of the assets concerned in the partner companies, and rent them as appropriate to EVC.

6.2.3 Management
The alliance rates only moderately well in terms of its management systems and attitudes (York, J., 1996c; York, T., 1997). The shareholders gave only limited authority to the venture management team to run its own business in the way it knew best. Consequently, John York, the Chief Executive, needed highly developed political
skills. John York commented that, when suggesting rules to guide joint venture chief executives, the aims should be to:

*Recognise that the shareholders will tend to be economical with the truth on occasions opposite each other and opposite joint venture management. Accept that sometimes each shareholder will put his own interests ahead of the joint venture’s interests. Accept that an equivalent measure of discontent from each shareholder is generally a measure of the even-handedness of joint venture management* (York, J., 1996c).

It should be noted that, far from statements of alliance partners being propagandistic for public consumption, this quotation is one of a number exhibiting frankness.

This suggests a less than smooth operation of management between shareholders and joint venture staff. It would seem, on both the systems and the attitudes sides, there was less than complete harmony. Furthermore, it became apparent, the longer term goals of the partners were somewhat divergent (Factor B2). PVC was very important to EniChem’s product portfolio, but rather less so to ICI’s product portfolio as ICI could support its PVC operation through its global diversified product range. The alliance partner’s interests coincided only in both being concerned to reduce the level of over-capacity in the industry in an orderly fashion.

The two companies exhibited interesting cultural differences in how they arrived at decisions. EniChem were strongly functionally driven, and did not like meetings (York, T., 1997). Functional experts within EniChem, however, easily implemented decisions after considerable informal discussions. ICI held structured meetings from which decisions emerged, but found it difficult to get implementation, as people tended to work behind the scenes to subvert decisions they did not agree with. An EVC culture evolved from these contrasting styles after a period of time, one that worked for EVC, but made both sets of shareholders uncomfortable since it clashed with their respective
cultures.

6.2.4 Evolution

From the start of the joint venture in 1986, there was an agreed three-year plan, which involved stemming the losses in the first two years, largely by capacity withdrawal and rationalisation, with a move into profits in year three. At the end of three years it was planned that the shareholders should be presented with a profitable company into which the shareholders could transfer the assets, or possibly wind up or sell the joint venture company, depending upon its performance and prospects. As it transpired, there was strong demand in the years 1986-1989 and profit targets were achieved by the end of the first year, but the ensuing recession had pushed EVC back into losses, with the ensuing decreasing level of demand (Imperial Chemical Industries, 1994a; 1994b).

PVC is used across the industrial spectrum, and particularly in the construction and packaging industries, areas hard hit by the recession of the late 1980s and early 1990s. It is also considered that plant utilisation rates need to be above 90% of capacity to allow reasonable rates of return on investment to be achieved. This was possible for EVC up to 1990 but not subsequently (York, T., 1997).

It became apparent that ICI’s long-term objectives were different from EniChem’s. For ICI, the plastics business was not a core business and their main concern was to pull the business out of a loss-making situation. They were not interested in expansion however, if it meant more investment. For EniChem the area did represent part of their core business, as they were, in fact, the Italian chemical industry. As John York put it:

Culturally the way to get permission to close down one old plant in Italy is to promise to build a new one in exchange. But ICI were more interested in areas that economise on capital investment (York, J., 1996b).

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EniChem are the largest producer of polyethylene in western Europe, with over one million tonnes of capacity. EVC buys ethylene equally from EniChem and ICI, but this represents more than half of ICI’s total production but only 20% of EniChem’s; the reverse applies in chloride where ICI is the bigger producer (York, J., 1996b).

While the capacity withdrawal was being put into operation, EVC acquired BICC’s compounding business in the United Kingdom, and also bought an Italian compounding company. It now had an area where it did own its own assets. The acquisitions were financed out of retained profits. A further acquisition was of an industrial film-fabricating company in Italy, which had synergies with ICI’s German film-fabricating company which EVC had also purchased. The companies manufactured film for industrial and pharmaceutical purposes.

EVC grew rapidly from an initial £500 million business to one of about £1 billion over a four year period. As it did not own its plants, the level of central staff was fairly small, and did not exceed 100 during the period, about 40 of whom were seconded from the shareholder companies, the rest being locally recruited. ICI tended to provide marketing secondees and EniChem, production staff. The secondees had “return tickets” to their parent companies and remained on their original superannuation schemes.

The problem caused by the shareholders’ decision to retain their production plants on their own balance sheets meant that EVC had to operate them under lease. They were still manned by EniChem and ICI staff, which made control of operational efficiencies difficult, as the EVC chief executive did not have line authority over the production personnel. The plants were located on EniChem or ICI estates, and EVC had no substantial control over their operation. As John York expressed it:
We can control the secondees in Brussels, and the local hires. We control the selling operations in the field. All the compounding and fabrication staff are ours now, so of the 6000 people employed 2/3 are now ours; we pay their salaries. But some of the most important guys aren't, eg the production operators on the key sites (York, J., 1996c).

Also, EVC had to accept raw material prices set by the shareholder suppliers. These were above the market price levels and included shareholder level overheads, which were high. If EVC could have bought its raw materials from a third party, it may have obtained far lower prices.

The shareholders believed that the problem that EVC was set up to solve was solved once the company got into profit in 1988. They did not appreciate the vulnerability of a commodity plastics company of the size of EVC to fluctuations in industrial activity, and thus the shareholder euphoria of 1988 gave way to depression in 1992 as profits reversed into losses.

In July 1992, together with its major competitors Solvay, Atochem and Hulks, EVC was investigated by the EC Commission for possible cartel creation. This followed a similar investigation four years previously which led to large fines subsequently annulled by the EC Court of First Instance on technical grounds. Whether a cartel was operating or not, the major European PVC producers were finding making a profit during the recession and in competition with the Far East a very difficult task (Imperial Chemical Industries, 1993a; 1994a).

Since 1990, ICI has gone through two major restructuring programmes. As a result of these, EVC was listed on the Amsterdam stock exchange in November 1994. This involved the issuing of new shares and ICI's reducing its interest from 50% to 15.8%
(Imperial Chemical Industries, 1994b).

6.2.5 Summary
The partners, EniChem and ICI declined to be directly involved with this research (EniChem on the ground of commercially sensitive information as they were still a major shareholder, and ICI as the information required was seen as “ancient history” - but both did supply a range of public documents that were directly related to their involvement). A number of individuals from ICI were willing to discuss their involvement with the alliance. Extensive data were obtained from former ICI employees who had first-hand knowledge of, and experience with, EVC, and coupled with considerable secondary data in the financial press, it is believed that a reasonably full and accurate picture for the purpose of this research emerged.

In summary, the joint venture should be regarded as a relatively successful one since it achieved its primary objective of returning the PVC market to profit for EniChem and ICI in normal non-recessionary times, largely through capacity rationalisation and efficiency improvement. Due to the limited appreciation by the shareholders of the most appropriate principles to follow if a joint venture company is to thrive and evolve over time, and the somewhat bleak prospects for PVC in the medium term future, a prognosis for the longer term future would need to be more cautious, given current shareholder systems and attitudes. EVC could not realistically become a player in this process until it had ownership of its manufacturing, and possibly raw material-producing plants so that the joint venture can present itself as a self-standing business. The fact that EVC was forced to buy 90% of its raw materials at above market price from shareholders and that production took place in factories owned by the partners and not by EVC considerably constrained its developmental potential.
CHAPTER SEVEN

THE CONSORTIUM

This chapter describes the formation, management and evolution of the Japanese telecommunications consortium led by Cable and Wireless PLC. This is the only consortium and non-European based alliance in the case studies reviewed.

7.1 The Cable and Wireless Japanese Consortium: International Digital Communications Corporation

In 1985 the Cable and Wireless PLC decided to attempt to increase its prominence in the fast globalising telecommunications industry by putting together a consortium to bid for an external communications licence in Japan. After a long series of negotiations with potential Japanese partners, Cable and Wireless put the consortium into place, and in October 1986 Cable and Wireless, C. Itoh, Toyota, Pacific Telesis and thirteen smaller Japanese “sleeping” shareholders announced their bid for the licence through a consortium company, International Digital Communications. This followed considerable nationalistic opposition from the Japanese government, which did not want to see a major foreign company in a leading position in its international telecommunication industry. The then British Prime Minister, Margaret Thatcher, told her Japanese counterpart, Yasuhiro Nakasone, that she regarded United Kingdom participation in the new service as a test of Japan’s willingness to open its markets. Ultimately International Digital Communications did in fact win the licence (Cable and Wireless PLC, 1987a; 1987b).

7.1.1 Cable and Wireless PLC

Cable and Wireless has been in existence for over 125 years, and has a presence in over fifty countries. Despite this longevity and global spread, it is not yet a global giant, being dominated in the United Kingdom by British Telecom in the corporate and personal markets, and with the relatively modest sales turnover, for a global player, of
U$9.6 billion in gross revenue in 1996.

Since the privatisation of the British telecommunications industry, the Cable and Wireless group has set itself the objective of becoming a leading player in the world industry, as spreading privatisation makes more and more of the world’s telecommunications systems available to private enterprise operators.

Cable and Wireless has a considerable range of activities, all within the telecommunications industry. In the United Kingdom, it owns Mercury Communications which is set to compete with British Telecom for the personal and corporate United Kingdom consumer in the 1990s and beyond. Currently, it pays interconnection charges to British Telecom to operate on the British Telecom network which is similar to the inter-connection charges that its Australian venture, Cable and Wireless Optus, pays to Telstra Ltd; conscious that this dependency leaves it very vulnerable to its rival, it is in the process of developing wireless access for its customers to by-pass the British Telecom network. Through Mercury Personal Communications, it hopes to develop a leading role in the fast growing personal communication network. It operates the Hong Kong telecommunications network, and is fast establishing a presence in most Asian markets by acquisition, franchise or alliance. It also sees Europe and the USA as important markets to conquer, and has a number of activities, both individually and by joint venture, operating in these domains. It has been instrumental in building the global digital highway, a broad-band fibre-optic network connecting the main business and commercial centres of Europe, North America and the Pacific rim. The last major section, the North America cable, was brought into service in 1991.

It sees activity in Japan as having a long-term orientation. In this case the only way to operate is seen by Cable and Wireless to be to put down roots and relate
sympathetically with the Japanese culture and way of doing business. Cable and Wireless’s approach therefore involves co-operative strategies, and to this end it has been the driving force in International Digital Corporation, the Japanese consortium that has won the Japanese licence to provide a second Japanese international carrier, and has set up a joint venture, Fair-Way Networks, taking it into the Japanese domestic market for the first time, and strengthening its capability in data networking.

Cable and Wireless sees the fast changing global market as its advantage, and in the words of its chairman, Lord Young, in an annual report, it is continuing to evolve as a world wide service provider (Cable and Wireless; 1995b), with the principle of acting locally but thinking globally.

7.1.2 The Japanese Telecommunications Industry

As in the British telecommunications industry, the 1980s brought privatisation to the Japanese industry. Nippon Telephones and Telegraph was privatised in 1984, and is the dominant domestic telecommunications company in Japan. It was, however, prohibited at the time of privatisation from operating internationally; this was being phased in over the years 1986 to 1990.

In the international Japanese market, the dominant Japanese player is Kokusai Denshin Denwa, the privatised ex-monopolist. However, there are two other players whose growing strength is proving effective in keeping prices competitive. These are International Telecoms Japan and International Digital Communications. Kokusai Denshin Denwa was estimated in 1994 to have 65% of the international telecommunications market (from 100% in 1988 when it had a monopoly business), International Telecoms Japan has 18.5% and International Digital Communications 18.5%. The Japanese international telecommunications market was worth approximately A$5 billion in 1995 and is expected by International Digital
Communications to be worth double that by the year 2000.

7.1.3 Formation

Cable and Wireless had little alternative, if they wished to bid for a Japanese telecommunications licence, to setting up a joint venture with a Japanese partner. However, there was a number of options within this alliance form. They could, for example, have chosen to form a joint venture with one major Japanese telecommunications company, and provide the international experience. Or they could have set up a looser collaborative relationship, or set of relationships.

The form they chose was a consortium joint venture (Factor A1). This was stimulated by the size necessary to achieve credibility with the Japanese government. Other criteria like complementary skills were not the prime determinants (Cable and Wireless, 1987a), and in many ways the partners are something of a miscellany of major corporations, in many cases without any obvious existing experience in telecommunications. This reflects very largely the way they were recruited. Their differing internal agendas may also possibly not bode well for the ultimate future of International Digital Communications. However, by spreading the shareholding widely, and being the dominant telecommunications expert, Cable and Wireless have probably achieved a position of more influence in a foreign theatre than they could have done if they had sought a partnership with one major Japanese telecommunications company. However, their position is still frustrating. As Takehiro Ikeuchi, a Cable and Wireless Japan director, put it:

_The other shareholders should listen to our opinions and views more than they do, as we are the only partner with international telecoms experience. It is very difficult for us to take the initiative as we are a British company. In general the situation has not been developed with determination. For example we set up another company in the USA owned 100% by ourselves, and already the_
company employs 2000 staff from the same starting point. The trouble is that in Japan we need C. Itoh's "nemawashi" (behind the scenes lobbying and consensus building particularly with the Ministry) and they have no experience of the telecoms industry (Cable and Wireless Japan, 1996).

Initially Cable and Wireless established a feasibility company with C. Itoh, the major Japanese trading house, and Nippon Telephones and Telegraph. C. Itoh brought in some major Japanese corporations, including Toyota. When International Digital Communications was eventually set up in its final form in 1986, Cable and Wireless, C. Itoh and Toyota became the major partners with 17% each of the equity, making 51% in total. Pacific Telesis of the United States of America had 10%, and then there were 11 core members of major Japanese companies like NEC, Nippon Steel, Fujitsu and a number of banks, and then a tail of 120 other corporate shareholders. The wide Japanese shareholding was both valuable to gain credibility with the Japanese Ministry of Telecommunications and Posts, and to provide initial customers. Naturally, when the shareholders made international calls they used International Digital Communications' facilities, and this helped greatly in winning market share from the outset (Cable and Wireless, 1990).

Toyota’s position is seen as slightly anomalous (Factor B2). Toyota seems to have been reluctant to join at the outset but, having joined with 10% of the equity, it took the opportunity of a rights issue to increase its shareholding to 17% in 1986 alongside that of C. Itoh and Cable and Wireless and is very forceful, despite a lack of telecommunications experience. Toshio Horiuchi, a Toyota-seconded director of International Digital Communications says:

We (Toyota) do not have a clear intention as concerns the international telecoms business. However, Toyota is now making great progress in globalisation, so we are one of the major customers for international telecoms:
so we thought of getting into the business to represent the customer's viewpoint (Toyota, 1987).

The internal motivation for the consortium, according to Toyota and Cable and Wireless, was the need to put together a credible team in terms of size, technological experience, and Japanese substance, to take advantage of the opportunity provided by the tender for the licence for the second international carrier. Cable and Wireless provided the technology and international experience outside Japan, and the partners provided the rest; they are influential in the right quarters in Japan; C. Itoh are very useful in purchasing; the banks have been useful with lines of credit.

The skills of the partners are diverse (B2 and B3). All have good general business experience, mostly in Japan; C. Itoh is a strong trading partner; Pacific Telesis is strong in telecommunications but not internationally; Toyota is a very powerful name, and Nippon Telephones and Telegraph (International), although not an operating subsidiary, is technologically strong and able to provide telecommunication-trained human resources. Cable and Wireless is the strongest partner from the viewpoint of international telecommunications experience, but it is not capable of conducting nemawashi by itself in Japan. The partners’ objectives, however, are not necessarily congruent in the longer term. Cable and Wireless had the objective of establishing themselves in Japan as a major telecommunications supplier. C. Itoh wanted to expand into telecommunications. Toyota want to be part of the project because it is big and wants to be seen in every aspect of Japanese culture, society and business. Nippon Telephones and Telegraph want to learn the international telecommunications business, possibly before becoming a competitor of Cable and Wireless in any reshuffle of licences in the future. However, any conflicting agenda are dealt with at shareholder level, and do not impede the smooth running of the management team (Cable and Wireless, 1995a; 1995b).
7.1.4 Management

Because of the shareholders’ differing agenda and the inevitable stresses of a consortium, especially one bridging very different cultures, the operations of the management systems are rated only average by Cable and Wireless. However, attitudes are felt by Cable and Wireless to be positive, and commitment and trust high (B3 and C3). Despite the partners’ differing long term objectives, information is widely disseminated without mutual suspicion (C3) (Cable and Wireless, 1987b; 1988; 1991; 1992; 1994; 1995b; 1996).

Structurally, International Digital Communications is a Japanese company. Although the Managing Director is English, both the President and Chairman are Japanese, and only Japanese nationals may sign on behalf of the company. Culturally, the consortium is Japanese, and Japanese is the company’s official language, although most of the partners do speak English adequately. Any cultural adjustments that have to be made fall on the foreign shareholders. The style of the company is Japanese, with consensus methods of working in the ascendant (which may have groupthink implications on decisions reached through consensus (Janis, 1982)). As Jonathan Solomon of Cable and Wireless put it:

*The Japanese never say yes, they never say no, but things get done* (Solomon, 1996).

7.1.5 Evolution

Considerable bonding (C3) between Cable and Wireless and the other alliance partners has taken place, largely due to the external threats (gaining local partners who are credible to the Japanese market), and the crisis at birth (namely, the Japanese Ministry of Telecommunications and Posts’ resistance). Learning is constantly taking place, although probably more on the Japanese than the Cable and Wireless side. Ikeuchi put it thus:
The most important things is the knowledge we get from the Japanese shareholder companies, but this knowledge is not shared in our headquarters in London. There is little organisational learning in Cable and Wireless (Cable and Wireless, Japan, 1990).

The alliance is rated by the alliance partners as successful, both internally and within the industry generally, although, as with most consortia, observers of the alliance with sceptical temperaments may detect possible seeds of disquiet that may grow from the fact that, for most of the partners, an alliance with Cable and Wireless is not crucial once the telecommunications business has been learnt. Nonetheless, benefits have been major, and even if the consortium were not to prove a long term arrangement, its establishment and impact in the marketplace justify it being rated a considerable success by the alliance partners.

A key to the success of the alliance, apart from the right mix of skills and power, has been the bonding (C3) that took place as a result of the fight for acceptance with the Japanese Ministry of Telecommunications and Posts. The International Digital Communications situation was born in crisis and lives in crisis. At the outset, resistance from the Japanese Ministry of Telecommunications and Posts created a crisis climate in the company, and the attempt to wrest market share from the ex-monopolist Kokusai Denshin Denwa meant constant crisis attitudes had to be maintained by the management structure of the alliance.

The most critical period in International Digital Communication’s history was between the inception and the granting of the licence. Subsequently, the management of the company led to its successful establishment and market share acquisition, but not to remittable profits till after 1992. From Cable and Wireless' viewpoint the question of profits is not crucial, although it might be an important factor weighing against the
investment of further large amounts of capital in the enterprise in the future (Cable and Wireless, 1994). The key success objective has, for Cable and Wireless Japan, been establishing itself in Japan, and this seems to have been largely accomplished. International Digital Communications is very effective at marketing, and Cable and Wireless is concerned that it does not seem currently to be able to transfer the knowledge it has gained from this, to say, Mercury; in Britain the "not invented here" syndrome still causes resistance.

7.1.6 Summary
The alliance has undoubtedly been a success despite lack of profits, which fits well with the Japanese business culture of sustaining losses in the short and medium term so as to gain long-term market dominance and profitability. Cable and Wireless has made strong Japanese friends, been accepted in Japan, and been able to set up a further joint venture, Fairway Networks, on the domestic front in Japan. Japan has gone from having the highest prices for international telecommunications in the Asian region to one of the lowest, and, from not being on the major networks of the world, it has in three years become the hub for the whole area. Much of this is due to the stimulus provided by International Digital Communications. The capital value of International Digital Communications has increased to above 700 times its initial share value as at July 1992. Also Mercury, a subsidiary, now has about 30% of the United Kingdom traffic with Japan, which it certainly would not have had without International Digital Communications, so for the £17 million invested by Cable and Wireless the spin-off benefits have been immense.
CHAPTER EIGHT
THE COLLABORATIONS

This chapter traces the collaborative strategic alliances between Rover/Honda and Henri Wintermans/Imperial Tobacco (see Chapter 3.2 at page 60 and Chapter 5.1.2, page 95 for discussion on the possible choice of the collaboration form of alliance).

8.1 The Alliance between Rover and Honda

The strategic alliance between the Rover Group and Honda was embarked upon after a meeting between the two companies at the Fairmont Hotel in San Francisco in September 1978. Over sixteen years later the alliance came to an acrimonious ending. It evolved from a limited licensing agreement into a multi-functional relationship including joint development and production, and a 20% share exchange between the two companies.

At the outset, Rover was an ailing car manufacturer owned reluctantly by the British government, and still making large losses, despite the aggressive attempts by its then Chief Executive, Michael Edwards, to modernise it through a major rationalisation plan, and a determination to curb the trade union power that had contributed in a major way to make the company a sad example of failing British industry (Potter, 1995; Bertodo, 1990, 1996).

8.1.1 Background - Rover Group

By 1978, Rover, despite a rationalisation plan, was still losing money, and was facing the prospect of a Conservative government less likely to continue to finance unprofitable development than its Labor Party predecessor. The world automobile market, after a number of years of growth, had plateaued, and increased market share, brought about by the ability to produce new models, was the basis of success. Rover in the late 1970s had pinned its hopes on the Metro, the Maestro and the Montego, but
none of these models reached its targeted sales figures, due principally to Rover's reputation for somewhat variable quality (Bertodo, 1990).

At the very least, Rover needed a new product in the lower medium market segment to plug a gap in its product range, but it lacked both the time and the finance to achieve this unaided. Still named the British Leyland Motor Corporation (BLMC), the company experienced declining market share during the 1970s, and seemed to have a bleak future. The world automobile industry was in a late mature stage dominated by global giants (Caves, 1992; Caves and Barton, 1990). The economies of scale of large scale production, and the marketing power of strong dealer networks, allied to good judgment in new model development, were the passport to success, and Rover had few of these supposed success factors in its armoury at that time (Bertodo, 1996).

Furthermore, the Japanese were beginning to make their presence felt on the world automobile stage with their emphasis on quality, reliability, robotic methods of manufacture, and fuel economy. Amongst the Japanese car makers, Honda was something of a maverick and an upstart. It had started its international life as a manufacturer of motor cycles, and did not develop a presence in the car market until 1963.

By 1978 Rover and Honda were approximately the same size in terms of world sales at about £4 billion turnover. Honda was profitable and growing fast; however, Rover was loss making and possessed factories operating at a level substantially below capacity (Potter, 1995; Bertodo, 1996).

8.1.2 The European Market
By the end of the 1980s Europe had overtaken North America as the largest market for automobiles, with Germany, France, UK and Italy each responsible for in excess of 2
million annual vehicle registrations. Some major trends were noticeable. More consumer choice was being demanded, and consequently more flexible manufacturing systems had to be employed. More sophisticated electronic equipment was being included in cars, and safety was becoming a selling feature. Although the Japanese had gained a very large share of the US market in the eighties, they had penetrated Europe to a lesser extent. They were estimated to have 11.6% in total of the European market in 1990 (Johnson and Scholes, 1993 and 1997).

As the Single European Act took effect, their methods gave them the competitive advantage they sought if they were to manufacture within the EC. Their short product life cycle, low costs, roboticised manufacturing methods and consequent high labour productivity gave them this advantage. Honda was interested as early as 1978 in the European market as a new challenge.

8.1.3 Formation

The 1978 meeting in San Francisco came about because BLMC, as Rover was then, had recognised that, if it wanted a successful future in the world automobile industry, it needed a partner. Roland Bertodo, Rover’s Strategic Planning Director during this period, described how the BLMS top management tackled the problem:

*We consciously sat down and wrote down all the automotive companies and listed the pluses and minuses against each one. Honda was the one that came out top purely because it was a similar size to us, it had growth ambition, and a reputation for high quality at a time when quality for us was the biggest problem. It was renowned for its management at a time when we were struggling for management know-how [see A2]. We were therefore attracted to Honda* (Bertodo, 1996).

Honda responded positively to Rover’s initiative, and the first deal was signed in December 1979, which was a limited licensing arrangement for BLMC to manufacture
the Triumph Acclaim from Honda KD kits at the BLMC factory in Longbridge in Birmingham. The Triumph Acclaim was based on the Honda Accord and filled the vacant position in Rover’s product range. 130,000 Acclaims were manufactured at Longbridge, and the brand achieved a regular position in the top ten UK sellers list, although it was, in reality, no more than a re-badged Honda (Bertodo, 1996; 1997).

Rover lacked the financial resources and the time to produce market-acceptable new models after the lacklustre performance of the Maestro and the Montego. It also lacked a self-confident company culture after years of loss making, union restrictive-practices, disputes, and poor reports concerning the company in the financial press in the United Kingdom. Rover knew that they were regarded as one of the major “lame ducks” of British industry (Bertodo, 1997).

Honda was a successful company but, in world automotive industry terms, it was still regarded as principally a motor cycle manufacturer. Honda’s image was not sufficient, at the time of the alliance formation, for it to take its place naturally alongside Ford or General Motors in the USA or Toyota in Japan. In fact, despite trebling its turnover during the 1980s, Honda was still not among the giants of the motor world. And, in Europe, its sales prior to 1979 accounted for less than 3% of the European market, against 15% for Volkswagen (including Audi and Seat) and 14% for Ford. Honda had established itself well in the USA but, of the three legs of the triad, the European leg was, to Honda, almost entirely undeveloped in 1979. Also, Honda felt insecure in this area, as it knew European tastes differed from American ones, but it did not trust its own understanding of them. Furthermore, Honda did not believe it had the time to set up in Europe, and develop its own European arm from scratch. The development costs of new European models would be too great at that stage of Honda’s development, and the time scale too long to be acceptable. Mr Hayashi, a former Managing Director of Honda UK, said:
At that time there were restrictions on exports to Europe, therefore there was no way to increase our exports there. Europe was suffering from over capacity, so we had no chance to build our own factory there (Bertodo, 1996).

Rover had access to what Honda saw as an acceptable United Kingdom and European network of component suppliers and sub-contractors. It had ample spare capacity in its factories, and could manufacture as many cars for Honda as the Japanese company could manage to sell. Rover also had an understanding of European tastes, and it could contribute to the development costs of new models to make this necessary factor come within the financial reach of both companies.

Honda had the characteristic Japanese Total Quality Control attitude to manufacturing, and, by lengthy tuition, was able to elevate Rover into a quality performer. It had a pragmatic attitude to design that facilitated the creation of marketable cars. It had the robotic methods of manufacture that could gain the necessary cost economies in unit terms. Also, it had sufficient finance to collaborate with Rover in the production of new models and this was an important attraction (Bertodo, 1996).

The Rover/Honda alliance, then, started off as a very limited arrangement in 1978 with the first collaboration occurring in 1979 but, as confidence grew between the partners and realisation of their respective qualities emerged, the alliance matured into a much more involved collaboration (C1 and C3). Rover was the driving force in bringing about the alliance since, as a government owned "lame duck", it desperately needed some passport to possible success. Honda's motivation was positive but probably weaker than Rover's. As Hayashi commented:

*We thought the Rover approach might help in Europe. It was company policy to be flexible with people who approached us, and to have international*
collaboration, so we agreed to license Rover to manufacturer Honda products from knock-down kits (Bertodo, 1997).

However, Honda covered any reservations it might have had by limiting the first deal to an arms-length licensing arrangement, and some time later embarked on the building of the Honda Swindon factory to maintain their flexibility. Subject to these safeguards, their motivation was sufficient to allow the alliance go ahead.

8.1.4 Management

Rover was a little worried at the outset that Honda would take its know-how on European styling and sourcing in particular, and then walk away (C2 and C4). According to Bertodo:

*We took steps to limit transparency and minimise informal transfer of knowledge by circumscribing a partner's opportunity to learn [see C4] in an uncontrolled manner. The challenge is sharing sufficient skill to create a competitive advantage for both partners while avoiding wholesale transfer of core abilities* (Bertodo, 1997).

The risk from Rover's viewpoint was at the shopfloor level, where such discipline was unlikely to prevail. Honda faced little risk in this area since, John Bacchus, Rover's Director of Collaborative Strategy, commented that the Japanese were traditionally secretive by nature and did not seem to feel the need to demonstrate their knowledge to show their ability (Bertodo, 1996).

The 20% share exchange, however, was one concrete demonstration of commitment (C3). On this exchange issue Hayashi (Bertodo, 1997) commented that that share transaction was most important for the manufacturing and development staff, since it engendered a measure of trust through bonding (C3), in that it showed that the partnership was for the long term.
Of course, the trust (C3) has not been naively based. Rover only released information on a “need to know” basis; the Japanese behaved similarly, and the two teams did not fraternise greatly at a social or shop floor level. However, trust (C3) developed as the two sides grew used to working together. Matters moved on successfully and as Hayashi said:

*The Legend, the joint Honda-Rover product, cleared the way for Honda to enter into the executive car sector of the market. Rover’s interior design and European taste contributed to the success of the Legend. Now Rover is a truly integral part of Honda’s strategy in Europe* (Bertodo 1996).

Perhaps this is the strongest assurance of the survival of the alliance, that is, the creation of joint assets that are key to the continuance of sustainable competitive advantage, and Rover/Honda seem to have achieved this by 1991. However, sceptics saw some cause for worry for Rover in dependence on the alliance. Bertodo suggests that:

...*model development in the car programme has been shifted over largely to Honda, with Rover manipulating the available hardware to encompass its upmarket and niche model ambitions. This compromise will permit a more rapid updating of the model range than Rover could have otherwise contemplated but this attachment to Honda has also given rise to uninspired styling and uncompetitively bland designs* (Bertodo, 1996).

Yet the alliance showed the strong commitment necessary for successful collaboration, as Hayashi commented:

*We have strong commitment to the alliance. Even when we start production in Swindon we will still benefit from the joint supply network, and Rover is still in need of Honda’s capability in product development, and quality standards. In that sense both companies have a management policy of strong commitment, because competition in Europe is very keen, and since we are already established in the UK with suppliers and co-operation with Rover this*
confirms our commitment (Bertodo, 1996).

Adaptation to change had been mainly on Rover’s side, as it had painfully absorbed the successful Japanese way of running large manufacturing companies. On contrasting cultures, Hayashi commented:

*Much endeavour and patience were needed to overcome many barriers. In language, culture, ways of thinking and sense of value to name just a few. By overcoming these barriers, the people of Honda and Rover were able to generate mutual understanding and trust, which eventually led to close friendship* (Bertodo, 1997).

As Bertodo confirmed:

*Honda have compressed our learning curve and given us better value for money by sharing resources on R&D* (Bertodo, 1997).

There were joint design teams working on new models. Both companies’ factories produced for the other partner. There was joint sourcing of components, and many compromises had been made to accommodate the respective manufacturing needs of the two partners.

### 8.1.5 Evolution

The second phase of the partnership was the Rover 200 launched in 1984, of which 175,000 were built. This was the “sister” model to the Honda Ballade. The 200 was a basically Japanese car but with Rover fenders, wheels, bumpers and interiors. Both the 200 and the Ballade were produced at Longbridge and equipped with different badges. The agreement was more than a simple licence this time. Rover had the right to change the basic platform, and there was also a manufacturing agreement to make cars for Honda. The experience with the Ballade made the Japanese realise that Rover could provide the missing European values that Honda needed, and as a result helped shape the way the relationship was to evolve (see A2, C1 and C4).
In 1985, however, Honda announced its intention to build a factory in Swindon. This concerned the British press as the question was raised as to whether this move heralded the decline of the alliance with Rover. This proved subsequently to be the case. Honda at first proposed only to make engines in Swindon, and then subsequently to make both Rovers and Hondas there. It was also mooted at that time in the financial press that Honda might be in the market to buy Rover, but Honda claimed it lacked the resources. By 1985 Honda was still a very small player on the British market. It sold 19,000 cars in the UK that year for 1% market share (Bertodo, 1996).

In 1986, the partnership evolved further with the launch of the Rover 800 and the Honda Legend. This was the first car that was the product of a joint development effort (C1). The experience of working closely together on design caused great strides to be made in the relationship between the two companies, and led to a substantial improvement in Rover’s understanding of quality standards (C4). At this time Rover and Honda signed a statement of understanding to extend the partnership, a statement which dealt with the principles of the relationship. However, it was felt that the mutual trust (C3) that had developed during the work on project XX, as the 800 was called, was much more important than any legal document. There was by 1986 a noticeable shortening in Rover’s product life cycle (Figure 8.1 on page 155). Also Rover’s productivity was by now on a steeply improving curve (Figure 8.2 on page 155). Honda insisted that it was not in the business of making excellent cars. Its aim was to make perfect cars! Some of this attitude was beginning to rub off on Rover (C4) (Bertodo, 1996). Once again, trust (C3) emerges as a relationship developed through meeting challenges (see Chapter 8.1.4 on page 151).

A further maturing of the relationship occurred in 1988. Rover and Honda agreed to stop making the Rover 800 and the Honda Legend for each other at their respective factories. This was because both parties wanted to make refinements that could not
Progressive Shortening of Rover Product Life Cycle

Figure 8.1 (Bertodo 1990:42)
Comparative Productivity Experience

Figure 8.2 (Bertodo 1990:43)
easily be made at each other’s factories. Honda built only 1,600 Rover 800s in Japan and Rover only 3,500 Legends in Cowley. The decision did not damage the relationship in any way. Then 1989 saw the next project, the Rover 200/400 with it twin, the Honda Concerto. This project heralded a further development, in that it was the product of joint development and co-production (C1), plus the cross-sourcing of components. Rover built more than 40,000 Concertos for Honda in 1990 to a quality standard acceptable to the Japanese. Rover and Honda then engaged on a further collaborative venture involving integrated development and production, and demonstrated their further confidence in the alliance by concluding the 20% share exchange in each other (Miller, 1994).

So, from an arms-length licensing agreement in 1979, the alliance progressed a long way in terms of mutual development and production, and even reached the point of minority share exchange. There was no attempt to collaborate in merging marketing identities, or in management off the shop floor. Honda is still clearly a Japanese company with its own aims and ambitions, and Rover only features in these as a European partner. Similarly, Rover had its distinct identity, and showed no sign of losing it. The decision to keep marketing separate can, however, lead to corporate and identity problems. In early 1993 Rover launched the 600 series to fill the price gap between the 400 and the 800. Its twin is the Honda Accord. Honda announced:

_The largest selling Accord, the 2.0 iLS at £14,995 undercuts its near identical sister car, the Rover 620 Sli...and the Rover 620 is not available with a driver’s side airbag_ (Bertodo, 1997).

The Sunday Times reported, in April 1993, that a hasty retraction followed, deleting all references to Rover as a rival, since the announcement had breached the tacit agreement that neither manufacturer criticised the other (Bertodo, 1996).
Bertodo saw the alliance as requiring constant refreshing by both sides’ being ready with something extra to trade at each crucial point in what he calls the “collaboration cortex” (Bertodo, 1996) to prevent the alliance flying off centrifugally into independence, or centripetally into one-sided dependency (C2). He saw a key part of his job as preventing Rover, in particular, from doing the latter. The key characteristics of bonding (C3) between the partners, commitment, trust, and development of the philosophy of the learning organisation (C4) (at least for Honda) have all developed in large measure in the alliance as it continued to evolve from year to year.

8.1.6 Summary

The alliance was fruitful from the viewpoint of both partners. Alone, neither was a world-class motor vehicle manufacturer. Honda was strong in the USA and a medium size player in Japan; its European presence was negligible. Rover was strong in Europe but nowhere else. In fact, 95% of its production in 1980 was for Europe including the UK. However, together Rover/Honda presented a powerful world force, with a strong presence in Japan, USA and Europe.

They were not alone in the world motor industry in forming alliances. In fact, most major players have done so with suppliers or competitors in recent years. Rover had some experience of disappointing alliances. Since 1921 Rover had fifteen alliances with, among others, Isuzu, BMW, Ferguson, Hindustani, AMC, Perkins and Nissan. Only seven were judged by Rover to be successful, and only four were seen to be outstandingly so (Bertodo, 1996). However, from its position as a regular loss maker in the 1970s and early to mid 1980s, Rover has moved steadily into profit, and in 1990, as a subsidiary of British Aerospace PLC, it contributed an annual profit in excess of £50 million to its parent, although the recession of the late 1980s and early 1990s damaged profits (in February 1992 Rover announced losses of £83 million which included a £45 million write-off as a result of withdrawing from the US market, and Honda
experienced a drop in profits by 32 per cent for the same period (Potter, 1995)). Sales turnover was on a plateau at between £3-4 billion and not growing, and in terms of assets it shrank dramatically from its 1970s size. Rover’s export sales were fairly stable in the late 1980s (Bertodo, 1997), and its UK sales showed little growth. It is unashamedly a niche marketer, as former Chairman Sir Graham Day declared, and is no longer the largest UK car producer, coming third behind Ford and Vauxhall (Bertodo, 1996). Furthermore, the Honda-related models still account for only about a quarter of total production. The much maligned Metro, Maestro and Montego are still responsible for a substantial tranche of Rover’s sales. Nonetheless, the Honda alliance has had a dramatic effect on Rover’s quality performance, and it no longer sees itself as a “loser”.

Honda has grown from a medium size player in 1978, with a turnover of around £4 billion to one with a worldwide sales level of more than £15 billion of which 66% is earned outside Japan, and a net profit after tax of more than £500 million in 1990 (Bertodo, 1996; 1997). Not all of this on Honda’s side can be attributed to the alliance with Rover, since Honda was already large in the USA at the time of the alliance formation, and motor cycles, power products and parts accounted for a quarter of total revenue in 1990 (Bertodo, 1996). However, in Europe, the most relevant area for the output of the alliance, Honda’s sales of cars have increased from a negligible amount in 1978 to £850 million or 230,000 units in 1995. Not only have Honda raised the European direct sales but they also benefit from part of Rover’s approximately 500,000 unit sales.

On the Rover side, if quality and a regenerated reputation were prime objectives, these too seem to be established. The 800, the 200 and the 400 series are all generally acknowledged to be first-class cars from a quality viewpoint, and Rover’s reputation is reflected in its profit figures. It is estimated, also, that the inter-company business
between the two companies was worth in the region of £500,000 annually. Mr Hayashi has commented:

If we broke apart, we would be in competition with the same technology, the same components, the same suppliers, and the same products: a duplicate of ourselves (Bertodo, 1996).

This, perhaps, would have been a fitting conclusion to a collaboration that grew and evolved over more than a decade to the considerable benefit of both partners, but without compromising the identity of either. Bertodo summed up the relationship in a most picturesque way:

We have shared a bed, but we dream separate dreams (Bertodo, 1997).

8.1.7 Epilogue - The Death of the Alliance

In late August 1995, Rover revealed that it was drawing to a close its collaboration on new car development (C1) with Honda after sixteen years. Nick Stephenson, Design and Engineering Director at Rover, indicated that the Rover 400 range of cars launched in 1995 were likely to be the last joint venture with Honda (Potter, 1995).

It is considered that the more realistic rationale for this action is that, initially, British Leyland and Honda were not viewing the other party as a competitor, and that the joint venture was filling in gaps in their respective product range. But when British Aerospace sold Rover for £800 million to BMW the two parties became direct competitors not only in Britain but globally. Rover set up “Chinese walls” in 1995 to protect Honda’s commercial secrets/interests till the joint venture was dismantled, and Honda reclaimed everything that it felt to be commercially sensitive (Miller, 1994; Potter, 1995).
Honda was led to believe that the cross-shareholding agreement required that it had to be formally told that Rover was potentially for sale and that it would have first option to acquire the Rover Group should British Aerospace PLC decide to divest itself of the Rover Group. A formal offer was made by BMW to British Aerospace PLC for the Rover Group on 26 January 1993. This offer was concluded ten days later. On 17 February, a delegation from BMW and the Rover Group went to Japan to meet with Honda’s Chief Executive, Nobuhiko Kawamoto, whose only response was:

_We will accelerate our policy of establishing independent and self-reliant operations in Europe...We will continue those that are beneficial from a business standpoint such as mutual sourcing of parts and components - although our relationship with Rover Group will continue, the acquisition by BMW has caused a fundamental review of our European strategy_ (Potter, 1995:9).

On 17 February 1993, the cross-shareholding and alliance were formally dissolved, with a net payment from BMW to Honda of £116 million. The “Chinese walls” were in place for approximately 18 months (Barrie, 1995; Miller, 1994; Potter, 1995).

### 8.2 The Alliance between Henri Wintermans and Imperial Tobacco

Imperial Tobacco had acted as the British agent for Henri Wintermans cigar company of the Netherlands ever since Wintemans was acquired by British American Tobacco in 1965. There was an agreement between Imperial Tobacco and British American Tobacco that British American Tobacco would not sell in the United Kingdom, other than through Imperial Tobacco, and Imperial Tobacco would not sell in the USA other than through British American Tobacco. However, during the mid 1980s the relationship between Imperial Tobacco and Winterman’s deteriorated, as Imperial Tobacco neglected its cigar business. It reached breaking point in 1988 but, instead of breaking, was regenerated by a new agreement in the form of a strategic alliance,
whereby Imperial Tobacco put new energy into its marketing of the Winternans’ brands and Winternans gave Imperial Tobacco technological assistance to bring its cigar manufacturing up to date.

8.2.1 Imperial Tobacco

Imperial Tobacco was founded in 1901 from a merger of a number of the leading British tobacco companies to meet a challenge from the giant American Tobacco Company which, having become the market leader in the USA, was trying to repeat the process in the United Kingdom and Europe. Imperial Tobacco was formed initially of 13 companies, of which the best known are W.D. & H.O. Wills, John Player and Sons, and Lambert and Butler. The companies formed an integrated company under one board of directors, but continued to trade under their own brand names (Hanson Trust, 1987; Porter, 1986a).

In 1902 a truce was agreed, and Imperial Tobacco and the newly constituted British American Tobacco Company agreed on geographical spheres of interest. British American Tobacco stayed out of the United Kingdom and Imperial Tobacco stayed out of the USA. Although various agreements and cross-shareholdings complicated the relationship over the next eighty years, the underlying principle was generally honoured, and British American Tobacco only manufactured in the United Kingdom for export, not for domestic sales.

In the 1960s, Imperial Tobacco pursued a policy of diversification and expanded into food products, paper and board, drink and leisure, and in 1980 bought the Howard Johnson hotel and restaurant chain in the USA. This proved its undoing, and after a number of years of falling profits, rationalisation, and attempted tie-ups with potential partners (including United Biscuits) the Imperial Tobacco group was acquired by Hanson Trust in 1986 (Hanson Trust, 1987).
Hanson Trust proceeded to recoup much of the sale price by selling off many of the Group’s businesses outside the core business of tobacco. It then re-organised Imperial Tobacco to increase its cost effectiveness and efficiency. The two Wills and Players sales forces were merged; the number of brands was cut from 155 to 63, and the number of packings from 238 to 105. This pruning continued until, in 1990, there were only 29 brands and 54 packings remaining. A number of factories was closed or merged, and the technology modernised in the remaining factories to improve unit costs, and the company was divided into three strategic business units:

a) cigarettes and hand rolling tobaccos;
b) cigars; and
c) pipe tobacco and snuff.

The company consolidated its operations of these on three main United Kingdom sites in Bristol, Liverpool and Nottingham, and productivity increased very substantially (Hanson Trust, 1994).

8.2.2 Henri Wintermans

The first Henri Wintermans cigar factory was founded in 1934 in Ersel in southern Holland. The company specialised in cigars, and was a family-owned enterprise. In the 1950s it recognised the potential for export, and by 1992 exported 600 million Henri Wintermans cigars to over 100 countries. In the United Kingdom, Wintermans held 80% in 1992 of the imported cigar market which accounted for 40% of all Dutch cigar exports, with brands including Cafe Creme, Senoritas and Slim Panatella. In 1967 the company lost its independence, and was acquired by British American Tobacco, an act which led to Imperial Tobacco acquiring the United Kingdom distribution licence for Wintermans cigars.
8.2.3 The United Kingdom Market

The tobacco market, as a whole, has been under siege for some years due to strong pressure from the health lobby, as evidence of the damaging effect on health of tobacco consumption has accumulated. Cigarette sales in the United Kingdom fell by 25% in the period 1980 to 1986 but, since that time, have levelled off. The major tobacco companies automated their production methods and increased their productivity. The level of the work force in the industry is only one third of the level it was 10 years ago in the mid 1980s. However, increasing restrictions on advertising and on smoking in the workplace have maintained the pressure on the industry.

The industry is strongly oligopolistic, with Gallaher (44%), Imperial Tobacco (33%) and Rothmans (14%) accounting for 92% of all cigarette sales in the United Kingdom in 1993-5. Cigarettes account for nearly 90% of tobacco sales, with cigars at nearly 4% and pipe tobacco and hand rolling tobacco the remainder (Hanson Trust, 1994; 1995; 1996).

Cigars sales have not fallen as dramatically as cigarettes, perhaps because their cancer-inducing reputation is not believed to be as great. However, the lower level of decline with cigars is probably due to the fact that more cigar smokers are light and occasional users. It is almost entirely a male-orientated activity, and the heavy users are virtually confined to the 35-44 age group. The cigar market is worth about £360 million, and 75% of it is concentrated in small cigars. The brand leader is Gallaher’s Hamlet, with a steady 40% of the market in the period 1990-1994. The remaining strong brands are all Imperial Tobacco or Winternans. Imperial Tobacco’s Castella Classic and Castella Panatela have 15% and Winterman’s Cafe Creme has 11% of the cigar market. Winterman’s total United Kingdom market share is around 19% (Hanston Trust, 1992; 1993; 1994; 1995).
8.2.4 Formation

From an agreement in which Imperial Tobacco was the distributor for Wintermans in the United Kingdom, the 1988 negotiations turned the relationship into a strategic alliance to which both companies contributed. It was to be a collaborative alliance without a joint venture company. Imperial Tobacco agreed to give the Wintermans brands more active distribution effort, but at the same time they radically pruned the brands (Hanson Trust, 1989). Thus, from 30 cigar brands and 45 packings between Imperial Tobacco and Wintermans, the portfolio was reduced to 3 brands and 6 packings for Imperial Tobacco, and 10 brands and 20 packings for Wintermans. Wintermans also agreed to enable the Imperial Tobacco cigar business to be converted from a labour-intensive business to a much more mechanised one, by using large prepared bobbins of leaf, prepared at low cost in the Dominican Republic, flown into Europe and fed into high-speed cigar-making machines (A2 and A6). Imperial Tobacco went from making 12 cigars a minute to 200 cigars a minute (Hanson Trust, 1993).

At Imperial Tobacco the cigar business was the poor relation to the cigarette business. In 1987 cigarettes were making a 100% return on capital, with a 40% net margin. Cigars made 12% on capital, with a 5% net margin. Clearly something had to happen to make it worthwhile for Imperial Tobacco to stay in the cigar business.

The collaborative form of the alliance was not chosen by the alliance partners for the normal reasons, that is, the boundaries of the relationship were uncertain, and too great a degree of commitment was not sought at an early stage. The collaborative form, it seems, was chosen because the organisational culture at Wintermans, in particular, was not comfortable with joint ventures. However, the problems in the alliance that started to emerge from the early 1990s might not be there if the joint venture form had been chosen; in that event, potentially conflicting objectives (B2) would have been
reconciled within the form of the jointly owned company or if the organisational arrangements were more clearly defined (B1). A higher level of commitment (C3) would also have been required by making it more difficult to walk away. The formal alliance agreement was set up in 1988 when the existing informal relationship was poor. It included very specific market share objectives for Winternans brands; these have been exceeded. The objectives were renegotiated in January 1994 and are due for renegotiation again in January 2000.

8.2.5 Management

Management can be analysed under systems, objectives and attitudes. The systems for running the alliance have been adequate, since the collaborative form of alliance, by minimising interfaces between the companies, reduces the probability of friction (Hanson Trust, 1992; 1993; 1995; 1996).

Objectives have been congruent in the short term (B2), that is, to revitalise the cigar market, improve profitability and take market share from Gallagher. However, in the longer term, they may well conflict, as the opportunities for further growth may lead to cannibalisation of market share between the brands of the two companies in a market that has already seen the number of brands and packagings significantly reduced (Hanson Trust, 1992; 1993; 1995; 1996).

On the attitude side, the determined effort by the new Hanson-led Imperial Tobacco team to be positive, to be committed, and trusting (C3) seems to have struck a chord with Winternans, and led to a dramatic improvement in relationships from their 1988 low. Interestingly, since the changes at British American Tobacco, Winternans seem to see Imperial Tobacco very much as allies in protecting its position in relation to its holding company (Hanson Trust, 1992; 1993; 1995; 1996).
8.2.6 Evolution

The first activity following the conclusion of the alliance was brand reduction. This was achieved more successfully on the Imperial Tobacco than the Wintmans, side (C2). Imperial Tobacco believe there are still too many Wintmans brands and packings for the size of the market.

On the marketing side, Wintmans switched to the same advertising agent as Imperial Tobacco, Lowe-Howard-Spink, in order to achieve consistency of message. The Imperial Tobacco sales force was revitalised with the 1988 agreement to put more effort into selling Wintmans brands to achieve the agreed market share objectives (Hanson Trust, 1988; 1989).

On the production side, factories were rationalised and reduced to one for Wintmans, and two for Imperial Tobacco; the Wintmans technical staff set about updating Imperial Tobacco’s technology. Information was exchanged very openly in both the technical and the marketing areas (C4) (Hanson Trust, 1988; 1989).

As a result of these activities both Wintmans and Imperial Tobacco cigars achieved a growing share of a declining market, and profits are up from £2 million in 1986 to £7.8 million in 1995. In 1995 Wintmans brands represented about one third of Imperial Tobacco’s cigar profit, and Imperial Tobacco were responsible for about half of Wintman’s profits (Hanson Trust, 1995).

Despite a successful first stage of the alliance, the situation has become increasingly more tense for a number of reasons. Firstly, the two companies acknowledge that they do not have good strategic fit or congruent objectives (B2). They are both attacking the same market in a competitive rather than in a complementary manner. The more successful they are in growing market share, therefore, the more their objectives are
likely to clash and the more difficult it is for them to avoid taking market share from each other. Secondly, Wintermans’ major contribution to the alliance of updating Imperial Tobacco’s technology was a once-off activity. Imperial Tobacco has the technology and has no further need of Wintermans in this area. Thirdly, Wintermans’ owner, British American Tobacco, is changing their decentralisation strategy, and are getting involved in Winterman’s activities. Imperial Tobacco, with its new technology and slimmed-down brand portfolio, look to be in the stronger negotiating position. Opportunities for further evolution (C1 and C4) of the alliance are not obvious, however.

8.2.7 Summary
The question of the limited possibilities for evolution due to an initial lack of commitment (C3) may place a limit on the alliance’s capacity for growth. It may be that there is little more to achieve in market share in the cigar market in the United Kingdom without Imperial Tobacco and Wintermans attacking each others’ share. On the technology side, both companies are now “state of the art”. Brand rationalisation can probably go no further on the Imperial Tobacco side, and not much further on Wintermans. Imperial Tobacco has suggested merging production units to achieve the greatest possible economies of scale, but this would be difficult to do without setting up a formal joint venture company; with Wintermans operating worldwide and Imperial Tobacco only in the United Kingdom, this action would present difficulties. Finally, the position of British American Tobacco, as Wintermans’ owners, may also represent a conflict of interest.

The alliance partners, having achieved their initial objectives with admirable effectiveness and positive attitudes, may be approaching the point when their strategic imperatives need to be reassessed, as these may no longer afford any obvious opportunities for evolution or continuation of the alliance.
The case studies as represented in Chapters Six, Seven and Eight are clearly selective and make no claim to industry sector generalisation. Access to partner information was a limitation that had to be accepted as a criterion for selecting the case studies. They can clearly be only illustrative of factors and propositions relating to the stages of alliance development in the case studies represented. The tentative implications of the case studies are further drawn out in Chapters Nine, Ten and Eleven that follow from the viewpoint of the development stages.
PART THREE

“I’m talking more than marriage, Zelda. I’m talking strategic alliance.”

Illustration from Milgate (1998)
CHAPTER NINE
THE FORMATION OF AN ALLIANCE

9.0 Introduction
This chapter analyses the alliances described in case study Chapters Six, Seven and Eight in relation to the formation propositions that were detailed in Chapter 5.1 at pages 94 through to 105. This analysis and that in Chapters Ten and Eleven are represented in a content tabular format in Appendix 3 on page 233.

The form of an alliance (A1) is one of the first issues to be addressed once the prospective partners have agreed to embark upon a collaborative relationship. Strangely, very little of the large and fast growing literature on alliances focuses on choice of form. But this thesis does point to the importance of choosing an appropriate form to obtain longer term satisfaction and effectiveness. Internal and external driving forces for alliances are basic motivations and theories on why alliances are appropriate ways of meeting environmental challenges, and to some degree what underlying factors are likely to make the alliances effective. However, the question of what factors influence the choice of form is not widely addressed. Porter and Fuller (1986) dismiss the matter as dependent mainly on the personal preferences of the principals. Gupta and Singh (1991) are more analytic, and identify such matters as separability and specificity of assets, ease of measurement of their use, and the potential appropriability of the value added, as factors influencing choice of alliance form. This research starts from the view that alliance partners may have different structural requirements and sets up specific propositions to investigate in this area.

9.1 Choice of Alliance Form
9.1.1 Joint Ventures
Proposition 1a - Appropriate Alliance Form (Factor A1): A strategic alliance may
be deemed appropriate as a separate joint venture company if:

a) the alliance scope constitutes a distinct business;

b) the alliance assets are
   i. specific;
   ii. easily separable from the parents; and
   iii. need to be jointly managed.

c) the alliance objectives can be clearly measured in relation to the use of
   the assets;

d) there is a perceived need to contractually bind the partners;

e) it is legally necessary, for example, to get into new country market where
   legislation requires foreign organisations to be in an alliance with a local
   partner; and

f) the partners wish to allocate a predetermined level of resources to the
   venture.

The two alliances adopting the two-partner joint-venture form are:

1. Nestlé and General Mills Inc with their joint venture Cereal Partners
   Worldwide S.A.

2. EniChem and ICI with their joint venture European Vinlys Corporations
   (EVC).

It is not sufficient to consider the cases purely to pose the questions: did they have the
characteristics identified in the propositions and were these factors influential in
determining the choice of the joint venture form? It should also be questioned whether
the choice of this form seems, with the advantage of hindsight, to have been the best
choice.

The executives in the joint venture entities and in the parent companies have taken the
view that the bounds of the venture did describe a distinct business which could, if
necessary, be divested in the future; that the assets needed to be jointly managed; that
the partners wished to tie each other into the venture; and that the achievement of the
objectives set for the alliance could be clearly measured in relation to the use of the
assets. These factors were, however, not very useful in predicting alliance
effectiveness. There were no indications as to whether any consideration given to the
appropriateness of the form adopted had been taken into account.

The alliances diverged considerably in their mode of adoption of the joint venture
form. The ease of separation of the assets from the partner business was not so clear.
Cereal Partners (United Kingdom) PLC owned assets, since it came to be based on a
cereals business bought from Rank Hovis McDougall which included factories, staff
and product brand names; it relied, however, for its sales force and for a number of
support services (for example, human resource management, legal and superannuation
matters) on its British-based shareholder, Rescue
(enforced by the shareholders) caused some lowering
Worldwide S.A. In the second instance of a two-partner joint-venture, EVC was forced
to buy 90% of raw materials from shareholders, and even the manufacturing of
commodity and product, principally polyvinylchloride, was carried out at plants which
were still on the books and under the control of the shareholder companies, EniChem
and ICI.

Although an important reason for choosing the joint venture form was undoubtedly in
all cases that this choice enabled a separate business to be built up, the partners were
not wholly consistent in their decisions in supporting the objectives they set, especially
when it came to separating the assets and assigning them to the joint venture to use
exclusively in the pursuit of their objectives. In fact, it could be argued that, by failing
to endow the ventures with their own assets in a clear way, they lost an important part
of the advantage of the joint venture form. This may well be why the alliance
executives were concerned to have on the record their views that the right alliance form had been chosen.

9.1.2 Collaborations

Proposition 1b is explored in this thesis by reference to the case studies involving Rover and Honda; and Imperial Tobacco and Henri Wintermans. This proposition was:

Proposition 1b - Appropriate Alliance Form (Factor A1): The collaborative alliance form may be deemed appropriate if:

a) there is high uncertainty as to what tasks will be involved in the cooperative enterprise;

b) there is a great need for flexibility between the partners;

c) market or corporate level of visible commitment by the partners is not sought; and

d) the boundaries of the alliance do not circumscribe a distinct business Area of the partners.

Of the supporting conditions for the proposition in choice of the looser collaborative form of alliance, only the identification of the need to retain flexibility in the relationship received clear support. Rover and Honda were in agreement that their uncertainty as to what the relationship might ultimately involve prevented them from setting up a joint venture, and inclined them towards the collaborative form. It is noticeable, however, that equity was exchanged between both parties, which had the effect of cementing the relationship with a degree of binding, and giving a sign of the permanency of the relationship to both employees and the market.

In the case of Imperial Tobacco and Wintermans, there were specific reasons why a joint venture was not felt appropriate for the overall relationship. In the Imperial Tobacco/Wintermans case the contract was somewhat ad hoc, and certainly did not
cover an area that lent itself to a joint venture. Imperial Tobacco agreed to aim to achieve certain market share targets in selling Wintermans' cigars in the United Kingdom, and Wintermans agreed to help Imperial Tobacco update their production technology.

In general, the collaborative form seems to be preferred when the partners wish to form an alliance covering their core business, where the extent of the relationship is not clear at the outset, and when flexibility is essential, but the wish to retain an independent identity is also a strong requirement. It should importantly be noted that, in this thesis, the case study does not bear out the literature as suggested in (a) to (d) above. Given that Rover and Honda, for example, manufactured each others' models in their respective factories, had joint design teams, carried out research together, and sourced components jointly, it is difficult to see how a bounded joint venture could be specified to cover all these joint activities and yet retain sufficient flexibility for future developments.

9.1.3 Consortia
The consortium was adopted only by Cable and Wireless and its Japanese partners in the case studies considered. For this alliance form, the following conditions were proposed as the most appropriate having regard to the literature:

Proposition 1c - Appropriate Alliance Form (Factor A1): A consortium be deemed the appropriate alliance form if:

a) two partners alone cannot realistically provide sufficient continuing resources to meet the identified challenge or opportunity;

b) large size by gross revenue, market share or geographic coverage is necessary for the enterprise to be credible to potential customers or regulatory agencies;
c) the specialist skills required are so numerous and varied that two companies could not continue to provide them adequately;
d) extensive geographical coverage is needed to achieve strong market presence; and
e) there is the need to spread and limit the financial risk to each partner.

The Cable and Wireless consortium was set up in Japan in the manner it was, as indicated in Chapter 7.1 at page 137, first and foremost, because it would have had no hope of getting the licence to be the second international telecommunications company in Japan unless it had a range of major respected Japanese corporate partners. Even with them on board, the political battle for the licence was not an easy one. The Japanese partners gave it sufficient size and importance to be credible to the Japanese government. It would also not have had sufficient resources to have tackled the opportunity with only one partner. It achieved 16% of the market (over the period 1985-1996) largely because it had 23 major Japanese partners of the importance of Toyota and C. Itoh, who of course put all their international business through the telecommunications network of which they were shareholders (Proposition 1c(a)).

The other conditions in the above proposition, namely the need for wide specialist skills, for extensive geographical coverage, and for a limitation to the level of investment, clearly could apply as predisposing for the selection of the consortium form. However, in the specific instance of the Cable and Wireless consortium, these conditions were not identified as the key ones by Cable and Wireless (1989). Wide scope and scale are general conditions that may be conducive to consortia formations, but to determine workable boundaries a joint venture company is normally created to provide focus and management direction. In the Cable and Wireless consortium this company is International Digital Communications.
9.2 Motivation

Prior to the selection of an alliance form, the prospective partners need to have a strong motivation to bring the alliance about. This motivation is described in theoretical terms in Chapter Two of this thesis (see pages 22 to 56).

9.2.1 Resource Dependency

One aspect of this motivation normally stems from a partner perception of internal deficiencies and/or strategic opportunities. Such needs will vary in nature, but all are normally able to be classified as perceptions of specific resource, skills or competency inadequacy or imbalance. Such an imbalance may be exhibited in surplus production capacity or in skill deficiency. The proposition relating to internal motivation for an alliance, then, is:

Proposition 2 - Resource Deficiency (Factor X)

alliance formation is to gain skills or resources needed to respond to external challenges.

Each of the partners is likely to seek a different resource or skill compensation from the other. Unless both are able to match their resource or competency needs in a particular partner, then they may not have the appropriate partner. Their options are then to seek a different partner, or, alternatively, to buy in the skill from the proposed partner, but without providing a complementary skill in return. In this latter case the deal will be a unilateral exchange and not an alliance, that is, a purchase. Clearly, any skill imbalance deemed relevant to a given environmental opportunity or challenge may be sufficient motivation for the creation of an alliance, and no specific compensating skill or resource is necessary of itself. All the alliances researched in this study were able to identify certain factors under the heading of resource deficiency. There is no compelling \textit{prima facie} reason, however, for supposing that strong motivation for
creating an alliance would be a good predictor of ultimate alliance success.

Changing technology of a global nature was a factor in the resource needs of at least one partner in four of the five alliances studied. Only EVC did not identify technology required as an important internal motivating force. The reputation of the partner was an internal motivation for the alliance in all five alliances, coupled with access to new strong brand names in three. The importance placed on partner reputation would suggest a difficulty in forming an effective alliance between companies without either a well established reputation or strong brand names. Local knowledge, marketing skills, and distribution channels were other factors that were deemed as motivating factors in Cereal Partners Worldwide S.A., the Cable and Wireless consortium and the Rover/Honda alliances.

Of other possible resource needs, key labour skills of one type or another were seen as motivating needs for Cereal Partners Worldwide S.A. and Cable and Wireless. Cereal Partners Worldwide S.A., EVC, and Cable and Wireless said that the partner’s managerial skills were the attractions. The EVC and Imperial Tobacco/Winternans alliance involved an attraction based on one of the partner’s access to raw material; Cable and Wireless identified meeting Japan’s legal requirements as their basic need in seeking to ally with a consortium of major Japanese corporations. In general, for an alliance to be formed, it is clear that a perception of a mutual resource dependency (Pfeffer and Salancik, 1978) of some sort is a key internal motivator, and that both partners are likely to have different but complementary resource needs which they perceive their chosen partner can help them to meet. The specific nature of the resource dependencies will, of course, be contingent on specific circumstances.
9.2.2 Spreading the Financial Risk

Proposition 3 - Risk (A3): A key motivation for alliance formation is to spread financial risks.

The spreading of financial risk is frequently quoted in the literature as a fundamental motivation for the formation of strategic alliances (Porter and Fuller, 1986; Mariti and Smiley, 1983). It seems also intuitively likely that a company with only moderate financial resources may deal with either an opportunity or a defensive challenge by seeking an alliance with a partner who can help spread the financial risk. However, of the cases studied, only Cereal Partners Worldwide S.A. identified this motive as a key one behind their alliance formation. The major reason for this may be that the alliances selected for this research all involve substantial companies; it may well be nevertheless that, in more moderately sized companies, this motive remains a powerful one.

9.2.3 Fast to Market

Proposition 4 - Speed to Market (Factor A4): Alliances may be formed when partners need to strengthen market presence faster than could be done by other means.

Alliances are the fastest means of obtaining and strengthening market presence to meet an opportunity if the partners each have strong resources and competencies but each taken alone is insufficient to achieve critical mass. Internal development would take much longer, and acquisition has the disadvantage of the possible demotivating effect on the subsidiary relationship, and the higher level of investment required.

Of the five cases analysed, three claimed speed to market as an important motivating factor in the alliance formation. For Cereal Partners Worldwide S.A., it was to mount an effective challenge to Kellogg in the United Kingdom breakfast cereals market within less than two years, a task quite impossible for the partners alone. For Rover and Honda, it brought the Japanese company instantly into the United Kingdom and Europe.
as an effective force. Finally, Cable and Wireless claimed speed to market as a motivator for seeking powerful Japanese allies but, in their case, the allies were the passport to acceptance (see Chapter 7.1.3). It could not have been done alone.

9.2.4 Transaction and Other Costs

Proposition 5 - Low Cost Solution (Factor A5): An alliance may be set up if the partners consider that the transaction and other costs involved in the proposed alliance are less than those that would be incurred by alternative strategic actions.

This proposition was a difficult one to research, mainly because the decision takers were not clearly on the public record claiming that it had been even an implicit motivating factor in the setting up of the alliance. Yet, in the literature on strategic alliances, transaction cost analysis holds a very strong position (Williamson, 1975, 1985; Barney, 1986; Beamish and Banks, 1987; Griesinger, 1990; Hill, 1990; Thorelli, 1986). This may not necessarily be inconsistent if one takes the viewpoint of ecological economics (Hannan and Freeman, 1989; Nelson and Winter, 1982). Thus, organisations may not consciously calculate transaction costs in deciding whether or not to set up alliances; if they decide on a course of action in which transaction costs are high, they may become uncompetitive, and have to adjust their course of action or otherwise fail.

However, as Hannan and Freeman (1989) point out, inertia often prevents transaction costs leading to changes in organisational form, and political and institutional factors are often stronger action determinants than efficiency arguments. Patterson (1993) cites Jacquemoin (1987), Litwak and Rothman (1970) and Mariti and Smiley (1983) as advancing arguments to the effect that costs are not necessarily the most important one. If the proposition is expressed as the route that is the least costly way of achieving one's objectives, then Cereal Partners Worldwide S.A., EVC, Cable and Wireless, Rover, and Honda all took account of the relatively low cost of an alliance as compared
with an acquisition, and may have taken account of internal development costs also as important and attractive cost features, but this tends, because of the great number of possible positive outcomes over negative outcomes, to remove the need for Proposition Three - Risk Sharing.

9.2.5 External Forces

Proposition 6 - External Drivers (Factor A6): Alliances are most likely to come about when certain external conditions obtain in the external environment.

As with internal factors, any perceived strong external factor impelling organisations towards alliance formation is seen as sufficient, without any one specific factor being necessary in itself. As conditions to support this proposition, five of the seven factors were identified by the alliance partners and proposed as possible external drivers. These were:

a) turbulence in markets served by the partners;
b) economies of scale and/or scope existing in the partner’s industry;
c) globalisation of the industry and markets or, at least;
d) regionalisation of the industry or markets; and
e) fast technological change leading to ever increasing investment requirements if the competing organisation is to maintain competitive advantage.

The Rover/Honda alliance claimed that all the identified factors were important external drivers. The two additional factors that the Rover/Honda case identified were:

f) shortening product life-cycles; and
g) conditions of high economic uncertainty.

These last two were also the only external factors identified in the Cable and Wireless as relevant to this alliance.

The most common external factor identified in both the literature and by the alliance partners (Cereal Partners, EVC, Rover/Honda and Imperial Tobacco/Winternans) was,
not surprisingly, globalisation of markets, followed closely by perceived opportunities for economies of scale or of scope, and by the development of fast technological change. All three factors were emphasised by Cereal Partners Worldwide S.A. and Rover/Honda.

These factors are consistent with the most common explanation of the rapid growth of alliances in recent years. That explanation takes the following form. Technology change has become increasingly rapid, and global in nature. As a result of this, some writers argue that the difference between markets in different parts of the world has become smaller (Levitt, 1960; Ohmae, 1985) (also see Chapter 1.1.4 on page 10). Globalisation of markets has offered major opportunities for companies to realise economies of scale and scope. These factors have lowered unit costs for production organisations significantly enough to take advantage of them. However, a side effect of technological change and globalisation has been shortening product life cycles, leading to ever-increasing investment demand both to install the new technology and to develop new products. Competitive advantage has therefore gone to the company able to adopt the new technologies, achieve economies of scale and scope, serve global markets, and change its product range regularly. Since few companies have the resources and competencies to meet these, taken in combination, stringent requirements, there has been a widespread resort to strategic alliances to meet the needs of the new economic order.

While not all of the alliances investigated in this research have yielded clear evidence to support this argument, a number has done so. EVC, Cable and Wireless, Rover/Honda are all affected by the globalisation of their markets. The PVC market has become increasingly global, making scale economies, high capacity utilisation and consequent low unit costs crucial if EVC is to be able to compete with powerful USA and Asian competitors. However, technology change and short product life cycles are
not yet important in the polyvinylchloride market. Cable and Wireless operates in the strongly global telecommunications market. This market is driven by technology change; if Cable and Wireless are to succeed in it, they need the resources of a major global player. A strategy of alliances is, therefore, the perceived natural route, even where such alliances do not show a short-term profit. This is the entry fee to being taken seriously in a global market. Rover/Honda operates in the global automobile market and needs to have the resources, competencies and market access of the major car manufacturers if it is to succeed. IBM’s internal restructuring in the early 1990s from a unitary hierarchy to a federal structure gives some credence to the growing currency of this view (Handy, 1992; Mills and Friesen, 1996).

In three of the five case study alliances, the global markets and technologies scenario provides a strong external driving force; the other cases are, however, driven by other forces. Cereal Partners Worldwide S.A. operates in the mature (at least in the United Kingdom and the United States of America) low-technology breakfast cereals market. The external forces in this case are the ambition of Nestlé and General Mills to provide a strong alternative to Kellogg, the dominant market leader. A question must remain as to whether such ambition is backed by any real competitive advantage. The Imperial Tobacco/Winternams alliance had none of the conventional perceived primary external drivers; the tobacco market is a declining one in Europe, North America and Australia, and the alliance had, as a major purpose, the transformation of arms-length competitors with a distribution agreement linking them to the partners able to deal more to their mutual advantage with such a market. This they have done by technology improvement and brand rationalisation.

The key perceived external forces behind international strategic alliances seem to be, as conventionally understood, the globalisation of markets and technologies, the shortening of product life cycles and the consequent need for enterprises to be large
enough to take advantage of scale and scope economies, and to afford access to adequate resources and competencies. The other factors are perceived to be contingent do, however, exist in specific situations; these are less generalisable in nature but, like the internal motivations, relate in the main to perceived resource or competency imbalances in the face of the external challenges. As with the internal factors, there is no strong reason to expect a significant association between the external factors impelling an organisation to seek an alliance and the ultimate effectiveness of that endeavour.

9.3 Partner Selection Criteria

Proposition 7 - Right Partner (Factor A7): Key criteria for partner selection are:

a) complementary assets;

b) the existence of potential synergies between the companies;

c) approximate balance in size and strength; and

d) compatible cultures.

While there may be perceived strong internal and external forces driving an organisation towards concluding an alliance in the pursuit of competitive advantage in its market, the selection of an appropriate partner is a vital decision which may well have considerable influence on the ultimate effectiveness of the alliance. It is proposed that the above four key conditions are important considerations in such a decision. Complementary assets need not imply different types of assets, nor imply that a partner with similar assets (for example, a factory with similar technologies) is an inappropriate partner. Assets may be complementary in type or in sum.

In all five case studies, complementary assets were identified. Ensuing synergies were also identified by all five sets of partners as the key factors influencing choice of partner. General Mills provided brand names and cereal marketing skills, while Nestlé provided the sales force (perhaps unnecessarily) and the joint venture acquisition,
RHM cereals, the production capacity. In EVC, both EniChem and ICI provided raw materials, capacity to make plastics, and an agreement to relate that capacity more closely to market demand, that is, by closing the least economic plants. Rover and Honda merged their activities on a number of fronts outside marketing and sales, but at base Rover offered access to the European Community and styling competence, and Honda offered engine design and production quality skills. Imperial Tobacco provided market access to the United Kingdom market, and Wintemans provided modern technology, skills and systems. Finally, Cable and Wireless provided the telecommunications expertise, while its Japanese partners provided Japanese credibility, ad hoc specialist skills, market demand for the consortium’s products, and influence with the Japanese government ministry. Thus, while a perception of resource deficiency may be a dominant motivating force in alliance formation, the actual selection of partner is probably more likely to have an impact on the effectiveness of the alliance. If the resource needs of the partners are not complementary, of course, they are probably best met by acquisition or internal development. Thus, if one company needs market access it must not only find a partner that can give it market access, but also be able to provide that partner with something it needs in turn, for example, technology or product, if the alliance is to eventuate.

The other two conditions for selection are less universally supported by the research. Alliances are not always set up between organisations of similar size. However, as Killing (1983) suggests, while mismatch in the size of the organisations may cause problems, it may also lead to higher profits if the stronger partner gives leadership. The larger partner may treat the smaller partner cavalierly, and the smaller partner may become over-dependent. The inevitable bureaucracy of a large company with salaried executives may cooperate uneasily with a flexible, small company with shareholder executives.
Four of the alliances in this study were between companies of similar size. Even the Rover/Honda alliance, when it was set up in 1979, was between two similar sized groups although, since that time, Honda has tripled in size, and Rover has contracted to its more profitable core business.

Of the remaining alliances, they were between substantial companies. In the Cable and Wireless consortium, obviously the size of the partners varied between the numerous Japanese partners, but, generally, all needed to be of high reputation and stature to carry out their roles effectively.

The culture question is an interesting one. The question addresses the issue of whether the partners used a perceived compatible organisation culture, however defined, as a criterion in partner selection. There is much evidence to suggest that failed alliances cite incompatibility, that is, perhaps incompatible organisational cultures, as a key reason for failure. Dunlop/Pirelli and AT&T/Olivetti are two illustrations of this factor (Takeuchi and Porter, 1986). However, of the five alliances, only two identified compatible organisational culture as a selection criterion. These two were Cereal Partners Worldwide S.A., and Imperial Tobacco/Wintermans. It should be noted that these alliances identified the organisational culture criterion as important. This does not mean that the cultures were, in fact, necessarily compatible. The other alliances did not name cultural compatibility as a criterion, and many of the internal problems that emerged in their alliances may well have stemmed from this factor. ICI has a strong British and rather self-absorbed culture. It finds it difficult, consequently, to operate easily in alliances with other major companies. The weakness in both the relationship between the partners and the joint venture, EVC, may stem from cultural problems (see Chapter 6.2.3).
In the Cable and Wireless consortium, culture played no alleged part in partner selection. Cable and Wireless has shown itself very aware of the cultural necessity to play a leading part in a consortium dominated by Japanese partners, and based in Japan. Finally the Rover/Honda alliance was concluded without culture as a named criterion for partner selection, and in the early years this caused problems (see Chapter 8.1.3 at page 148 and Chapter 8.1.4 at page 151). Since culture has been on the management agenda, however, and the partners became ever more attuned to each other’s cultural reactions to situations, the synergies being developed in the alliance formed rapidly.

9.4 Summary

In summary, the motivations for setting up alliances seem to stem from perceptions of resource and skill inadequacy in the face of the challenges presented by an increasingly global market affording scale and scope economies, but requiring ever higher investment. Clearly, globalisation is a key factor in the late 1980 and early 1990s. It is, of course, in an overall sense only a special case for determining alliances. The general motivating case might be stated in the form:

If the skills and resources are perceptibly less than those required to meet a challenge or opportunity most effectively, and the prospective partners appear to be able to supply each other’s deficiencies, then there is a motivation to form an alliance to complement those skills and resources.

So, organisations tend to seek a partner whom they perceive to have complementary assets from which synergies can be realised. They prefer organisations of similar size and stature, in order to minimise the risk of domination, excessive dependence, and to achieve an equitable balance of benefits. They appear not so frequently to consider compatible cultures as key criteria in partner selection, but to the degree that this aspect
of a potential partner is ignored the probability of future inter-organisational problems may increase. Choice of alliance form may be weakly influenced by circumstances such as, for example, joint ventures for distinct non-core businesses, collaborations for core businesses, and consortia for situations demanding size, but the logic of the choice is often not followed through in appropriate organisational arrangements, and this manifestly reduces the benefits of appropriate form selection. Chapter Ten considers how the alliance should best be managed once the formation phase has been completed.

It has been previously argued (see Chapter 3.2.1 page 62) that there is a range of factors to be considered by potential partners in choosing an appropriate form. So-called “objective” factors may predispose to one form or another; the ultimate choice of form lies with the prospective partners.
CHAPTER TEN

THE MANAGEMENT OF ALLIANCES

This chapter analyses the management of the case study alliances in relation to the thesis propositions 8, 9 and 10 that were detailed in Chapter Five at pages 105 through to 107, and which deal with the management of alliances after their formation period.

10.1 The Management of Alliances

The conditions surrounding the motivations for strategic alliances, the circumstances under which they are most likely to come about, their various forms and criteria for selecting partners, receive extensive treatment in the literature. However, when the subject turns to how best to manage an alliance, most writers, if they deal with the subject at all, content themselves with laying out a few basic ground rules (Killing, 1983; Lorange and Roos, 1992; Kanter, 1989; Collins and Doorley, 1991; Urban and Vendemini, 1992; Harrigan, 1984; Lynch, 1990; Bronder and Pritzl, 1992; Spekman and Sawhney, 1991). Niederkofler (1991:238) puts it thus:

...a major cause for cooperative failure is managerial behaviour. In nature, cooperation differs fundamentally from competition. Whereas competitive processes are well understood and practised daily, the key success factors in cooperative processes are widely ignored.

It is at least a credible thesis that the “success” of an alliance lies more in its management than in its initial creation. Harrigan (1986), for example, suggests that alliances fail because operating managers do not make them work and not because contracts are poorly written.

However, there are obviously different guidelines to be applied to alliances that have separate joint ventures companies, and that have more than two members, than there are to complex collaborations without joint venture boundaries. This thesis, which deals with all three types, must perforce remain rather general in its research into
specific management factors. In future research, it would be interesting to identify more precisely the key management factors differentially important in collaborations, joint ventures and consortia respectively. In all alliance forms, however, the following considerations seemed to be involved:

a) setting up and running appropriate systems;
b) agreeing non-conflicting objectives; and
c) adopting appropriate attitudes.

Teramoto, Kanda and Iwasaki (1991), in identifying the six factors they believe to be most important for strengthening the links between companies in an alliance, focus on formation, results and management, paraphrased thus:

a) the formation criterion is inevitably complementarity of resources;
b) the results criteria are to achieve tangible benefits on both sides through reciprocal trade; and
c) the experience of early success to demonstrate the value of the alliance to the alliance partners.

The three management factors are cited as being:

a) to identify an early target or objective for the alliance;
b) to develop a close relationship on a significant person-to-person basis between the partners; and
c) to communicate well through effective boundary-spanning functions.

10.2 Organisational Arrangements

The role of the management function is clearly an important one, yet it is perhaps the most neglected in alliances, both in the literature, and amongst practitioners in their stated planning. In relation to this function the actual systems set up for carrying it out are clearly important.
Proposition 8 - Organisational Arrangements (Factor B1): Clear organisational arrangements need to be set up in the alliance if it is to be managed effectively.

10.2.1 Control

Control is a key aspect of alliances, if only because it is less obvious than in hierarchies, and can therefore easily lead to diffusion of purpose due to the lack of articulated systems of authority. Geringer and Hebert (1989) suggest that alliance partners tend to define control in terms of:

- a) focus - the scope of activity over which they wish to exercise control;
- b) extent - the degree of control they wish to exercise; and
- c) mechanism - how they wish to exercise control, for example, at board meetings, informally, or by retaining certain types of decisions to themselves.

They found that joint ventures were most profitable where parent companies showed a relaxed attitude to control. This may have been because the transaction costs of building complex control systems were obviated, and joint venture managers' motivations were increased by their feelings of autonomy. Lorange and Roos (1992) take a similar view when they claim that, since control must be a dynamic relationship, it is a question of establishing a base for persuasion, rather than being reactive with orders.

10.2.2 Dispute Resolution Mechanisms

The alliances claiming satisfactory dispute resolution mechanisms were the joint ventures, Cereal Partners Worldwide S.A. and EVC, and the Rover/Honda collaboration. Of course, dispute systems are easier to set up in joint ventures since they have clear hierarchies with a chief executive at the apex reporting to a board of directors. In these circumstances, day-to-day disputes can be resolved in the normal way as within other companies. Where disputes arise between joint venture personnel
and partner company personnel, they can be resolved ultimately at joint venture board level which is almost always management.

Only the Imperial Tobacco/Wintermans collaboration admitted to less than adequate dispute resolution mechanisms, and this form is inevitably the one with the greatest ambiguity in this area. Yet Imperial Tobacco/Wintermans have adopted a form of "gateway" system which gives a degree of focus to the contacts between the companies. The gateway is normally personified in a senior executive in each company who either directly manages the interfaces between the companies, and hence, by implication, the disputes, or who is at least informed of all such contacts. The mission of the gateway executive is boundary spanning (Killing, 1988; Niederkofler, 1991):

*By limiting the actual amount of cooperation, by a careful selection of appropriate boundary spanners, and by stepping up the involvement with the partner as the firms get to know each other, the effects of organizational incompatibilities may be moderated* (Niederkofler, 1991:251).

Boundary spanning is a critical aspect of alliances, and the skill with which it is carried out seems to have considerable impact on the success of the alliance.

10.2.3 Clarity of Authority

On the question of the clarity of authority in the hands of the managing directors of the joint ventures, there are mixed experiences. It would seem that an inordinate amount of time is spent in meetings, with the result that projects that should be profitable turn out not to be so without clarity of authority.

John York of EVC has claimed authority did not avail him much in his quest for greater independence to choose where to buy his raw material (York, 1996b), or Jeremy Preston of Cereal Partners Worldwide S.A., if he had wished to run his own sales force (Borys, 1997). Of the other alliances, the Cable and Wireless consortium is
run as a Japanese company, so consensus rather than clear authority is the dominant culture.

10.2.4 Appropriate Form

All the alliances investigated claimed, even with the benefit of hindsight, to have adopted the most appropriate alliance form. From an analysis of the literature (see argument in Chapter 4.2 on page 80 and Chapter 5.0 on page 91) and from an analysis of case studies, the key factors suggesting appropriate form seem to be:

a) a joint venture, where a separate business circumscribes the logical boundaries of the alliance, and the business is probably non-core;

b) a collaboration, where the alliance is at corporate level, touches at many activity points, and needs to be flexible and involves core activities; and

c) a consortium, where the project is too large for varying reasons for a two-partner alliance, and the enterprise needs to be credible to customers, especially governments.

Given these synoptic criteria, the alliances do indeed seem to have chosen their alliance form wisely. However, in the case of the joint ventures, they have generally not carried through the separate business logic to granting the venture the assets and authority it needs to have the best chance of being most effective.

10.2.5 Divorce Procedures

It is suggested by Taucher (1988) that the most comfortable alliances are those who have agreed at formation a formula for dissolving the alliance should it be felt by either partner to be no longer of value. This seems reasonable, since it should reduce anxiety that a failing alliance might destroy the partners in its wake. Cereal Partners Worldwide S.A. and EVC claimed to have dealt with such matters in their original negotiating agenda (Borys, 1997). Since all but one of the alliances investigated are still in being,
and therefore successful at least by perceived minimal criteria, the implications of having no pre-agreed formulae have not been tested.

10.2.6 Information Dissemination and Organisational Learning

A further consideration proposed for an appropriate organisational system is that of ensuring that information on the alliances is widely disseminated within the partner companies. The purpose of this is to stimulate interest in the alliance, to encourage support for it, and to encourage the development of the increased knowledge that can always be gained through close exposure to another company, and the absorption of know-how, embedded knowledge and routines from the partner. Of the alliances investigated, all claimed that information on the alliance was either acceptable or well disseminated in the partner companies. The importance of this would, of course, vary with the degree to which the alliances involved core activities of the partner companies or only peripheral activities (Lorange and Roos, 1992). In most of the alliances, core activities were involved. However, in certain cases this was not so. Cereal Partners Worldwide S.A. only involved a very small part of both Nestlé and General Mills. EVC involved a relatively small part of ICI, but a more core part of EniChem. The Imperial Tobacco/Wintemans alliance was only for cigars, which were central to Wintemans, but peripheral to Imperial Tobacco. Where a non-core activity is involved for a partner, there is a greater onus on the partners to ensure wide information dissemination or there is a risk that the alliance will become of decreasing interest to the rest of the companies. It is noteworthy that Rover (Chapter 8.1.5 on page 153) claimed that much of the benefit it received from the Honda alliance was through information dissemination within Rover (see Chapter 8.1.4 at page 151 and Chapter 8.1.5 at page 153, and the consequent organisational learning (Factor C4) that took place.
10.3 Congruent Objectives

For smooth management of an alliance, it is proposed that:

**Proposition 9 - Congruent Objectives (Factor B2): The long-term goals of the partners must not be in conflict.**

There are at least two potential problems with goals. Firstly, the goals of the partners may be in conflict, but that fact may be concealed on formation, lest it abort an otherwise attractive alliance with potential advantages for both or all partners. Secondly, the goals may be congruent at the outset, but may subsequently grow into conflict, often as a result of the success of the alliance.

While the alliances under study all claim compatible long-term goals this is open to dispute based on their actions. It is clear that the development of the venture is a high priority to EniChem, but that ICI's priority in the area is to conserve its funds, an outcome which ultimately eventuated when it reduced its investment in EniChem from 50% to 15.8% when EniChem was listed on the Amsterdam Stock Exchange in November 1994 (Imperial Chemical Industries, 1994b). Cable and Wireless has stated that its partners all have differing agenda and that the consortium cannot be expected to remain stable for ever. Cable and Wireless is happy with this, as its basic objective is to develop a reputation in Japan of a good corporate citizen. If it achieves this, it believes new opportunities will open up. Imperial Tobacco does not have the long term interests of Wintermans at heart; now it has modern technology, it could easily replace Wintermans' brands with its own on the United Kingdom market.

If nothing else, this fluidity demonstrates the degree to which the management of an alliance involves constant negotiation to clarify emerging differences, rather than to clarify totally congruent goals. As Kanter (1989) says, in alliances in general, consensus building overshadows decision taking (which has groupthink implications
(see Janis, 1982)). Powell (1990) and Buckley and Casson (1988:32) suggest that inter-organisational cooperation has been defined as *coordination effected through mutual forbearance*, resulting in a Pareto-improvement in conditions. In networks, this mutual forbearance extends to forgoing the right to pursue the organisation's individual self-interest exclusively.

The potential problem of conflicting objectives is ever present in alliances, since perhaps their core characteristic is the wish of the partners to obtain the advantages of joint activity while retaining their individual autonomy. Individual autonomy inevitably presents the potential for the development of conflicting objectives, and a substantial contribution to success must therefore depend upon this quality of mutual forbearance, trust, commitment and bonding (see earlier discussions of these related elements at Chapter 5.3.3 at page 110).

10.4 Positive Partner Attitude

Management is about more than just systems and goals, however. It is critically about attitudes and inter-personal relationships.

Proposition 10 - Positive Partner Attitudes (Factor B3): For the alliance to be deemed “effective” the partners should have positive attitudes towards the alliance, notably:

a) a sensitive attitude to national and corporate cultural differences;

b) mutual trust; and

c) strongly evidenced commitment.

10.4.1 Mutual Trust, Commitment and Cultural Sensitivity

Trust and goodwill have been found to be vital in alliances of all kinds (Killing, 1983; Lorenzoni and Ornati, 1988; Buckley and Casson, 1988; Lynch, 1990).
...goodwill and trust were found to have a stabilizing effect on the relationship at all development stages. They increased the partners' tolerance for each others' behavior and helped avoid conflicts. Goodwill and trust also raised the general level of communication between the partners and thereby increased the chances for uncovering and dealing with operating misfit (Niederkofler, 1991:247-248).

Lynch (1990) emphasises the need for partner rapport, and consequently advises that two year secondments of staff are too short to build this rapport and commitment. Kanter (1989) stresses that the running of alliances requires very different attitudes and behaviour from the running of hierarchies. It is essential for managers to be able to juggle constituencies, rather than control subordinates. Consensus building displaces decision taking to an extent, and mutual respect in alliances comes not with rank, but with knowledge and the ability to get things done. Given the importance of attitudes to all relationships, and to alliances in particular, and that all the alliances investigated claimed to be successful up to a point - all are, except for Rover/Honda which was finalised in 1994 and EVC which is not a listed public company, still in existence.

Cereal Partners Worldwide S.A. is regarded as a successful alliance, and is making a determined attempt to compete effectively with the market leader, Kellogg. Cereal Partners Sales Director, Chris Fryt said:

*There are debates and disagreements about how to service customers, but you would have that in a non joint venture. Although if I had my way I would be working with the rest of the business at Welwyn. But I have to say the business has been very successful because each part of the business has worked better than it did before. Although some expensive lessons have been learnt on product launches* (Nestlé, 1993).
It appears that, for Cereal Partners Worldwide S.A. to become a strong, self-standing breakfast cereals company, it will need not just market share, but an acceptance by its parent companies that it should manage the assets needed to secure its future, and have access to the parents for advice rather than control.

At EVC, John York faced a task which involved the withdrawal of substantial PVC production capacity, in order to align the ICI and EniChem supply capacity in PVC to market demand. He also faced two very strong cultures. ICI has a very strong internal culture based on teamwork and debate, while EniChem is much more functionalist than hierarchically driven (York, J. 1996c). The Production Director at EniChem, for example, gets on with production, and is somewhat loath to express opinion related to other areas. In ICI the concept of board member responsibility is more broadly interpreted. These different cultures could not fuse easily in EVC.

Open communication is vital, not just with ones’ partner but also with oneself, in order to achieve a genuine assessment of the situation. In the Rover/Honda, Cable and Wireless alliances, this self-critical aspect seems to have achieved, and to have retained prominence, to the ensuing benefit of the alliance.

As Teramoto, Kanda and Iwaski (1991:14) said in this connection:

*The presence of complementarity of resources and closeness is a necessary condition for different organizations to create a new value system together, which would enable them to set clear common strategic objectives. Clear objectives require an effective coordination between companies, which includes successful reciprocity. In this way, organizations concerned can learn from one another in the process of allying. In other words, an inter-firm link is a dynamic process which expands intra-organizational learning into producing much greater results.*
10.5 Summary

This chapter has sought to relate formation conditions to the formation propositions by highlighting factors from the studied cases that seem to have a bearing on the propositions under investigation. The areas of sensitivity to culture, mutual trust and strong commitment have been seen to be of importance. Organisational arrangements, especially as regards boundary-spanning activity, have also been highlighted as very important. The question of congruent objectives, however, remains shrouded in ambiguity.

The next chapter will be concerned with considering the key factors in determining how an alliance can develop beyond its set-up conditions and become a dynamic evolving enterprise, as opposed to one that merely carries out its assigned functions and is, therefore, subject to diminishing atten
CHAPTER ELEVEN

THE EVOLUTION OF ALLIANCES:

AN EMERGENT OR A CONSTRAINED RELATIONSHIP?

This chapter examines how an alliance may evolve in a perceived effective way, considering the final four propositions detailed in Chapter Five, that is, propositions 11, 12, 13 and 14 which deal with the evolution of alliances. It also classifies the case study alliances, on the basis of the evidence, into three perceived effectiveness categories identified in Chapter Four.

11.1 Alliance Evolution

Alliances that remain in being will always have their claimants to success. Similarly, those that are dissolved will frequently be classed as failures. Yet such a simple classification is rarely appropriate. An existing alliance may have lost its way and been marginalised in the partners’ priorities. Correspondingly, an effective alliance may, due to changed strategic imperatives or significant environmental change, no longer meet the perceived future needs of the partners, and be dissolved. The deemed effectiveness of alliances needs to be assessed in a rather less simplistic fashion. This chapter considers the nature of an alliance’s evolution and its relationship to its ultimate deemed effectiveness. It also considers the moot question of effectiveness.

For the purpose of this research a deemed “effective” alliance has been defined (Proposition 15, pages 113) as one that:

a) is achieving its measurable and pre-defined objectives;

b) may have achieved other spin-off benefits;

c) exhibits high morale in the employees within the alliance;

d) has developed a positive reputation in the partner companies; and

e) has a positive reputation in the industry.
In the process of the evaluation conducted in this research, it seemed possible to classify surviving alliances into three levels of deemed effectiveness. This classification has been attempted to be confirmed from secondary source data in the press and market research reports, to ensure that the opinions of executives within the partner companies are not too divorced from the externally perceived reality:

1. **Emergent Alliances**: These are generally considered to be achieving their set objectives, and also, perhaps, unexpected spin-offs too. Morale is high among those employees involved in the alliance, and in the partner companies, and the reputation of the alliance is high both in the partner companies and in the industry. They seem to be achieving together the sustainable competitive advantage that they found difficult to achieve apart. Rover/Honda clearly met this criterion (see Chapter 8.1.3 at page 149, 8.1.4 at page 152 and 8.1.5 at page 153).

2. **Latent Alliances**: These alliances have been deemed effective by many measures, but have at least one constraining factor that prevents them from wholly realising their potential. This category involves the Cereal Partners Worldwide S.A. and the Cable and Wireless consortia. Cereal Partners Worldwide S.A. is a youngish alliance, but its lack of obvious competitive advantage *vis à vis* Kellogg, and the fact that its organisational rigidity is not allowing the venture to control its own sales force suggests an inflexibility that may impede its growth into the emergent category. However, Nestlé and General Mills are powerful partners, and an emergent future may well lie ahead given more flexible attitudes. The Cable and Wireless consortium has been successful in a very challenging market, but it still did not make a profit for eight years, and the future is thought to be uncertain as the partners all have differing agenda.

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3. Constrained Alliances: These alliances seem to be of limited future potential for varying reasons. They include EVC and Imperial Tobacco/Wintermans. EVC has been set up to rationalise the European PVC market. Imperial Tobacco/Wintermans may have developed as far as it can develop. Wintermans' owners, British American Tobacco, are strong competitors of Imperial Tobacco, and are becoming more closely involved in the running of Wintermans. Also, the original objectives of the alliance have been achieved, and the partners' objectives no longer seem congruent. The key factor in constrained alliances is that, given their history and ambient situation, they no longer seem to have the potential for further evolution.

It is observed that, of the cases studied, the alliances deemed most effective are those that show positive evolution over time, rather than merely a competent pursuit of their objectives agreed at set-up. Achrol, Scheer and Stern (1990), in their schema, describe the four stages of alliance development as entrepreneurship, collectivity, and formalisation, leading on to domain elaboration. Thus alliances are typically fluid and creative at the outset; this stage is followed by one of collectivity where a mutually defined sense of mission is developed. The formalisation stage involves the development of systems and procedures, and ultimately the domain elaboration stage is one of self-renewal, described in this research as evolution, where flexibility should be renewed. Lorange and Roos (1992) stress that evolution is far more important to an alliance than control by its partners. Alliances should evolve, so excessive concern with controls can be counter-productive (Lorange and Roos, 1992).

A consideration of the propositions concerning alliance evolution may reveal some insights into why surviving alliances fall into one of these three categories of emergent (that is evolving), latent (that is, could evolve if some energy-releasing changes were made) or constrained (little potential for evolution).
11.2 Alliance Development

Proposition 11 - Expanded Scope (Factor C1): For the alliance to succeed in the long-term, it needs to evolve through the partners' constantly:

a) seeking new markets or products to be involved with together;

b) accepting new responsibilities within the existing alliance arrangements or within the new arrangements resulting from (a); and

c) adjusting flexibly to change the scale and/or scope of the alliance.

Alliances are normally set up for specific purposes. They may be focused on the synergies available from the fashioning of key competencies from the partners directed towards a specific target, or the interaction may be more complex. If the initial purpose or scope of relationship remains the only one, the alliance may be unlikely to enter the emergent category. This is borne out by evidence from the case studies (see Chapters 6.1, 6.2, and 8.2). Lorange and Probst (1987) emphasise that many alliance "failures" are due to the fact that they have not had sufficient adaptive properties built into them to cope with evolutionary pressures. Some redundant resources must, they believe, be committed to the alliance to achieve sufficient flexibility for development (see also Nonaka, 1989).

11.2.1 New Projects

The emergent alliance, Rover/Honda, shows the flow of new projects, additional areas of cooperation, and flexible adjustment to change. Rover/Honda began as an arms-length, imported, knock-down kits arrangement between the companies, and developed into a complex alliance covering most functions except sales and marketing, and with a 20% share exchange.

The latent category alliances have also shown substantial development, but exhibited major limitations. Cereal Partners Worldwide S.A., from their shell beginning in
Switzerland, soon bought the RHM cereal interests in the United Kingdom, giving themselves 14% of the United Kingdom market as a result of the acquisition, and are proceeding to launch new brands at an energetic rate; if they can show genuine competitive advantage in relation to Kellogg the alliance may become emergent. Yet the staff display doubts about its long term future, and the relationship between the partners seems more instrumentally capable than emotionally so (Borys, 1997). Cable and Wireless is using its consortium experience at working in the Japanese environment to develop stronger networks for future projects, and the consortium itself is developing fast as a strong competitor to the ex-monopolist Kokusai Denshin Denwa. But the future objectives of the partners, and Cable and Wireless’ role in their plans, is far from certain.

The constrained category of alliances shows little sign of evolution. EVC is a prime candidate for sale, having achieved its primary objectives of PVC sector rationalisation, but has not managed to achieve a low enough cost base to become profitable during the downswing of the business cycle, in part due to purchasing and production limitations placed on it by the partner companies. To become saleable it will need to become endowed by the partners with its full complement of productive assets. Imperial Tobacco and Wintemans seem to have reached a natural limit to their cooperative endeavour, especially in view of Wintemans’ ownership by an arch competitor, British and American Tobacco, and the partner’s lack of perceived obvious future potential synergies.

11.2.2 Flexible Adjustment

Flexibility in the alliance relationship is an important factor, since it implies that, when circumstances change, the alliance is allowed to reflect this in a sensitive way. It is interesting to consider the cases in relation to their demonstrated flexibility.
Of the emergent alliances, all have shown considerable flexibility during their life. Rover/Honda had been through five separate waves of activity, all placing different stresses and requirements on the staff, and have adjusted effectively to them (Bertodo, 1996).

What of the latent alliances? Flexibility does not seem to have been totally absent here. Cable and Wireless have certainly shown a very flexible attitude to getting established in Japan, even to the extent of putting in £17 million to start the venture, and then not insisting on having cheque-signing authority. The Cereal Partners Worldwide S.A. venture seems to be unduly rigid in its arrangements. In the constrained alliance, EVC has developed flexibility, and so have Imperial Tobacco/Wintermans. Overall then, the level of flexibility does not seem to have been a crucial discriminating factor in alliance effectiveness.

11.3 Balanced Development

Proposition 12 - Balanced Benefits (Factor C2): If the alliance is to evolve positively for the alliance partners, then:

a) approximately equal benefit in relation to contribution must be perceived as being received by each partner;

b) one partner must not gain strategic advantage over the other/s; and

c) one partner must not become over-dependent on the other/s.

This proposition suggests that a key condition for successful development of an alliance is that one partner does not move strongly ahead of the other in its strategic and other benefits. However, this does not seem to be borne out in the case studies. In the most emergent category of alliances, performance and consequent relative strength vary considerably as might be expected, but this has not damaged the alliances. Notably, Honda is now a far stronger company than Rover, and Rover, despite having gained enormously from the alliance, was clearly dependent on Honda, as was
conceded by John Bacchus, Rover's Director of Collaboration (Bertodo, 1997).

However, Killing's (1983) research findings that alliances where one partner is dominant are often the most successful may well be relevant here. This suggests that a dominant partner removes much of the ambiguity from a relationship, and introduces some of the advantages of hierarchy. Clarity of authority may then lead to improved performance as the "inefficiencies" of consensus building (Kanter, 1989) are replaced by clear leadership.

A further point that emerges from the research, however, particularly in regard to Rover/Honda, is that the partner benefiting the least from the alliance tends not to resent this, so long as its net benefits are positive. If its partner benefits at its expense then resentment is more likely to develop, to the detriment of the alliance.

11.4 Trust, Commitment and Bonding between Partners

Proposition 13 - Trust, Commitment and Bonding between Partners (Factor C3):
The partners need to develop strong bonding factors to enable the alliance to withstand any possible stresses moving towards its dissolution.

It is suggested by Thorelli (1986) that alliances that do not consciously evolve and create bonding mechanisms, are affected by entropic forces, and gradually either cease to be important, or even move towards dissolution. Three possible bonding mechanisms have been identified as means whereby alliances may achieve effective bonding. Perhaps all three do not need to be present in all alliances, and there may be other mechanisms. However, if no bonding mechanisms are present, the prognosis for the alliance may be poor, as the partners may be regarding it more as a specific resource or skill-substitution mechanism, rather than as an interactive collaboration.
The bonding mechanisms identified are:

a) working through an external challenge together;

b) exchanging personnel at a number of levels on a regular basis; and

c) developing a culture that is a combination of the partners’ cultures.

The existence of a joint venture will operate differentially in bonding. It may well be, as in EVC, that the joint venture develops a culture distinct from those of its shareholders and which, to some degree, moves into opposition to the culture of the shareholder partners. Also, personnel exchange may be in the form of secondment to the joint venture, which has a very different impact on the personnel exchange between the partner companies in collaboration. This proposition is therefore best examined separately for joint ventures and non-joint ventures.

It is noteworthy that none of the joint ventures was classified by this researcher in the emergent category of alliance. This may be because, frequently, they affect only a limited part of the business of the partners. Collaborations may be more likely to affect the whole partner business, and consequently to have greater prominence in the priorities of the partners. However, the joint ventures found bonding both important and possible. All the joint ventures claimed to have worked through an external challenge together, which is almost inevitable in the establishment of a new company. Those who went through this process therefore claimed to have developed close relationships. However, the boundary-spanning bonding to the shareholder partners in the joint venture cases was not necessarily so close. John York of EVC even measured his unbiased success in running EVC partly by the degree to which both partners felt he was favouring the other (York, J., 1996a). Cereal Partners Worldwide S.A. and EVC executives claimed to have developed a clear joint venture culture within the venture, although not in relation to the owning partners (Borys, 1997; York, J., 1996b).
In the collaboration category, bonding was obviously a more difficult task, since the companies related at an overall corporate level, but still only a part of the partner’s personnel had close exposure to the personnel of the other partner company. The Rover manufacturing, design and technology staff had close relationships with Honda personnel, but sales and marketing personnel did not. In these circumstances, bonding strength varies considerably. It was high, and deliberately so, in Rover/Honda who claimed to have surmounted an external challenge successfully together, to have exchanged personnel regularly, and to have been in the process of developing a combined culture. Imperial Tobacco/Wintermans made no substantial claims to bonding in any of these areas.

Of the constrained category of alliances, an insufficiency of development in the bonding area was reported or inferred by the alliance partners. Imperial Tobacco/Wintermans made no claims of bonding with their partner, and while EVC bonded well in the joint venture the relationship with the shareholders was less close.

The issue seems, therefore, to be an important one for successful development but to present different challenges for joint ventures and non-joint ventures. For joint ventures, bonding within the venture seems relatively straightforward; the relationship between the partner companies themselves on the one hand, and between the partner companies and the joint venture on the other, are more complex and challenging. In collaborations, the challenge is to develop a mutually effective culture that diffuses even to personnel not directly involved with alliance matters. In the absence of this, the cultural interface merely moves from that between the partner companies back into the partner companies themselves, where different cultures develop between those who are and those who are not actively involved in the alliances.
11.5 Organisational Learning

Proposition 14 - Organisational Learning (Factor C4): For a favourable prognosis of "successful" evolution, a philosophy of constant learning should be adopted by the partners.

The concept of organisational learning is currently much in prominence (Senge, 1990; 1992; Senge, Kleiner, Roberts, Ross and Smith, 1994). Senge stresses that the dynamic enterprise of the future will build its competitive advantage on a number of disciplines running from personal mastery of skills to team learning, key factors in alliance development. In fact, in Senge’s (1990, 1992) view, the major leadership roles of the chief executive are:

a) to develop a vision;

b) to establish a dynamic culture; and

c) to provide learning opportunities.

It is seen, perhaps most contrastingly, in the early days of the Rover/Honda relationship where the then Rover chairman was reported as regarding Honda as serving the purpose of filling a gap in the Rover product line (Potter, 1995). In contrast, the pre-collapse situation was that Rover had totally adopted the Honda philosophy of continuous learning and had set up a company, The Rover Learning Business, to ensure that the philosophy became solidly embedded in the organisation.

It is noticeable, in the various documents and interrogatory material employed to form the case studies, that the emergent alliance companies lay great claim to placing organisational learning high on their list of priorities. Both Rover and Honda set up a system to disseminate information widely in their companies (Bertodo, 1996; 1997).
Only Cereal Partners Worldwide S.A., of the latent alliance group, claims to have fully adopted what they have learnt from the alliance. Effort does not seem to be made, however, to spread the information to the wider organisation. In the constrained alliances category, EVC and Imperial Tobacco/Wintermans, none claims to have achieved any noticeable organisational learning.

In terms of the possibilities presented by an alliance, there is, as described earlier, a number of different types of learning with different implications (Hamel, 1990; 1991; Grant, 1991):

a) technological learning;

b) process learning;

c) opportunity learning; and

d) a learning philosophy.

The ease with which learning takes place within an alliance depends, firstly, on the type of learning and, secondly, the relationship between the nature of the learning and the condition of the would-be receptor.

Many alliances are set up for short-term gains in order to deal with temporary situations. These obscure the nature of the strategic alliance in which the intent is a learning one, in the cause of joint sustainable competitive advantage, the extension of individual and joint core competencies, and in which long-term mutual benefit is supported by trust, commitment and bonding (C3) and a willingness to be flexible and robust in dealing with the tensions inherent in the alliance genre.

The key learning dimensions of intent, receptivity, transferability and transparency, when associated with the different types of learning, namely, technology, process, opportunity and the learning philosophy, lead to an extremely varied learning situation, alliance by alliance (Argyris, 1964; 1990; de Geus, 1997; Senge, 1990; 1992; Senge,
Kleiner, Roberts, Ross and Smith, 1994). For the greatest benefit to be achieved by an alliance partner, the key learning dimensions need to be present in large measure. In all alliances, opportunity learning can be identified and achieved and, with effort, technology learning also. These forms of learning can be most easily observed in the Imperial Tobacco/Wintermans alliance. Process learning, and the highest form of all, the learning philosophy, take longer to achieve, and normally require a culture change to embed. These factors are most evident in the Rover/Honda alliance. They are not the only reasons why these alliances are classed as emergent, but they are the ones that hint at the best prognosis for the future. Constant learning and flexibility to meet changing challenges may well be strongly associated characteristics of emergent alliances.

11.6 The Case Findings

The overall findings from the five case studies are illustrated in Figure 11.1 on the following page. The alliance judged to be in the emergent category, Rover/Honda, exhibited positive features in all three stages of formation, management and evolution. There were a small number of countervailing signals. The Rover/Honda alliance showed cultural problems in its early years. The alliance scored heavily on the proposed key factors, however, and was particularly strong on the evolutionary factors including bonding (C3) and organisational learning (C4).

The latent category contains alliances that may well develop into more successful cooperative relationships but that are currently judged to be held back by one factor or another. The Cable and Wireless consortium was well set up, and is well run; it is only classified in the latent category because the differing agenda of the shareholder partners make it uncertain what will happen to it over the longer term. Cereal Partners Worldwide S.A. has to be regarded as latent for a number of reasons. It has not been in existence as long as the others (set up in late 1989), and it must be uncertain whether or not it has sustainable competitive advantage in the breakfast cereals market in relation
to the market leader, Kellogg. If not, this must affect the long term attitudes of its owners, General Mills and Nestlé. It has currently a further weakness that, although it is a distinct business, the partners have not endowed it with a comprehensive, self-sustaining set of assets. Nestlé still does its selling for it, and this dependency may well prove a limitation on ultimate success.
An analysis of the constrained alliance category, namely EVC and Imperial Tobacco/Wintermans, also clearly showed where the problems lay in relation to the identified factors. EVC was set up in a limited way, with the joint venture having little control over its raw material supply, or its production assets, and it operated in a market that was over supplied. Thus, although it is well managed, and the joint venture personnel have developed positive attitudes, the alliance is thought unlikely to evolve, and divestment by one or both of the partners may be its probable fate. Imperial Tobacco/Wintermans, although well set up and well managed, is likely to remain a constrained alliance, because of the ultimately conflicting objectives of the partners.

11.7 Summary

This chapter has considered the various factors that are held in the literature to stimulate the evolution and positive development of an alliance. The results have been remarkably consistent. Organisational learning has been judged by the alliance partners in the case studies as the most important factor in the evolution of an alliance, followed in the thesis analysis by the adoption by the alliance of new projects and responsibilities. Bonding, through successfully surmounting an external challenge, has also been perceived as important and, of course, ties in with the development of positive partner attitudes, a positive and developing “enacted world” (Smircich and Stubbart, 1985). Flexibility and balanced development, although not unimportant, have been consigned to the position of second-order factors, from a differentiation of deemed effectiveness viewpoint.

The chapter, then, considered the overall findings (that is, not merely those relating to the evolutionary factors) in relation to the case studies, classifying them as emergent, latent or constrained according to the nature of these findings. The next and final chapter attempts to draw some general conclusions from the research.
CHAPTER TWELVE
MULTIPLYING STRATEGIC ALLIANCES:
AN END TO PRETENDED ORGANISATIONAL SELF SUFFICIENCY?

This chapter attempts to draw some conclusions from the research which has, as its underlying objective, the identification of attitudes and behaviours most likely to provide an explanation for practising managers on how to make an international alliance an effective and viable long-term organisational form.

12.1 Methodology Limitations
A number of problems exist in pursuing this aim. The five case studies are longitudinal through time. The case studies tell a story of developing alliances, noting successes, achievements, new endeavours and also the pitfalls, challenges and mistakes en route.

Also, the case studies are necessarily, to an extent, contingent outcomes, being dependent upon a variety of contextual factors. From the assembled information contained in the five case studies universal conclusions cannot be drawn that can, with confidence, be applied to other alliances in different circumstances at different times and places, yet some consistent patterns of events may nevertheless be visible. Furthermore, it is difficult to separate the important factors from those that are less so, since there is as yet, in this developing field of enquiry, no scale of measurement of relative levels of importance. Yet the exploration of the alliance stories may well give valuable insights into some salient factors, and may give rise to the further development of theory that more formalised analytical methods can test.

Despite the limitations of the methods employed in the research, it is considered that the conclusions emerging from the reconciliation of the case study material with the scholarly literature findings are sufficiently clear to provide at least a plausible picture
of a number of key factors in the pursuit of successful alliances.

12.2 Conclusions From the Analysis

This chapter, therefore, attempts to summarise the findings against the theory underlying the research propositions, and to review the robustness of the theory in explaining the differential successes of the individual alliances studied.

The five case studies demonstrate, as shown in the content analysis in Appendix 3, that, for an alliance to be formed, some external "drivers" are needed in order to make potential partners aware of their resource dependency needs. The drivers may vary, as may the nature of the resource dependency, but they exist and are perceived by the alliance partners to be salient enough to set the process of alliance formation in motion. Partners are selected on the basis that they are perceived to have complementary assets, and that it is believed that synergies can be achieved from joining the value-chains of the partners. Cultural fit is, however, rarely considered in choice of partner even though it is an important part of the formation, management and evolution of an alliance.

The management of the alliance is a crucial element in determining its effectiveness, and, here, congruent, non-conflicting objectives do not appear to play a key role. Cultural sensitivity also plays an important part, especially in the boundary-spanning activities. The crucial element in alliances perceived as most effective by the partners is a display of positive attitudes of commitment and trust between the partners (C3), and strong inter-personal relationships at various levels, that is, bonding is established between those personnel from the partner companies who are most strategically involved in the alliance.

Alliances that are effective over the longer term show some evolution (for example, Rover/Honda, EniChem and Cereal Partners Worldwide S.A.) that is, new
responsibilities and new projects are assigned to them, and the partner companies display organisational learning (C4) to a higher degree. It is important that one partner does not benefit to the detriment of the other and, on the other hand, that one partner does not become too dependent on the other, if the alliance is to display long term effectiveness.

12.3 Scholarly Theory Conclusions

Virtually all the propositions reviewed in Chapter Five can be found in the macro and micro theory literature on strategic alliances. It may be valuable, therefore, to consider where the evidence is supportive of the alliance theory reviewed by this writer and where it is not:

a) it was not possible to assess alliance form selection as a contributor to alliance effectiveness comprehensively because of small sample numbers for alliance form, and the limited nature of the perceptual data emanating from partners. The appearance of consistent reasons for selecting specific forms has, however, received strong confirmation in frequency tests conducted by Gupta and Singh (1991). It should be noted that partners selected joint ventures in order to develop them as distinct businesses but then frequently failed to give them distinct assets to employ in accordance with the strict logic of the joint venture literature (Anderson, 1990; Beamish, 1988; Gray and Yan, 1992; Harrigan, 1984; 1986; Kanter, 1989; Killing, 1988).

b) the most commonly proposed motivations for alliance formation, both internal and external, were generally confirmed in frequency tests based on the Predicast database search on alliance formation. The resource dependency perspective (Pfeffer and Salancik, 1978) has provided a convincing overall umbrella theory, and the motivation of choosing the low-cost solution (Williamson, 1975) was also prominent. However, no internal
factors such as speed to market, or cost factor (including transaction costs) were reputed to be significantly associated with alliance effectiveness and, of the external factors, only scale and scope economies (Ghoshal, 1987) and globalisation (Ohmae, 1985) were significantly so associated;

c) there was virtual unanimity on the selection criteria of asset complementarity and synergies for partners (Porter and Fuller, 1986, among many others), and as a result these factors (see Figure 5.2 on page 92) proved to have no association with alliance effectiveness, since the criteria were the same for highly effective as for less effective alliances. Cultural fit was rarely identified by prospective alliance partners as a qualifying factor for selecting partners, this very omission, however, sometimes causing later difficulties; and

d) the identified management and evolution factors were generally highly predictive of alliance effectiveness, but the individual factors were suggested by the analysis to vary widely in attributed importance and significance. Such factors as positive partner attitudes (Kanter, 1989) including commitment at all levels (Anderson and Narus, 1990), mutual trust (Lynch, 1990) and sensitivity to both national and corporate culture (Lorange and Roos, 1992) were referred to in the literature more often than any other factor. The next factor most strongly associated in the literature with deemed effectiveness were, in declining order of significance, emergent organisational arrangements, organisational learning (Hamel, 1990; 1991), evolution (Achrol, Scheer and Stern, 1990), bonding due to overcoming an external challenge together, the absence of strategic advantage accruing to one partner over the other (Kanter, 1989; Bertodo, 1990) and flexible adjustment to change (Lorange and Probst, 1987).
12.3.1 Positive Conclusions

Key positive conclusions from the research project are:

a) the most common current motivations, from both the scholarly literature and the material of the case studies, for alliance formation were, externally, the globalisation of markets and the exponential growth of fast changing and expensive technologies, and, internally, the need for specific resources and competencies to be able to thrive and survive in these markets, including the size of alliance to achieve the scale and scope economies made available as a result of the alliance becoming global. Partners were chosen, therefore, with such factors in mind;

b) although cultural compatibility was rarely a major consideration in selecting a partner, sensitivity to culture, at least, was found to be a very important factor in predicting alliance effectiveness;

c) of the three identified stages of alliance development, namely formation, management and evolution, the analysis suggested that the formation conditions and decision to ally were the least associated with the ultimate effectiveness of the alliances [see Chapter 6.2 (EniChem) and Chapter 8.1 (Rover/Honda)];

d) positive attitudes in managing the alliance, and actions to stimulate bonding and organisational learning during the evolution of the alliance, were strongly associated with its deemed effectiveness [see Chapter 7 (Cable and Wireless) and Chapter 8.1 (Rover/Honda)];

e) the case study analysis showed that integrated partner behaviour covering, in particular, organisational learning, positive alliance expansion of role, and
bonding, together represented a powerful formula for the maintenance of an effective alliance. On the management side, positive partner attitudes, cultural sensitivity, and emergent organisational arrangements were each, individually or in combination, seen as important [see Chapter 6.1 (Cereal Partners Worldwide S.A.) and Chapter 8.2 (Henri Wintemans/Imperial Tobacco);

f) the analysis also painted a picture of effective alliances as involving an evolving learning organisation, with partners working in teams, disseminating information widely, taking advantage of scale and scope synergies, being culturally sensitive, and achieving acceptably balanced benefits from the alliances;

g) the adopted schema in Chapter Four proved a useful one, with eight potential classification categories, subsequently collapsed, for practical purposes, into three, the joint venture, the collaboration and the consortium. These three forms have the merit of simplicity, in that joint ventures are normally chosen for a separate business entity (see also page 64); collaboration, when the flexibility of the relationship in the face of uncertainty is key (see page 64); and consortia, when the strategic size of the relationship is of the essence (see page 64). Further research on all eight forms would be interesting to carry out, to distinguish more finely between their criteria for adoption; and

h) it was concluded that international strategic alliances need not be transitory arrangements between resource-deficient organisations. The thesis research cannot demonstrate this definitively and statistically, since agreement as to what constitutes such a “proof” would be very difficult to achieve. However,
of the 67 alliances that were initially researched in order to find ones capable of development into the case studies, 20% were founded over 15 years ago, (with Dow/Corning the oldest, having a founding date in 1943), a sufficiently large percentage to dispel the label of transitory arrangement.

12.4 The Essence of the Contribution

This exploratory research project was broadly constructed, deliberately, in order to attempt to provide provisional answers to some of the issues that frequently arise when strategic alliances are discussed: Are alliances second-best solutions? Are they nothing but transitory arrangements? Are they just an expeditious way of meeting a short-term need? Can they endure over a longer term? Do the inevitable conflicts of interest between partners ultimately doom alliances? Any of these questions would, of course, merit a research project by itself. This research was carried out from the positive presumption that alliances can be effective, potentially long-term organisational arrangements between companies, and can lead to sustainable competitive and cooperative advantage, not easily available to the partners separately.

Such a widely construed overall presumption needed care in its investigation, lest the research get diverted into blind alleys. The approach, then, was to set up a wide range of propositions concerning alliance formation, management and evolution mostly culled from the scholarly literature, and to explore their explanatory or illuminating value when viewed against empirical case study material.

Inevitably, many detailed observations emerge from the research. Inter alia, resource dependency and low-cost theories of alliance formation receive substantial corroborating as explanatory motivational forces but, interestingly, not as factors contributing to alliance effectiveness. The cases reveal in detail how alliances between organisations can lead to very effective federated enterprises (Handy, 1992). However,
the single most important contribution that emerged from considering the five alliances in some detail may have been that positive partner attitudes were the major key to maintaining an effective alliance. Such a factor covers a wide variety of behavioural attitudes. It is particularly associated with the attributes of commitment, both at the top and in middle management, with trust between the partners, and with the exhibition of cultural sensitivity. It is also strongly associated in reality with partner bonding, flexibility in response to change (particularly concerning changing partner objectives), and with a willingness actively to bring about the evolution of the alliances. It would seem that this single set of attitudes might represent the strongest predictor of the deemed effective development or maintenance of a strategic alliance.

The so-called “hard” factors in the equation, for example, structural form, specific resource dependencies, transaction costs, and synergies, may be important as underlying economic factors with “ecological” power, but the overall presence of turbulence and uncertainty in the environment may well inhibit equilibrium-inducing forces from determining the outcome. If this is indeed the case, the power of positive partner attitudes may well win the day for inter-organisational collaboration, even for alliances with *prima facie* limited strategic synergy.

The so-called “soft” factors, however, form the major contribution from the research. The literature of transaction cost economics, the resource-based theory of competitive advantage and resource dependency, perspectives which are often based on a mechanistic and positivistic approach to strategy, does not explain why “hard” factors such as speed to market or economies of scale and scope are not the key motivators for forming alliances. The frequently cited body of scholarly literature on alliances does account for why many alliances stem and are managed from an agentic, interpersonal approach based on partner perceptions and trust, which over time becomes partner bonding.
Only by including the reciprocities involved in the human element that are normally disregarded in the literature can a reasonably convincing picture be obtained on how to maximise the future potential of an alliance.

Further contributions that this research may claim to make are of a more instrumental nature. The classification schema adopted in Chapter Four proved very useable and could be the basis of further, more fine-grained research into sub-categories of alliance. Finally, despite its limitations, the database of 67 alliances used (see Appendix 2 on page 230) to compare the scholarly literature with, and to draw the five case studies from represents one of the larger available databases available for a research project into cross-border strategic alliances. It could be added to without major amendment, and the data be collected in such a way that possible differentiating characteristics of the eight alliance forms could be usefully researched, if the alliance numbers were built up sufficiently.

The Asian scene did not get coverage in the database. Had it been represented in the database, additional definitional problems would have demanded attention.

A significant contribution from this research is also derived from the propositions and factors in Figure 5.2 (see page 92) being treated in an evolutionary manner, which this research believes is not found to any significant level in the micro scholarly literature on strategic alliances.

The research also shows that while the scholarly literature often does not reflect the full reality that practitioners finds themselves facing, that literature does offer some insights for them in their various managerial roles.
12.5 Implications for Management

If the above conclusions are plausible, the implications for executives considering embarking on a strategic alliance are considerable. They suggest that the principles outlined in Roehl and Truitt's (1987) view that "stormy open marriages are better" are unlikely to be true in the longer term. Furthermore, Reich and Mankin's (1986:78) attitude, namely, that a continuing, implicit Japanese strategy to keep the higher paying, higher value-added jobs in Japan and to gain the project engineering and production process skills that underlie competitive success is unlikely, if carried into an alliance, to lead to a successful joint endeavour. Alliance negotiations heavily "superintended" by corporate lawyers may also offer a poor climate for a subsequent trusting operation.

There is little evidence in this thesis research to suggest that the selection of alliance form is in any way crucial to deemed alliance effectiveness. The case studies suggest that joint ventures that are not endowed with a full set of assets to stimulate their autonomous development may be needlessly handicapped. In all cases, boundary-spanning activity between the partners should be a subject of major concern, since it is in this area that the venture may exhibit its greatest potential tensions.

The thesis research suggests that the believed identification of very strong complementary resource dependency needs and synergies is no predictor of a deemed effective alliance. The research does not seek to claim the validity of two stronger arguments, that is, that (1) alliances can be effective without complementary assets or synergies, or that (2) strategic fit, or the potential for competitive advantage achieved jointly but not separately, are not necessary for an effective alliance. Such statements, it is believed, would be too counter-intuitive to be credible, and are at least not borne out by the insights from the analysis where flexible growth based on scale and scope economies, and evolution achieved in an atmosphere of mutual trust, is revealed as the
second most persuasive factor.

The positive implications for management are:

- if positive attitudes of commitment, trust and cultural sensitivity are adopted;
- if clear organisational arrangements are made, particularly those involved in the boundary-spanning activity;
- if organisational learning by alliance partners, and not mere competence substitution, is seen as the fundamental objective of the alliance;
- if the alliance is allowed to evolve; and
- if a major effort is made by the partners to achieve strong inter-personal relationships, including bonding and flexibility to changing arrangements,

then an effective alliance is probable.

An alliance exhibiting such characteristics may be put forward as the ideal type for cross-border strategic alliances and embodies the key characteristics that emerged from the case studies of cross-border strategic alliances formed over a period exceeding 10 years. It is suggested from this research that many of the other varied and manifold suggestions in the literature may be circumstantially contingent, and may be adopted or not as appropriate, dependent on the individual context, but that those based on mutual suspicion and a determination to win in the battle for skills and competencies even at the expense of the partner, do not represent a constructive approach to the creation and sustaining of a long-term effective strategic alliance. There is clearly considerable scope for developing the implications for management as more fine-grained research in the less explored dimensions alluded to in this thesis is undertaken.
## Appendix 1: A Sample of Past Research Findings on Strategic Alliances from a Generalist Management Perspective

<table>
<thead>
<tr>
<th>Author</th>
<th>Alliance Rationale</th>
<th>Alliance Formation</th>
<th>Value Creation</th>
<th>Boundaries &amp; Interfaces</th>
<th>Sources of Difficulty</th>
</tr>
</thead>
</table>
| Anderson & Narus (1984) | * frequency of communication is positively related to satisfaction and negatively related to conflict  
                             * perceptions of value potential that exceeds alternatives can lead to cooperative relationships | * joint effort creates value through synergy  
                             * cooperation and satisfaction are strongly linked | * social, legal, and emotional investments create barriers to switching  
                             * one partner may be able to control the other’s fate or behavior by exerting inherent power | * disagreement over outcomes that favour one participant more than the other(s)  
                             * existence of alternative options that may appear more viable |                                                                                     |
| Anderson & Narus (1990) | * better coordination of marketing and technical activities                         | * organisation assesses results as satisfactory in comparison to other previous exchanges | * relative dependence of partners on one another can determine locus of control  
                             * key success factors include cooperation and ability to deal functionally with conflict |                                                                                     | * relative dependence of partners on the exchange relationships                      |
| Anderson & Weitz (1989) | * combines advantages of vertically integrated distribution with advantages of independent channels | * keys include goal congruence, cultural similarity, and perceived competence of partners | * interface points include product development, market research, long-term investments, responsiveness to partner’s needs, and flexibility in reacting to market vagaries  
                             * communication, and perception that relationship is continuous are requisite to success |                                                                                     | * negative reputations in channel  
                             * imbalances of power and/or compensating mechanisms                                  |
| Anderson & Weitz (1992) | * cooperation leads to more effective marketing activities                          |                                                                                   | * alliance combines advantages of vertical integration and scale economies at greatly reduced costs  
                             * mutual and comparable commitment is critical  
                             * pledges (good faith actions) are visible signs of commitment and can have a binding effect  
                             * open communication increases likelihood of achieving joint objectives | * lack of commitment can destroy relationship  
                             * history of conflict can erode relationship quickly                                 |                                                                                     |
| Borys & Jemison (1989)  | * expand organisation capabilities  
                             * create strategic renewal  
                             * gain competitive advantage in a static environment | * institutional leadership is critical in early stages of formation  
                             * strong consensus around purpose acts as a legitimising mechanism  
                             * stability is enhanced by norms, superordinate goals and legitimacy  
                             * alliance creates value in a way partners could not singly access to common resources  
                             * fit between specific partner needs  
                             * reciprocity and learning | * boundary between partners and alliance is as crucial as partner boundary  
                             * domain and permeability are critical issues  
                             * alliance purpose drives domain  
                             * how much of partner resources can alliance legitimately claim?  
                             * which partner’s governance structure will rule alliance? | * lack of information sharing  
                             * lack of goal consensus  
                             * heterogeneous partner operations  
                             * domain and permeability questions  
                             * lack of knowledge about partner operations  
                             * value creation may break down as a result of lack of familiarity, distrust, or misunderstanding |
| Brander & Pritzel (1992) | Strategic decision phase:  
- situation analysis  
- identify potential areas for collaboration  
- evaluate shareholder potential  
- select field of cooperation  
- select intensity of cooperation  
- identify other areas of potential cooperation  
| time and speed gains  
- increased know-how  
- market access  
- cost advantages  
- broaden competencies  | * intensity is influenced by time horizons, resources allocated, and degree of formalisation  
* leadership issues  
* financing issues |
| Bucklin & Sengupta (1993) | * gain access to new customer base  
* leverage complementary skills  
* more easily manage complex product launches  
* mitigate risk  | * success is difficult to quantify, thus qualitative measures are appropriate  
* balance must be created in order to avoid interdependence among partners  
* high potential payoffs are motivational across interface  | * simultaneous competition in some channels and collaboration in others  
* opportunistic use of alliance to parloin market access  
* potential resource dependency  
* "non-controllable" variables, eg rapid technology shifts |
| Doz (1988a) | * assure convergence of purpose  
* be consistent in organisation position on alliance  
* manage interfaces carefully through acculturation, communication, and governing bodies  | * synergy of complementary assets  
* actively manage and review expectations, intent, and interests to minimise divergence  
* clarify focus and erect visible boundaries  | * parochial interests  
* collaboration vs. competition dynamics  
* cultural distance  
* strategic divergence  
* hidden managerial agendas  
* differences in time horizons  
* unclear locus of interface |
| Doz (1988b) | Focuses solely on technology partnerships:  
* alliances as a means of extending learning capabilities  | * conduct early analysis of strategic context of partners  
* note that alliances are evolving relationships, maintain flexibility  
* avoid narrow, constractive contracts  
* be aware that interests change over time  
* have clear understanding of strategic intent  | * scope must be tightly tailored to areas of mutual interest  
* ensure that boundaries fit, yet are flexible enough to accommodate change in scope  
* ensure that all employees are clear on limits of scope and alliance domain  | * differences in strategic interest and intent  
* competition vs collaboration dynamics  
* cultural differences between partners  
* one-time adding of value by partners  
* out-of-control dependency  
* value creation and appropriation |
<table>
<thead>
<tr>
<th>Source</th>
<th>Key Points</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doz (1992)</td>
<td>* &quot;softer&quot; approach to gaining benefits of mergers or acquisitions</td>
<td>* ongoing partner dependency</td>
</tr>
<tr>
<td></td>
<td>* maintain options in uncertain political environments</td>
<td>* relationship management</td>
</tr>
<tr>
<td></td>
<td>* create cross-border ventures without sacrificing sovereignty</td>
<td>* divergence of complementarity of intent, interest, scope, and domain</td>
</tr>
<tr>
<td></td>
<td>* access new skills and technologies</td>
<td>* lack of internal organisational unity or strategic consistency</td>
</tr>
<tr>
<td></td>
<td>* innovation</td>
<td>* spread risks and costs</td>
</tr>
<tr>
<td></td>
<td>* economies of scale and scope</td>
<td>* economics of scale and scope</td>
</tr>
<tr>
<td>Doz &amp; Hamel (1991)</td>
<td>* extend leadership</td>
<td>* reviews several different forms:</td>
</tr>
<tr>
<td></td>
<td>* exploit technology</td>
<td>* internal development</td>
</tr>
<tr>
<td></td>
<td>* escape declining industries</td>
<td>* acquisitions</td>
</tr>
<tr>
<td></td>
<td>* learn new skills</td>
<td>* product supply and OEM arrangements</td>
</tr>
<tr>
<td></td>
<td>* create new markets</td>
<td>* licensing and technology transfers</td>
</tr>
<tr>
<td></td>
<td>* help reduce risk inherent in market creation</td>
<td>* alliances and partnerships</td>
</tr>
<tr>
<td>Dwyer &amp; Oh (1987)</td>
<td>* more efficient use of distribution channels</td>
<td>* market access is easier to achieve but alliances are moving toward value through leveraging competencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* protect core competencies through constant innovation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* &quot;embedded&quot; competencies are most difficult to remove</td>
</tr>
<tr>
<td>Dwyer &amp; Oh (1988)</td>
<td>* coordination essential to survival in some channels</td>
<td>* interface points focus on satisfaction with relationship</td>
</tr>
<tr>
<td></td>
<td>* alliance form middle ground between poles of market and hierarchy</td>
<td>* and perceived opportunism</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* over-formalisation in rich markets</td>
</tr>
<tr>
<td>Dwyer, Schurr &amp; Oh (1987)</td>
<td>* strategic need to focus on relationship rather than arm's-length transactions</td>
<td>* lack of structure in lean markets</td>
</tr>
<tr>
<td></td>
<td>* goal compatibility is critical</td>
<td>* transaction-specific assets not easily redeployed</td>
</tr>
<tr>
<td></td>
<td>* trust is essential</td>
<td>* channel structure leads to drive strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* lack of goal congruence</td>
</tr>
<tr>
<td>Hamel, Doz &amp; Prahalad (1989)</td>
<td>* low cost access to markets and technologies</td>
<td>* ignoring relationship processes</td>
</tr>
<tr>
<td></td>
<td>* speed to market</td>
<td>* partners commit to learning while vigorously protecting boundaries</td>
</tr>
<tr>
<td></td>
<td>* quality and production expertise</td>
<td>* weakening of partners</td>
</tr>
<tr>
<td></td>
<td>* learning new skills and competencies</td>
<td>* competitive vs collaboration dynamics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* look for win-win situations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* ensure strategic goal convergence while competitive goals diverge</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* organisational learning</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* process competencies are more valuable than discrete technologies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* reduce cycle times</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* positions in new markets and technologies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* limit &quot;transparency&quot;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* most inadvisable transfers occur 4-5 levels below top management</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Relationship Features</td>
<td></td>
</tr>
<tr>
<td>-----------</td>
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<td></td>
</tr>
<tr>
<td>Heide &amp; John (1988)</td>
<td>* relationships evolve partially to protect transaction-specific assets * interorganisational relationships help create balance to resource dependencies * for agents, investments in customers help offset dependencies on suppliers * value is linked to factors in the exchange: relative importance, role performance, availability of alternatives * focus is on agent-principal relationships * contracts can offer minimal protection in agent-principal relationships</td>
<td></td>
</tr>
<tr>
<td>Heide &amp; John (1990)</td>
<td>* manage risk * resource integration * safeguard exchange-specific assets * stringent screening of participants prior to initiating relationship * minimized risk * maximised use of assets</td>
<td></td>
</tr>
<tr>
<td>Heide &amp; John (1992)</td>
<td>* relational norms are used to help define governance of inter-firm arrangements * relational norms can help safeguard against opportunism and help prevent abuse of control</td>
<td></td>
</tr>
<tr>
<td>John &amp; Weitz (1988)</td>
<td>* alliances can help form match between supplier needs and channel dynamics * using alliances in direct channels can help mitigate effects of: transaction-specific assets, channel uncertainty, performance variability, production costs</td>
<td></td>
</tr>
<tr>
<td>Larson (1992)</td>
<td>* alternative to vertical integration * method for entrepreneurial organisations to increase flexibility and grow through low-cost mechanism * develops three stage model: * preconditions for exchange * conditions to build * integration and control * evidence argues for slow, incremental development driven by emergent trust * focus on large organisation and small organisation benefits and synergies</td>
<td></td>
</tr>
<tr>
<td>Lei &amp; Slocum (1991)</td>
<td>* innovation * amortise R&amp;D and distribution costs * penetrate markets * spread risk * inability to go it alone * learning * economies of scale and scope * set industry standards * first-to-market position * learn new competencies * leverage cost structures</td>
<td></td>
</tr>
</tbody>
</table>

Focus prescriptively on human resource issues: * technical knowledge * training and selection criteria * acculturation * governance structures * personal relationships * negotiation skills * conflict resolution

- opportunism
- unbalanced dependencies
- disparity of bargaining power between large and small organisations
- volume unpredictability
- technological change
- role performance dissatisfaction
- inability to redeploy transaction-specific assets
- "normative restraint" may serve as counterbalance to tendency to follow the weak
- managing complexity of both direct and indirect channels
- lack of prior integration or unawaresness of (or negative) reputations
- underdeveloped personal relationships
- incompatible "philosophy of partnership" or poor interface
- unclear rules and procedures
- unmet or divergent expectations
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Key Points</th>
</tr>
</thead>
</table>
| Lei & Slocum (1992) | * indirect weapon to "de-skill" partner
* open a window on partner’s core competencies
* share risks
* improve cost positions
Author’s describe seven stages in "de-skilling" or "hollowing-out" process:
* outsourced labour
* outsource low value-added components
* outsource increasingly value-added components
* send manufacturing and process skills overseas
* loss of quality control and R&D skills
* core skills and systems gone
* competitor gains entire range of competencies
* learning
* technological know-how
* renewed competitive advantage
* unintentional boundary permeability
* unplanned interface intensity
* inadvertent loss of control through unseen "gateways"
* out-of-control information flows
* "de-skilling"
* "hollowing-out"
* "outsourcing mentality" vs learning mentality
* competition vs. Collaboration dynamics |
| Lorange & Roos (1991) | * accelerate speed and pace of strategy implementation
* diffuse new technology
* enter new markets
* bypass government restrictions
* organisational learning
* secure buy-in of top management and owners
* secure commitment and energy of key internal managers
* assess own potential for strategic collaboration
* develop strategic plan
* create win-win situations
* manage intra-company boundaries with equal vigour
* incompatible personal or organisational chemistry
* unmet expectations
* different or conflicting strategic intent
* multiple layers of decision making
* strain on management time posed by multiple alliances
* viewing alliances as less important as wholly own businesses
* over-managing the alliance |
| Lorange, Roos & Bronn (1992) | * defend a core market position
* catch up in a non-core market
* strategic restructuring of a market position
Initial phase:
* assess match between partners
* assess strategic potentials
* assess learning opportunities
* intensive phase:
* identify markets and potential competition
* generate variety of possible scenarios
* consider political and stakeholder perspectives
* create a business plan
* form management team
Four alliance types defined according to output to partners and time horizon:
* ad hoc pool
* consortium
* project-based joint venture
* full-blown joint venture
* balance analytical and qualitative valuations with political and relationship perspectives
Identifies six categories of organisational factors on a formation team:
* venture champions
* decision makers
* deal killers
* technocrats
* liaison personnel
* implementers
* improper organisational and strategic fit
* no support among internal or external stakeholders
* cultural and/or national differences
* proceeding in a selfish (rather than cooperative) fashion |
| Mohr & Spekman (1994) | * technology access
* breadth of products
* scale economies
* knowledge access
* risk sharing
* keys include commitment, coordination and interdependence
* success depends on alliance-specific attributes, conflict resolution methods and communication process
* complexity of alliance management
* loss of autonomy
* information asymmetry |
<table>
<thead>
<tr>
<th>Source</th>
<th>Concept</th>
<th>Descriptions</th>
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<tbody>
<tr>
<td>Ohmae (1989)</td>
<td>* market penetration</td>
<td>* focus on alliance as a loose evolving relationship</td>
</tr>
<tr>
<td></td>
<td>* cost sharing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>* economies of scale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>* avoid protectionism</td>
<td></td>
</tr>
<tr>
<td>Parkhe (1991)</td>
<td>* technological competence</td>
<td>* type 1 diversities are the differences organisations can use</td>
</tr>
<tr>
<td></td>
<td>* market access</td>
<td>to enhance the competitiveness of the venture</td>
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<td>* new product development</td>
<td>* iterative learning will mitigate</td>
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<td>* capacity rationalisation</td>
<td>&quot;type 2&quot; diversities</td>
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<td>* be aware of different types of</td>
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<td>interorganisation diversity</td>
<td>&quot;Type 2&quot; interorganisation diversities:</td>
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<td>* use training to mitigate potentially deleterious effects of</td>
<td>* societal culture</td>
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<tr>
<td></td>
<td>diversity</td>
<td>* national context</td>
</tr>
<tr>
<td></td>
<td>* reciprocal strengths</td>
<td>* corporate culture</td>
</tr>
<tr>
<td></td>
<td>* complementary resources</td>
<td>* strategic direction</td>
</tr>
<tr>
<td></td>
<td>* &quot;race to learn&quot;</td>
<td>* managerial style and practices</td>
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<td>* be aware of different types of</td>
<td></td>
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<td></td>
<td>interorganisation diversity</td>
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<tr>
<td></td>
<td>* use training to mitigate potentially deleterious effects of</td>
<td></td>
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<tr>
<td></td>
<td>diversity</td>
<td></td>
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<td></td>
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<tr>
<td>Powell (1990)</td>
<td>* enhanced ability to transmit and</td>
<td>* open-ended with focus on mutual</td>
</tr>
<tr>
<td></td>
<td>learn new knowledge and skills</td>
<td>benefits</td>
</tr>
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<td></td>
<td>* provide efficient, reliable information</td>
<td>* reciprocal and collaboration are</td>
</tr>
<tr>
<td></td>
<td>* mutual interest and benefit</td>
<td>critical</td>
</tr>
<tr>
<td></td>
<td>* spread risks</td>
<td>* relational communications</td>
</tr>
<tr>
<td></td>
<td>* combines strengths and reduce</td>
<td>* shared and recognised</td>
</tr>
<tr>
<td></td>
<td>weakness</td>
<td>interdependence</td>
</tr>
<tr>
<td></td>
<td>* fast way to access creativity,</td>
<td>* sanctions and governance are</td>
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<tr>
<td></td>
<td>innovation and new products</td>
<td>more normative than legal</td>
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<td>* economies of scale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>* learning</td>
<td></td>
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<tr>
<td></td>
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<tr>
<td>Spekman &amp; Salmond</td>
<td>* new markets</td>
<td>* collaboration is enhanced by</td>
</tr>
<tr>
<td>(1992)</td>
<td>* new skills</td>
<td>visible, transaction-specific</td>
</tr>
<tr>
<td></td>
<td>* new technologies</td>
<td>investments</td>
</tr>
<tr>
<td></td>
<td>* new products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>* ensure that each partner is</td>
<td>* over-dependence</td>
</tr>
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<td>&quot;strategically credible&quot; to the other</td>
<td>* imbalanced investments</td>
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<tr>
<td>Spekman &amp; Sawhney (1991)</td>
<td>* response to uncertainty</td>
<td>* boundary may blur as strong</td>
</tr>
<tr>
<td></td>
<td>* economies of scale</td>
<td>ties evolve in relationship</td>
</tr>
<tr>
<td></td>
<td>* overcoming entry barriers</td>
<td>* intensity of relationship will vary</td>
</tr>
<tr>
<td></td>
<td>* pool knowledge</td>
<td>across key dimensions</td>
</tr>
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<td></td>
<td></td>
<td>* intensity is a function of</td>
</tr>
<tr>
<td></td>
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<td>organisational interaction and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>interdependence</td>
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<tr>
<td></td>
<td></td>
<td>* lack of goal congruence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* lack of commitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* tension created by need to balance</td>
</tr>
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<td></td>
<td></td>
<td>interdependence and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* power or dependency imbalance</td>
</tr>
<tr>
<td></td>
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<td>may lead to one partner's</td>
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<td></td>
<td>dominance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* perceived or actual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>incompatibility of cultures</td>
</tr>
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</tr>
</tbody>
</table>
| Srijam, Krapfel & Spekman (1992) | Reduction of transaction costs  
cope with resource dependency  
increase competitiveness through lowered cost, technology and/or manufacturing advances, operational flexibility | Look for commitment | Reduced costs  
scale economies  
increased access to markets  
synergy of competencies | Higher dependence and transaction-specific assets  
increase alliance activity  
some relationships are so close that organisational boundaries blur | Power differentials due to unbalanced dependency  
non-fungibility of transaction-specific assets  
perceptions or relative dependence |
|---|---|---|---|---|---|
| Teece (1992) | Global competitive environment is forcing technology organisations to collaborate  
access complementary assets  
link developers to users and suppliers to create knowledge about market trends  
cost/risk sharing | Bilateral agreements replace cash as mechanism of exchange  
profit distribution need not be equal in a successful alliance  
facilitate innovation | Boundaries are difficult to delineate  
relations exchanges  
continuous indebtedness and mutual obligation  
social as well as contractual governance  
facilitate horizontal movement of information | Changing circumstances can upset balance |
Appendix 2

The Predicast Database of Alliances

This appendix lists the cross-border strategic alliances, captured in the Predicast database and the abstracts derived from it, which clearly denominated alliances by 3 specific categories, namely joint venture, consortia and collaboration, from which five alliances were used for case study purposes.
<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Joint Ventures</th>
<th>Industry</th>
<th>Date</th>
</tr>
</thead>
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<tr>
<td>a</td>
<td>Dowty-Sema</td>
<td>UK/FR</td>
<td>Defence</td>
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<td>a</td>
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<td>Swiss/US</td>
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<td>EVC</td>
<td>UK/Italy</td>
<td>Plastics</td>
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<tr>
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<td>ICI Pharma</td>
<td>UK/Japan</td>
<td>Pharmaceutical</td>
<td>1972</td>
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<td>a</td>
<td>Babcock/Scottish Power</td>
<td>UK</td>
<td>Power</td>
<td>1991</td>
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<td>ICL Bus GAmE</td>
<td>UK</td>
<td>Consulting</td>
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<tr>
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<td>BT/Fujitsu</td>
<td>UK/Japan</td>
<td>Telecom</td>
<td>1991</td>
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<tr>
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<td>Sonos/Swedish Telecom</td>
<td>US/Sweden</td>
<td>Telecom</td>
<td>1992</td>
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<tr>
<td>e</td>
<td>Halcrow/Gilbert</td>
<td>UK</td>
<td>Engineering</td>
<td>1988</td>
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<tr>
<td>a</td>
<td>Oxford Instruments/Siemens</td>
<td>UK/Germany</td>
<td>Instrumentation</td>
<td>1989</td>
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<tr>
<td>a</td>
<td>NIT/Eutel</td>
<td>US/Singapore</td>
<td>Electronics</td>
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<tr>
<td>a</td>
<td>ICI Bio/RHM</td>
<td>UK</td>
<td>Food</td>
<td>1981</td>
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<tr>
<td>e</td>
<td>GEC/Alstom</td>
<td>UK/FR</td>
<td>Power</td>
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<td>AT&amp;T/Philips</td>
<td>US/Netherlands</td>
<td>Telecom</td>
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<td>Auto</td>
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<td>BP/Shell</td>
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<td>Hiram/Suntory</td>
<td>UK/Japan</td>
<td>Spirits</td>
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<td>ICI/Agrochem</td>
<td>UK/Japan</td>
<td>Agrochem</td>
<td>1972</td>
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<td>ICI Fluo/Asahi</td>
<td>UK/Japan</td>
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<td>UK/Thailand</td>
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<td>Computers</td>
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<td>UK/NZ</td>
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<td>UK/Japan</td>
<td>Agrochem</td>
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<td>UK</td>
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<td>a</td>
<td>BP Oil/ Petromed</td>
<td>UK/Spain</td>
<td>Oil</td>
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<td>UK</td>
<td>Banking</td>
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<td>PW/Reviswisse</td>
<td>UK/Swiss</td>
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<td>Engineering</td>
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<td>Lynx Corporation</td>
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<td>Computacenter</td>
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<td>Whitebread/Allied/Bass</td>
<td>UK</td>
<td>Soft Drinks</td>
<td>1986</td>
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<td>h</td>
<td>Cable &amp; Wireless/Sprint</td>
<td>UK/US/Netherlands</td>
<td>Telecoms</td>
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<td>UK/Germany/Japan</td>
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<th>Industry</th>
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<td>Fujitsu/ICL</td>
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<td>Computers</td>
<td>1980</td>
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<td>Imperial/Wintemans</td>
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<td>Lloyds/Abbey Life</td>
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<td>Insurance</td>
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<td>UK/US</td>
<td>Construction</td>
<td>1989</td>
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<td>UK/Italy</td>
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<td>UK/Japan</td>
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<td>US/Japan</td>
<td>Automation</td>
<td>1989</td>
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Appendix 3

A content analysis of the research

This appendix is in the form of a Table relating the factors in Figure 5.2 on page 92 to each of the five case studies in the research.

A blank space indicate that the factor was not identified by the alliance partners in reference to their own alliance. The tabular format allows for quick comparison as to level of commonality the factors have across the five case studies presented in this thesis.
<table>
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<td>Wished to retain flexibility</td>
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<td>No</td>
<td>Fairly Flexible</td>
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<td>Through External Challenge</td>
<td>Through External Challenge</td>
<td>Through External Challenge</td>
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Appendix 4
Various methodological issues

This thesis was an exploratory one, prompted by an initial curiosity about why cross-border alliances come into being, how they are managed to the satisfaction (or dissatisfaction) of the alliance partners, and the likely conditions (as seen by the partners) leading to their evolution or, perhaps, dissolution. It was prompted subsequently by the frustration of having no generally agreed body of theory or terminology to illuminate this curiosity. There is, furthermore, no neat separation of theoretical conceptualisation and methodological means; the two intert

Chapter One set out to review certain macro economic trac
why cross-border alliances are becoming an increasingly favoured form of collaboration among corporations. In Chapter Two this macro quest focused more particularly on specific economic theories such as, for example, transaction cost analysis (2.1) or resource dependency perspective (2.4) but also on the theories of the learning organisation (2.5) or culture/strategy theory (2.7) which might not, at first glance, appear to be economic in nature. These provide the conceptual backdrop to current strategic alliance theory (Chapter Three) though it has to be said again here that the nomenclatures referring to alliances are by no means agreed. This chapter examines the theoretical literature on alliances under formation, management and evolution conditions, a stage approach which is employed in analysis of the case studies in Chapters Nine, Ten and Eleven and forms an essential element in the guiding methodology of the thesis. The one thing that became most obvious from this theoretical review was an apparent lack of epistemological sensitivity in schematising alliances; Chapter Four reviews the essentially empiricist
schemata available in the theory literature on alliances and seeks to posit a schema that both fits the Predicast database material available for this thesis study and also to yield a set of propositions emerging from the various schemata reviewed. In Chapter Five, as a prelude to the case studies in Chapters Six, Seven and Eight, the factors deemed in the theoretical literature salient to "effectiveness" are identified and the propositions deriving from those factors in the theoretical literature are also set out. This author here notes the problematic nature of "effectiveness" and proposes to have the alliance partners themselves characterise it in the particularity of their own situation.

It is against the background of these theoretical chapters and the stages of development perceived by the alliance partners that the case studies in Chapters Six, Seven and Eight are set out.

The Uses of Case Study in This Thesis

Case studies are often described as exploratory research used in areas where there is a deficient body of knowledge (Hussey and Hussey, 1997). This circumstance of deficiency is present in the current state of conceptualisation and inquiry into strategic alliance formation, management, and evolution. Case study is taken by Hussey and Hussey (1997) as an example of phenomenological methodology in which the context is essential and which focuses on understanding the dynamics present (Eisenhardt (1989) cited in Hussey and Hussey, 1997). Certainly, the perceptions of the partner participants as to what is happening in the stages of the alliance which are identified by them are integral to the case studies even if one cannot, in those case studies, claim a fully phenomenological account.
As already stated in the body of the thesis no epistemological privilege or priority was accorded to practitioner perception over theory-adduced propositions or, where unsupported by empirical investigation, over theoretical speculation. The author’s method of proceeding was this: the various sources employed in the case studies were combined to offer some illumination of the theoretical propositions. A comparative purpose was involved: to compare the factors and propositions deemed salient from a comprehensive review of relevant theories on alliances with the views and perceptions of participant partners engaged ongoingly in tending their alliances. There were significant commonalities between the accounts provided by the literature and the evidence of the case studies. There were also some “omissions” and some “additions” not presaged in essentially economistically based theories. In a sense, this author gained from this comparison greater confidence in the case studies as being theoretically useful stories about alliances. In no sense does the thesis, however, claim that the case studies should be pushed beyond their bounded contexts to generalisability. In an exploratory research thesis of previously lightly adumbrated factors and propositions from theoretical literature and of basically neglected stages of alliance initiation through to positive evolution (or dissolution), the case studies offer a basis of comparison with the theoretical literature and throw some light on what participants deem significant at each stage of their partnership. The literature “disciplines”, as it were, the case studies’ inquiry. Hartley (cited in Cassell and Symon (1995:210) seems to be referring to this when she says:

*The value of theory is key. Although case studies may begin with ...only rudimentary theory or a primitive framework, they need to develop theoretical frameworks by the end which inform and enrich the data and provide not only a sense of the uniqueness of the case but also what is of more general relevance and interest. In some situations, ...researchers may have some clear propositions to
...without a theoretical framework, a case study may produce fascinating details about life in a particular organization but without any wider significance.

The case studies employed in this thesis are represented in narrative or descriptive form in Chapters Six, Seven and Eight, with some analysis appropriate to their explication, while the major analysis of the case studies and of formation, management, and evolution stages are undertaken in Chapters Nine, Ten and Eleven. The author's purpose was that the participants' views should not be overborne by overt author analysis in the essentially narrative case study chapters. Nevertheless, in the last analysis: it is the researcher who decides what is the case's own story, or at least what of the case's own story he or she will report (Stake, 1997:240). It is for this reason also that, in various places in the thesis, this author eschews any so-called "objective" definitions of "effectiveness" or "success" of alliances, declining to intrude such definitions into the analysis. It is what the participants deem to be "effective" alliances at each stage that is important for qualitative reasons, and for comparative purposes between the theory examined and case study. The Summaries to the case study chapters (Six, Seven and Eight) reflect the fruitfulness or otherwise of the alliance from partner perspectives only. The examined theory also deals with effectiveness in formation of alliances but without saying how effectiveness may be generically characterised.

Throughout the thesis, the point is made that the case studies are selective and make no claim to industry sector generalisation (page 168), or indeed to generalisability at large. They are illustrative only of the factors and propositions relating to the stages of alliance development represented in them. Chapter Nine deal with the perceptions of partner participants as to appropriate formation conditions and the contingent nature of the form
of alliance selected; Chapter Ten with the perceptions of participants about factors contributing to appropriate management of the alliances; Chapter Eleven with the perception of participants as to the factors contributing to the positive evolution of the alliances over time.

The use of multiple case studies in Chapters Six, Seven and Eight was driven by the need to reflect on the three-category schema posited in Chapter Four of the thesis after a comprehensive review of the epistemologically sterile schemata to be found in an essentially empiricist literature. That three-fold schema (joint ventures, collaborations, and consortia) was derived from the Predicast database using the criteria of scope of alliance, specific structural form, and the number of partners involved. The schema has the advantage of employing terms familiar to practising managers in alliances and was supported by their own partnership classifications. It appears to embrace all the varieties of forms reflected in the database without doing violence to those forms. The schema is not, in the thesis, directed at comparison within or between industry sectors but is a preliminary vehicle for simplifying and analysing complex forms for further analysis. The argument for the use of multiple case studies is, in this respect, intrinsic to the exploratory nature of the thesis itself.

Given that the author’s purpose is to compare participant judgments and perceptions with the factors and propositions gleaned from the theoretical literature on alliances, so disclosing the body of commonalities between them, it is superfluous to treat particular sources of evidence in the case studies as suspect. The case studies and the consequent analysis of them will commend themselves as either plausible and suggestive of further avenues of inquiry or not. The sources employed in the case studies in this thesis make a
collective contribution to the plausibility of the analysis rather than relying on individual sources of evidence taken alone. Triangulation can employ a variety of data sources, or multiple theoretical perspectives to interpret data, or multiple methods to study problems, or even inter-disciplinary perspectives. In the final analysis, however, triangulation is a heuristic tool in qualitative research. In this thesis, the sources listed below were variously employed to construct the case studies available to achieve a degree of triangulation but, equally, the comparison of participant judgments with theoretical propositions was an even more basic approach to triangulation.

In Chapters Nine, Ten and Eleven the participants' judgments on "effectiveness" were referred to the theoretical literature, scant though it was, on the "effective" management and evolution of alliances. The theoretical literature that was reviewed was generally normative in nature since it offered prescriptions for the likely most effective ways in which alliances could be formed, but seldom offered prescriptions for the management of alliances or their continuing evolutions. The participants in the alliances also saw their problems from a normative point of view in general, but frequently added comment on the effective management and evolution of alliances beyond their original formation.

Since there was no way of ensuring that effectiveness or success was conceived in the same ways, it seemed best to take judgements about effectiveness as the participants or the theoreticians themselves employed the term and draw what one could from theory and case study as the most likely conditions of successful outcomes. For this reason, however, generalisability in an exploratory thesis of this kind could not be realised. Rather than see triangulation as a source of unquestionable validity and reliability — a claim it cannot live up to in either qualitative or quantitative research — one should see it as an attempt in this 244
thesis to obtain a fuller, richer and plausible picture of the alliances under case study 
examination and analysis. Later, more refined research using better databases, more wide 
ranging case study material, and even quantitative methods might further enhance this 
plausibility.

Sources of Case Study Material

The case studies were based on information sourced from:

a) Harvard Business School Cases (the catalogue of their case studies can be located 
and searched at http://www.hbsn.harvard.edu/home/html).

b) Richard Ivey Business School (the catalogue of their case study): 

c) European Case Clearing House (ECCH - based at Cranfield University, Great 
Britain) (the catalogue of their case studies can be located and searched at 
http://www.cranfield.ac.uk/som/home4.htm);

d) Published annual reports for shareholders of corporations;

e) Media/press releases;

f) Journal articles related to the organisations in the selected case studies (Berto
do, 1988; 1991; Bronder and Pritzl, 1992; Burton, 1995; Earl, 1992; Laycock, 1996; 
Mueller, 1993; Parry, 1991; Snowdon, 1987);

g) References in monographs or other edited collections related to the organisations 
in the selected case studies (Nelson, Moody and Mayo, 1998; Lehbrink, 1999; 
Lorenz, 1999; Kennedy, 1993; Pilkington, 1995);

h) Generally informed financial newspaper and magazine articles (for example, Wall 
Street Journal, The Financial Times, Fortune, Business Week, Forbes); see 

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Alperowicz, 1994; Biesada, 1991; Blau 1995; Dubashi, 1991; Glover, 1995; Guth, 1998; Lorenz, 1994; Moffett, 1999; Rapoport, 1993; and

i) Personal correspondence with current and former employees of the partner organisations under review and/or the offspring organisation. This correspondence was intended only for purposes of clarification or explication, and constitutes a tertiary source of information. The purpose of this correspondence was to seek clarification and explication of published materials that were not immediately clear to this author, or that had become dated, so as to ascertain what might have occurred to the alliance since it was originally established and documented.

Access to Case Study Partners

In the Rover/Honda and the EVC alliances, the alliance partners were not prepared to discuss the now ended alliances. However, they were willing to provide an array of material that was in the public domain. Honda and ICI provided the names of, and a contact point for, managers who ran their side of the alliances but who had retired from their organisations.

The suggested ICI contact was an Australian who had returned to Australia on retirement. This former employee had a number of documents (including diaries, memos, minutes of meetings and so on) that could not be quoted or referred to though access to view and read the documents was gained for clarification and explication.

In respect of the Rover/Honda alliance, the Rover manager of the alliance retired after the alliance abruptly ended with the acquisition of Rover by BMW in 1995. He, in a similar manner to the former ICI employee, offered much information provided that this
information could not be quoted directly but would permit a background view of events that arose during the alliance's life. On a number of occasions when this author sought advice from the former Rover manager, permission to refer to relevant material was sought and given on the condition that it could not be used as direct quotation and that the material utilised was of a general nature.

Cereal Partners, as indicated previously, required written agreement on confidentiality. While they imposed no constraints on the thesis they did request to view sections relevant to the alliance to ensure that nothing been disclosed. The relevant material counter response was received.

In all case of all case studies, then, commercial-in-confidence considerations applied.

In each case study, the participant's requirements for confidentiality have been met. This, however, limited the intensity of interrogation of material that could be used for case study inclusion.

This author recognises the limitations of database, the selective nature of case studies, and even the theoretical infancy of the study of strategic cross-border alliances, but considers that the exploratory thesis has offered some directions for further analysis.
Reference List


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1 In line with the School of Management’s Thesis Style Guide, only a “Reference List” of cited works is supplied. A bibliography is available on request.


Bartlett, C.A. (1979) Multinationa. Environment in International Division: 


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