THE FORMATION PROCESS OF GLOBAL STRATEGIC ALLIANCES BETWEEN LOCAL AND FOREIGN COMPANIES IN THE UNITED ARAB EMIRATES: A CASE STUDY APPROACH

Yasir Yasin Sid Ahmed Fadol

BA, PGDBA, MBA

A thesis submitted In Partial Fulfilment of the Requirement of the University of Abertay Dundee for the Degree of Doctor of Philosophy

Dundee Business School

May 2010

I certify that this thesis is true and accurate version of the thesis approved by the examiners

Signed [redacted] **... (Director of Study)** **Date** ..7/10/10.....

Abstract

This study is an empirical investigation of the formation process of global strategic alliances between local and foreign companies in the United Arab Emirates (UAE). Its main aim is to provide a better understanding of the process of forming global strategic alliances in a developing economy environment and to develop a theoretical framework that may help in the formation process of global strategic alliances in similar countries. Based on a case study approach, data were collected through the use of in-depth interviews, structured interviews (self administered questionnaires), and documentary research. The analysis of the data collected has revealed six main findings in relation to the formation process of international strategic alliances within the UAE enterprises. They are: i) the identification and justification of motives for forming a strategic alliance, selecting alliance partners, selecting the alliance form of structure, managing the alliance and evaluating the performance of the alliance are basic phases of the formation process of global strategic alliances; ii) strategic alliances are formed in reaction to organizational and environmental factors and become part of corporate strategy; iii) the process of partners' selection in strategic alliances passes through three stages which are search for partners, evaluation of partners and selection of a partner, and is carried out by employing evaluation and selection criteria; iv) strategic alliance processes are extensively influenced by trust and confidence based on previous relationships between partners; v) the formation of strategic alliances is widely influenced by the partners' culture; and vi) the performance of strategic alliances is evaluated by all partners. These findings have various implications in theory and in practice for policy makers, practitioners and managers of strategic alliances in developing countries.

Dedication

This thesis is dedicated with love to my parents for all their sacrifices and commitment, with endless love to my wife Rania for her patience and encouragement, and to my beloved children Mohamed, Moayed and Madad...

Acknowledgement

In the name of Allah, the Beneficent, the Merciful. All praise is to Allah, the Lord of the universe and, peace and salutations upon his servant and messenger. I thank Allah for giving me the willingness, ability and patience to conduct and take this study to its final conclusions. Conducting this study puts the finishing touch to the continuous and persistent efforts all long. This effort would not have been successful without the kind encouragement and sound guidance of my study supervisor, Prof. Mohamed Branine. I am indebted and grateful to him for his recommendations, encouragement and constructive comments that have greatest effect in accomplishing this academic assignment. I can truly say that his intense meticulousness and broad academic knowledge were of profound benefit to me and shed light on the performance of this strenuous job. I would also like to express my thankfulness and gratitude to all those who assisted me – who with their academic guidance, advice and recommendations, along with their constructive proposals became a source of constant support and thus helped to complete this thesis. Special thanks are to those who helped in getting access to data which proved to be a challenging task during this study. More specifically, I would like to express my sincere appreciation to: Mr. Abdulla Al Saleh, the Under Secretary, Ministry of Economics and Planning, Economy Sector; Mr. Mohamed Al Qamzy, CEO of Emirates Telecommunication Corporation (ETISALAT); Mr. Hassan Al Marzouqi, the deputy General Manager of ADGAS; and Mr. Abdulla Kalban, CEO of Dubai Aluminum Company (DUBAL).

List of abbreviations

ADGAS	Abu Dhabi Gas Liquefaction Limited
ADNOC	Abu Dhabi National Oil Company
AED	United Arab Emirates Dirham
BP	British Petroleum
CEO	Chief Executive Officer
ETISALAT	Emirates Telecommunications Corporation
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GCC	Gulf Cooperation Council
IMF	International Monetary Fund
ISA	International Strategic Alliances
IJV	International Joint Ventures
JV	Joint Venture
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MENA	Middle East and North Africa
MNC	Multinational Corporation
NFC	National Federal Council
NTRA	National Telecommunication Regulatory Authority
NUMMI	New United Motors Manufacturing Inc.
SA	Strategic Alliances
SC	Supreme Council
TEPCO	Tokyo Electric Power Company
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
US$	United States Dollar
WB	World Bank
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Table of contents

List of tables

List of figures

CHAPTER 1
Introduction

1.1The Rationale for the Study

In an increasingly competitive and globalising international economy, the formation of strategic business partnerships between companies has become essential to their survival and growth. Increasing complexity, uncertainty, risk, and discontinuity are the obvious hallmarks of the present networked business environment. Additionally, the changing market conditions intensified global competition, and increasingly shorter product life-cycles. This means that firms have had to re-examine their traditional methods and strategies for doing better business (Ohmae, 1989a). However, any one firm, by itself, often does not possess all the necessary resources and capabilities to compete effectively in such global competition (Das and Teng, 1998b). Strategic alliances (SAs) offer an alternative approach to such firms, whereby they could join forces with other firms in the pursuit of opportunities that would otherwise be beyond the firm's current capabilities. Thus, SAs have emerged and proliferated in recent years as a popular strategy in an environment in which fast access to cutting-edge technology and emerging markets is more critical than ever before (Yoshino and Rangan, 1995).

Since the early 1970s there have been an increasing number of SAs and joint ventures (JVs) taking place throughout the world and across a wide range of industrial sectors (Glaister and Buckley, 1995; Ghemawat *et al.*, 1986). This proliferation received much attention both in the media and in academic circles (Doz and Hamel, 1998; Dussauge *et* *al.*, 2000; Li *et al.*, 2001). Alliance formations have been increasing at approximately 25 per cent per year since 1985 (Harbison and Pekar, 1998; Allio and Pekar, 1994; Mol, 2000). Many researchers suggest that is not unusual for a large corporation to have up to 30 alliances in operation compared to zero ten years ago (Cravens *et al.*, 2000). Strategic alliance activity is no longer on the periphery of corporate strategy (Gulati *et al.*, 1994). Druker (1995) suggests that the greatest change in the way business is being conducted will be through the relationship/networks over ownership. Some factors directly led to the proliferation of the phenomenon of SAs. These factors may include the globalization of markets, appearance of emerging markets, intensification of competition and appearance of new global competitors, acceleration of technology advancements, enlargement of required investment, and government deregulations (Hiroshi, 2005; Contractor and Lorange, 2002; Pett and Dibrell, 2001; Das and Teng, 1998; Deeds and Hill, 1996; Mitchell and Singh, 1996; Yoshino and Rangan, 1995; Beamish and Delios, 1997; Robson, 2002a). At the organizational level, one of the main driving forces behind entering strategic partnerships is the need for a strategic development of partner companies (Contractor and Lorange, 1988; Eisenhardt and Schoonhoven, 1996; Hoffmann and Schlosser, 2001).

Therefore, the rationale behind this study is three fold. Firstly, the ISAs discipline is a favoured topical theme of the current business research and studies. Moreover, the ISAs discipline in the Arab countries suffers from a shortage in specialised human resources; therefore, the PhD degree would offer me an opportunity to advance my academic and research career with a minimal competition.

Secondly, nowadays, many companies are experiencing real business challenges in the networked business paradigm; they are seeking for better solutions to increase their visibility in the business domain with minimal risks. Many of these companies are much believed in the strategic alliances (SAs) among the best business options to enhance their respective activities and brands. Therefore, understanding the factors that associated with alliance formation and success might be helping the managers to establish robust international partnerships in the future. Moreover, there is a steady growth of multinational companies in the Middle East, especially in the UAE. This globalisation of business shall increase market competition to put more stress on the national companies to realise the nature and formation process of SAs. Yet, this advanced study would therefore, enhance my skills in ISAs consultancies in the non-academic business domain.

Thirdly, the study was driven by the fact that most of the management theories – ISAs theories being no exception – have generally taken their roots in the developed countries, most notably North America and Western Europe (Schwenk, 1995; Miller *et al.*, 1998). The point of view indicates that there is a gap worth filling in the literature resulting from the lack of studies in developing context. Considering the uniqueness of the UAE's economic, political and socio-cultural contexts, this study would contribute to filling that identified gap.

1.2 The research problem

Based on the foregoing discussion, it is clear how SAs are becoming an important factor for companies to compete and survive in a complex and uncertain business environment.

Although SAs are attractive, they are not simple or easy to create, develop, and maintain (Buckley and Casson, 1987). There are many implementation problems. In this respect, it is often argued that while many organizations rush to jump on the bandwagon of SAs, only a few succeed (Michelet and Remacle (1992). It has been also reported that two thirds of all alliances experience severe problems in the first two years of their formation and that the failure rates range as high as 70 per cent (Das and Teng, 2000b; Beamish, 1985). Similarly, other researchers argue that the success rate of SAs is much lower than those of non-alliances, such as mergers (Bleeke and Ernst, 1991; Kent, 1991), while other scholars generally equate alliance failure with alliance termination (Beamish, 1985; Harrigan, 1986; Kogut, 1988).

Therefore, while many writers have been celebrating their many cooperative advantages, empirical studies often present a more dismal picture (Das and Teng, 1998). Many of the failures are very costly for the partner companies (Killing, 1982). Hence, those companies that opt for the international joint venture (IJV) mode of entry are choosing an option that historically has a very high rate of dissolution. Therefore, the logical question now is: "what makes these alliances fail?" The reasons for this high rate of failure have been related, according to a number of studies, to the following factors:

1. The lack of a clear vision and underlying rationale. Many firms go for SAs just because they like to go this route. Koza and Lewin (1999) argue that their experiences and research with countless alliances of every type, have led them to conclude that the root cause of alliances failing to realize the hoped for potential can be traced to failure to grasp and articulate the strategic intent for the alliance, including the failure to consider and recognize alternatives to entering into an alliance to begin with. Many companies enter SAs where other investment vehicles would be more appropriate (Reuer and Zollo, 2000). Another common reason involves lack of recognition of the close interplay between the overall strategy of the company and the role of an alliance in that strategy.

2. The lack of readiness. Lack of preparedness in terms of competent personnel and alliance formation guidelines and processes, and inappropriate strategic decisions regarding alliance structure, alliance partner(s) selection, and alliance governance is another important reason for alliance high failure rate. When asked why the alliance was dissolved or why it failed, managers often cite inadequate advance planning, wrong choice of partner or wrong initial strategy, too much detailed negotiations and too little managing of the actual alliance, lack of organizational capabilities and resources to manage cooperative relationships, strategic mismatch, size mismatch, cultural mismatch, and change in the strategy of one partner (Koza and Lewin, 1999). Therefore, companies must begin to address this important alliance management challenge.

3. The factors linked to relationship issues. Many of the problems in managing alliances stem from a lack of attention to relationship issues (Ring and Van de Ven, 1994; Coopers and Lybrand, 1997; Glaister and Buckley, 1999). The underlying logic of such strategies is that combining the distinctive capabilities of two or more companies enables each participant to obtain greater productivity from its skills and resources, while at the same time sharing external risks and uncertainties with partners. Yet, there is a significant element of internal risk involved in agreeing

to form an alliance with a partner or partners (Kale *et al.*, 2000). The key disadvantage of alliances appears to be associated with giving up partial control to other companies. It becomes less clear that who is in charge, who owns what, who should contribute what, and who should get what of the joint outcomes (Glaister and Buckley, 1999). Research is also beginning to explore the interaction between potential gains from the alliance as compared to increased risk of opportunistic behaviour by a partner (Kale *et al.*, 2000). High rates of SAs failure are attributed to opportunistic behaviour (deceitful behaviour) of the member firms. The objective of deceitful behaviour by a partner firm is to seek gain for itself at the expense of other members in the alliance. Withholding or distorting information and shirking or failing to fulfil promises or obligations is an example of deceitful behaviour. The threat of potential deceitful behaviour hinders the collaborative efforts of member firms in alliances, destroys inter-partner trust and confidence, injects uncertainties about alliance performance, and leads, eventually, to alliance termination (Das, 2005). Such behaviour leads to loss of trust between alliance partners. Lack of trust is likely to undermine advantages of alliances. Also the alliance flexibility can be hampered by more or less control "deadlocks" when corporate partners have difficulty in agreeing (Gulati *et al.*, 1994).

4. Cultural differences between alliance partners. The majority of the literature agrees on the potentially negative effects of national cultural differences on the formation of SAs. For example, national cultural distance has often been linked to alliance conflict (Lane and Beamish, 1990), misunderstandings (Lyles and Salk, 1996), collaborative problems (Mowery *et al.*, 1996), knowledge transfer problems (Hamel, 1991), and poor performance or even failure (Meschi, 1997). Culture differences between the partners of an international strategic alliance and inappropriate strategic decisions regarding choice of entry mode, partner selection and/or venture governance have usually been considered a major factor that might influence venture failure or unsatisfactory performance (Harrigan, 1985; Cartwright and Cooper, 1993).

Although there has been a large amount of research into ISAs, most studies have tended to focus on the motives behind alliance formation, partner selection and the characteristics of the resulting cooperation (Contractor and Lorange, 1988; Hennart, 1988; Kogut, 1988; Harrigan, 1988; Bleeke and Ernst, 1991; Parkhe, 1993a; Gulati, 1995; Vyas *et al.*, 1995; Glaister and Buckley, 1996). Meanwhile, studies focusing on success are still growing (Parkhe, 1993a; Glaister and Buckley, 1999). What studies have been undertaken have focused on various factors that may have an impact on alliance performance, including ownership, structure and the control-performance relationship (Luo and Chen, 1997). Indeed, the high failure rate of SAs has placed major emphasis on developing robust alliance formation guidelines and processes, as well as attempting to identify what types of firms form effective alliances and the underlying rationale. Also, Spekman *et al.* (1998) maintain that there is a huge gap in our understanding of alliance management. Therefore, more systematic empirical research is considered necessary as there are many unanswered questions regarding the formation process of such strategic alliance (Ring and Van de Ven, 1994; Saxton, 1997; Smith *et al.*, 1995; Glaister *et al.*, 1998).

1.3 Research questions

This study attempts to answer an important question relating to the process of forming and managing ISAs in a developing context, more specifically the UAE. This research question could be broken down into sub questions as below:

1. How do firms in developing countries select their international strategic alliance's partners? What selection criteria are used by local firms in developing countries? Does partner(s) selection affect alliance formation and operation in developing countries?

2. How do alliance partners in developing countries choose between different forms of SAs' structure? What factors do affect managers' decisions? Are these factors similar to the one that affect their counterparts in developed context?

3. How do alliance partners in developing countries jointly manage their alliances?

4. How does increasing knowledge of and trust between alliance partners affect alliance management and performance?

5. How do alliance partners jointly evaluate the performance of their alliances? What performance evaluation criteria are used?

6. How do differences and similarities in partners' culture affect the formation process and management of SAs?

1.4 Aims and objectives of the research

Based on the research problem and research questions above, this study aims to step inside the UAE's enterprises to explore a central managerial process namely "the formation process of ISAs". The intention is to achieve a better understanding of the processes by which ISAs are formed within two UAE's major enterprises and to generate a guiding framework that could help in understanding this process within a similar developing context. Since this study is the first of its kind in the UAE, its primary aim is to provide exploratory findings rather than concrete conclusions. To achieve this aim, the study attempts to achieve the following objectives:

1. *T*o describe and explain the formation process of ISAs within the two identified enterprises in the UAE.
2. To develop a guiding framework, in the light of the literature reviewed and the findings of the study, which could help academics and practitioners understand and form successful alliances in the context of a developing country.

1.5 Importance of the study

This study is important for managers, policy makers and practitioners involved in the formation of international strategic alliances because the understanding of the formation process of ISAs and the factors that contribute to the success and/or failure of such alliances will help firms to form successful alliances. Also, since this study also is conducted in a developing country it will lead to a better understanding of the formation process in such a context which is relatively overlooked in the literature on ISAs.

Therefore this study will bridge the gap in the literature pertaining to ISAs in developing countries in general and in the UAE in particular. In other words, this study opens a new field of research related to ISAs in developing countries where local and foreign companies come together to form an alliance.

On a personal side, this study is very important for the researcher and his university. As a lecturer of management in the College of Business and Economics in the United Arab Emirates University, this study is important for the researcher to develop his career as a lecturer, researcher and consultant.

1.6 The conduct of the study

Based on the nature and the aim and objectives of the study, a realism approach is used for conducting this research. Realism embraces a middle ground in a dichotomy identified as Positivism and Phenomenology (Easterby-Smith *et al.*, 1991; Knor-Cetina, 1981; May, 1993; Miles and Huberman, 1994; Stiles, 1995). This approach is utilized because it takes the advantages of both positivism approach and phenomenology approach and helps to understand the process by which people interpret the world (Stiles, 1995). In this respect, Stiles (2003) argues that for the purpose of exploratory research into strategic alliance partnerships, the realist paradigm presents the most appropriate basis from which to develop a specific method of enquiry. The realism approach also calls for the utilization of the qualitative approach. The qualitative research approach is designed to enable researchers to obtain a detailed description and to attain in-depth information for a better understanding of the phenomenon under investigation (Yin, 1989; Eisenhardt, 1989).

In addition, methodologists have strongly argued that qualitative methods are suitable and vital when the research is exploratory (Darlington and Scott, 2002; and Yin 2003) and when the research questions are of what is, how or why type (Amaratunga *et al.*, 2002; Spencer *et al.*, 2003; and Yin, 1994). This approach relies on semi-structured interviews or group observation and case studies to enable the collection of rich, subjective data (Stiles, 2003) Therefore, the research method used in this research is the case study based on in-depth interviews, structured interviews (self administered questionnaires), and documentary analysis, which is referred to as triangulation. Multiple sources of data are used in case studies to increase validity and reliability (Yin, 1994). Semi-structured interviews were thus used because such a method would, according to Denzin (1989), adequately provide for a combination of objectivity, flexibility and depth. Unlike semis-structured interviews, structured interviews (self administered questionnaires) utilize closed questions. Closed questions were used in this study in order to save interviewees' time, establish exact facts, and confirm an opinion. Documentary evidence sought to "corroborate and augment evidence from other sources" (Yin, 2003:31). Information derived from documents also can be used to generate interview questions or identify events to be observed. To ensure that the right persons were interviewed and the right questions asked, a pilot study was conducted as explained in the methodology chapter.

For the purpose of data analysis, this study utilized some of the procedures and techniques suggested by the within case and across case analysis recommended by Eisenhardt (1989) and the replication logic suggested by Yin (1989) to detect similarities and differences between cases. All in all, the data analysis stage is divided into three phases. The first phase includes generation and description of propositions. The second phase involves interpretation of the generated propositions; and the third phase deals with elaboration and reflection of these propositions. The process of data collection and analysis is described in full in chapter five.

1.7 The structure of the thesis

Thesis is organized in nine chapters as follows:

Chapter one, "Introduction", introduces the rationale for the research topic, the research problem and questions, aim and objectives, as well as the importance of the study. An introduction to the research methodology is also provided in this chapter.

Chapter two, "Conceptual analysis", establishes the theoretical basis for SAs. The term strategic alliance is defined from different perspectives and the types of SAs are also described with more emphasis on the most common type, joint ventures (JVs). In this chapter the way that SAs emerged and evolved over time is also provided.

Chapter three, "Theoretical analysis", presents the theoretical framework for the study. The major theories of SAs are reviewed and critically analyzed. Among these theories are the transaction cost theory, resource-based theory and its extension knowledge-based view of SAs. Also, a theoretical framework of the formation process of SAs is developed from the major models found in the literature and then described in this chapter.

Chapter four, "The context of the UAE", focuses on the context within which this study is performed. It starts with a brief discussion and analysis of the historical, political and economic background of the UAE. The chapter focuses on the economic background with more emphasis on the global business environment of the UAE and its role in enhancing foreign direct investments and foreign trade.

Chapter five, "Research methodology", presents the research methodology. The chapter begins with describing and justifying the research approach used for this study and then critically discusses and describes the research methods for data collection. It also contains an explanation of the techniques that were employed in analyzing the data.

Chapters six and seven, "Description and analysis of findings", explore the formation process of ISAs within two UAE's firms. Chapter six provides a description and analysis of findings within Abu Dhabi Liquefaction Company (ADGAS). Chapter seven provides the same within Emirates Telecommunication Corporation (Etisalat).

Chapter eight, "Discussion of findings", provides a discussion of findings presented in chapters six and seven. In doing so, it identifies and discusses the main characteristics of the formation process of ISAs in the UAE and reflects upon such characteristics from the perspectives of existing theories of SAs. The discussion is presented around the research questions and thus enabled the researcher to make recommendations on how to form successful ISAs.

Chapter nine, "Summary, Conclusions and Suggestions for further Research", presents a summary of the study, draws pertinent conclusions, highlights the contributions of this study to knowledge, makes recommendations, enumerates some limitations of the study and presents a discussion of future research directions.

CHAPTER 2

Strategic alliances: A conceptual analysis

2.1 Introduction

The aim of this chapter is to provide a conceptual analysis of the concept of SAs. It starts by reviewing the nature of SAs including the definition of strategic alliance from different perspectives, the scope and types of SAs, the reasons behind the emergence of strategic alliances and the way they have evolved over the recent years. The chapter ends with remarks summarizing the outlines of the chapter.

2.2 The nature of strategic alliances

To start with, this section provides the definition of strategic alliance from different perspectives in order to capture the meaning and intentions of SAs from different angles which in turn helps in achieving the research objectives. Characteristics of SAs are then derived from these definitions in order to gain more understanding of the term. Types and scope of SAs are also discussed in order to set the boundaries of this study because some types of inter-firm collaboration are considered outside the area of SAs. A special attention is given to joint venture as a form of SAs due to its importance and commonality. However, the terms SAs and JVs are used interchangeably in this study to denote inter-firm collaborative partnerships. Also the evolution and the reasons behind the emergence of strategic alliances are discussed.

2.2.1 What is a strategic alliance?

The definition of strategic alliance is problematic (Sulej, 1998). In this regard, Sulej (1998) states that there is considerable debate within strategic alliance and joint venture research as to what is actually meant by these terms and the way in which they are used. However, the researcher observed that the best way to define the term strategic alliance is by looking at its characteristics because this helps in gaining a deeper understanding of the term. This research relied on a number of definitions proposed by different authors who have different views of SAs, as follows:

2.2.1.1 A strategic alliance is a rationale process for pooling resources

Van de Ven (1976) noted early on that the process of inter-organizational relationships can be studied as a flow of resources among organizations. Based on Van de Ven's (1976) work, Kogut (1988) argues that a joint venture is formed when two or more firms pool a portion of their resources within a common legal organization. Similarly, Hamilton (1996) defined a strategic alliance as a durable relationship established between two or more independent enterprises, involving the sharing or pooling of resources to create a mechanism (corporate or otherwise) for undertaking a business activity or activities of strategic importance to one or more of the partners for their mutual economic advantage.

2.2.1.2 A strategic alliance is a collaborative arrangement

The process of pooling resources for the purpose of alliance formation requires certain types of collaborative arrangements, agreements, or linkages (Abdou and Kliche, 2004). Such a collaborative arrangement is emphasized by some researchers in their definitions of SAs. For example, Gulati (1999) defined a strategic alliance as any voluntarily initiated cooperative agreement between companies that involves exchange, sharing or co-development, and it can include contributions by partners of capital, technology, or firm-specific assets. Similarly, Buckley and Casson (1998) defined SAs as inter-firm collaborations over a given economic space and time for the achievement of mutually defined goals, where the venture must be collaborative in that there must be some input of resources from at least two companies. By economic space and time it is meant that the essence of an alliance is that it operates across the boundaries of the companies, the alliance can range from local to global, and that alliances can operate in some defined real time or until certain goals are achieved.

2.2.1.3 A strategic alliance is a way to achieving competitive advantage

Researchers such as Jarillo (1988), Burgers *et al.* (1993), Das and Teng (1998), and Hitt *et al.* (2000a) agree that SAs are formed between two or more partners for the purpose of achieving strategic goals as well as enhancing the competitive advantage of all organizations in the alliance.

2.2.1.4 International strategic alliances agonist domestic strategic alliances

The global dimension of SAs was proposed by Parkhe (1991) who defined SAs as relatively enduring inter-firm cooperative arrangements, involving cross-border flows and linkages that utilize resources and/or governance structures from autonomous organizations headquartered in two or more countries, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm. Therefore, SAs can be domestic or international in their nature. They are global if operations are located outside the country of one or all partners (Parkhe, 1991).

2.2.2 Characteristics of strategic alliances

The following characteristics of SAs are derived from the above definitions as follows:

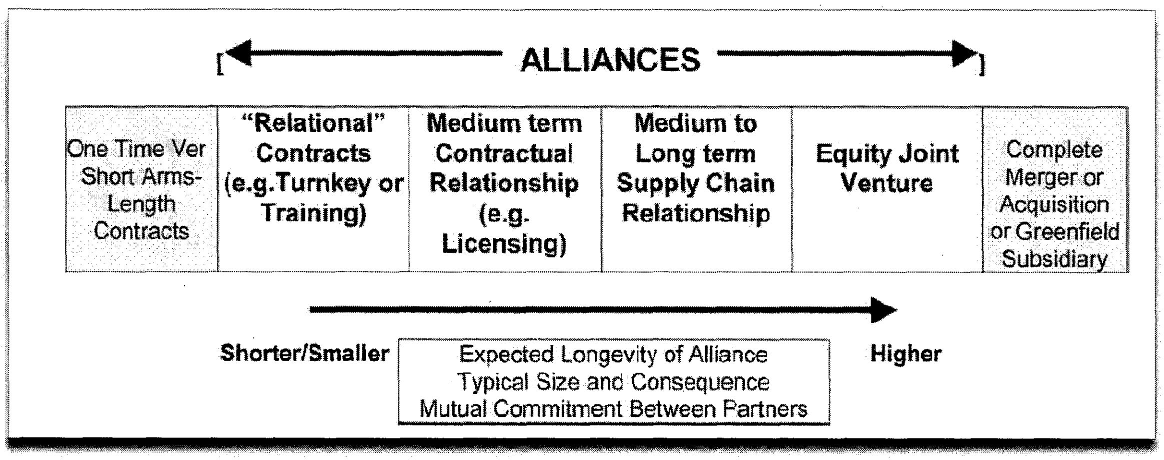
1. The essence of an alliance is that it operates across the boundaries of the companies.
2. SAs can be understood as collaborative arrangements in which there must be some input of resources pooled or flowing between two or more companies.
3. A strategic alliance involves at least two partner companies that remain legally independent after the alliance is formed, share benefits and managerial control, and make continuing contributions in one or more strategic areas.
4. There must be a mutual economic advantage for the alliance partners, such as improving competitive position and performance, in order for the relationship to continue.
5. SAs do not just happen; typically they are the result of conscious intentions of proactive actions.
6. A strategic alliance is a selective process that involves a number of decisions which are strategic in their nature. There is a joint choice of partners, forms of structure, and control systems.
7. SAs may have formal substance, typically in documentary or contractual form. This documentation may specify objectives, priorities, alliance scope, and control methods.
8. Alliances can operate in some defined real time or until certain goals are achieved.
9. The alliance can range from local to international.

2.2.3 Types of strategic alliances

It is some ambivalence when it comes to precisely classifying what types of cooperative arrangements can be termed SAs (Acedo *et al.*, 2006). Researchers (such as Varadarajan and Rajaratnam, 1986; Borys and Jemison, 1989; Forrest, 1992; Lei and Slocum, 1991; Murray and Mahon, 1993; Stafford, 1994) who are in favour of a more inclusive approach maintain that virtually all kinds of inter-firm arrangements should be called strategic alliances. Varadarajan and Rajaratnam (1986) argue that SAs can range from handshake agreements to licensing, mergers, and outsourcing and equity JVs. Therefore, in this approach, under the concept of strategic alliance, there are various kinds of arrangements: mergers and acquisitions; JVs; licensing; joint research and development arrangements; technology swaps; buyer-supplier relationships, and others. In contrast, other researchers such as Acedo *et al.*, (2006), Devlin and Bleackley (1988) and Yoshino and Rangan (1995) have adopted a more restricted view, and have sought to make a distinction between SAs and other cooperative arrangements. Yoshino and Rangan (1995) argue that many types of partnerships would not be considered SAs. Mergers and acquisitions, for example, would not be considered SAs, nor would wholly owned subsidiaries of multinational corporations (MNCs), because they do not involve two or more independent companies sharing benefits and control over a continuing period of time. In a similar vein, Acedo *et al.* (2006) opine that SAs refer only to those deals in which the parent companies are tied to each other in a substantive manner (i.e., long-term interdependence, shared control, and continued contributions by the parents). Thus, in this narrower conception, only a few selected kinds of cooperative arrangements would qualify as SAs, and would include JVs, equity investment, joint research and development, and joint marketing (Acedo *et al.*, 2006). This view is also supported by

Contractor and Lorange (2002) who argue that alliances are any inter-firm cooperation that falls between the extremes of discrete, short-term contracts and the complete merger of two or more organizations. Figure 2.1 shows that complete mergers, acquisitions or Greenfield subsidiaries are excluded from the types of SAs.

Figure 2.1: Types of strategic alliances



Source: Contractor, F. J., and Lorange, P. (2002) "The growth of alliances in the knowledge-based economy", *International Business Review* 11: 485–502.

Todeva and Knoke (2005) are in line with Contractor and Lorange (2002) who found that there are 13 basic forms of inter-organizational relations in the literature. These forms can be perceived as a continuum where the first and the last forms represent the two extremes of this continuum and are not forms of SAs. In between these two extremes are 11 general strategic alliance forms that combine varying degrees of market interaction and bureaucratic integration. Table 2.1 below shows 13 forms of inter-organizational relationships where only forms 2-12 are considered as SAs:

Table 2.1: Forms of inter-organizational relationships

No	Forms of inter-organizational relations	Brief description	
1	Hierarchical relations	Through acquisition or merger, one firm takes full control of another's assets and coordinates actions by the ownership rights mechanism.	
2	Joint ventures	Two or more companies create a jointly owned legal organization that serves a limited purpose for its parents, such as research and development, production or marketing.	S T
3	Equity investments	A majority or minority equity holding by one firm through a direct stock purchase of shares in another firm.	R
4	Cooperatives	A coalition of small companies that combine, coordinate, and manage their collective resources.	A
5	Research and development consortia	Inter-firm agreements for research and development collaboration, typically formed in fast-changing technological fields.	T E
6	Strategic cooperative agreements	Contractual business networks based on joint multi-party strategic control, with the partners collaborating over key strategic decisions and sharing responsibilities for performance outcomes.	G I C
7	Cartels	Large corporations collude to constrain competition by cooperatively controlling production and/or prices within a specific industry.	
8	Franchising	A franchiser grants a franchisee the use of a brand-name identity within a geographic area, but retains control over pricing, marketing, and standardized service norms.	A L
9	Licensing	One company grants another the right to use patented technologies or production processes in return for royalties and fees.	L I
10	Subcontractor networks	Inter-linked companies where a subcontractor negotiates its suppliers' long-term prices, production runs, and delivery schedules.	A N
11	Industry standards groups	Committees that seek the member organizations' agreements on the adoption of technical standards for manufacturing and trade.	C
12	Action sets	Short-lived organizational coalitions whose members coordinate their lobbying efforts to influence public policy making.	E S
13	Market relations	Arm's-length transactions between organizations coordinated only through the price mechanism.	

Source: Adopted from Todeva, E and Knoke, D. (2005), "Strategic alliances and models of collaboration", ***Management Decision*** **43: 123-148**

Based on Williamson's (1975) work, Todeva and Knoke (2005) suggest that the principal dimension ordering this classification is that, from bottom to top, collaborating companies experience increasing integration and formalization in the governance of their inter-organizational relationships. Governance refers to combinations of legal and social control mechanisms for coordinating and safeguarding the alliance partners' resource contributions, administrative responsibilities, and division of rewards from their joint activities. The bottom of the list shows pure market transactions requiring no obligation for recurrent cooperation, coordination, or collaboration among the exchanging parties. The top of the list represents hierarchical authority relations in which one firm takes full control, absorbing another's assets and personnel into a unitary enterprise. In between these extremes of market and hierarchy are 11 general strategic alliance forms, or "hybrids" that combine varying degrees of market interaction and bureaucratic integration.

Joint ventures

In this section the term joint venture is described in more details. The reason for choosing joint ventures is that it is considered the most dominant and the most important form of SAs. For example, Beamish (1994) argues that joint venture, the most common form of strategic alliance, is the dominant strategy used in emerging markets by multinational companies. JVs occur when two or more legally separate bodies form a jointly owned entity in which they invest and engage in various decision-making activities. Geringer (1988; 1991) asserts that JVs involve two or more legally distinct organizations (the parents), each of which actively participates, beyond a mere investment role, in the decision-making activities of the jointly-owned entity.

It is interesting to distinguish between equity JVs and non-equity JVs. On the one hand, Geringer (1991) and Harrigan (1985) have observed that equity joint ventures are created when two or more partners join forces to create a newly incorporated company in which each has an equity share and each thereby may expect an appropriate allocation of dividends as compensation, representation on the equity JVs board of directors, and active participation in the decision-making activities of the venture. On the other hand, Contractor and Lorange (1988) described non-equity joint ventures as agreements between partners to cooperate in some way but they do not involve the creation of a new firm.

To sum, only inter-firm collaborations that result in companies that remain independent after collaboration are considered SAs. According to this principal criterion, some mergers and acquisitions will be kept outside the boundaries of SAs. This research adopts the restrictive view of inter-firm collaboration and hence excludes mergers and acquisitions from the field of study.

2.2.4 Emergence and evolution of strategic alliances

The use of SAs has always been part of the social and political fabric, yet recent history has recorded a marked increase in the use of alliances as a strategic business tool (Lloyd and Varey, 2003; Ohmae, 1989). In this respect, Demirbag and Mirza (2000) argue that the use of SAs in doing business domestically and globally is scarcely new. They are among the oldest organizational forms in existence and were originally used as a commercial device by the merchants of Ancient Egypt and Mesopotamia to conduct overseas commercial transactions. What is new in the modern era, however, especially since the 1970s, is the apparent growth in the frequency of the use of joint ventures, their geographic extent, and the unique propositions and problems they raise because of their occurrence in an international and inter-cultural context (Demirbag and Mirza, 2000). Equity joint venture formations for all countries were recorded in the Co-operative Agreements and Technology Indicators Information System (CATI) database over the period 1945-1989. The CATI was developed by The Maastricht Economic Research Institute on Innovation and Technology (MERIT) at the University of Limburg in Holland. According to Duysters and Hagedoorn (2000) the CATI states that joint venture formation took place at relatively low levels between 1945 and 1970, steadily increasing to 1987 and then rising steeply between 1987 and 1989. One of the most notable developments of the 1990s has been observed increase in the number of emerging opportunities and challenges for cross-border direct investments and cooperative ventures (Dunning, 1993a). Much of the rise in the use of SAs can be explained by changing conditions in the world economy and the need for organizations to gain rapid access to technology and new markets in order to remain competitive on a global basis (Bartlett and Ghoshal, 1989; Ghemawat *et al.*, 1986; Glaister and Buckley, 1995). The convergence of several trends, including global proliferation of technology, reorganization of economic boundaries, and intensified global competition, have profoundly altered marketers' notions about the firm, markets, and competition. Product and process life cycles have become significantly shorter, eroding product-based advantages and forcing companies to develop continuous streams of innovation. In addition, consumers and organizational buyers have become more sophisticated, demanding differentiated and better-quality products. Other forces have helped shape this transformation. Relatively stable domestic competition of the 1970s has now been replaced by global competition in many industries. Revolutionary advances in transportation, communication, and information technologies, (Czinkota and Ronkainen, 2001; Robson *et al.*, 2002), helped many multinational firms, headquartered in both the developed and the newly industrializing nations, are sourcing from several countries, and are aggressively and simultaneously entering a variety of markets. Industry structures are evolving rapidly, forcing firms to develop new marketing strategies in order to compete effectively and to survive. Economic liberalization in developing countries and the increasing liberalization of national trade policies have also emerged as major phenomena that have accelerated the growth in cooperative activity between MNEs and local private firms in developing countries (UNCTAD, 1995).

These factors made managers realize that, no matter how strong and resourceful their firms might be, they are no longer able to maintain a competitive advantage at every step in the value chain in all national markets, nor are they able to maintain a cutting edge in the wide range of technologies required for the design, development, manufacture and marketing of new products (Kauser and Shaw, 2004). In this regard, Beamish and Killing (1996) suggest that it is time to "consolidate the current and future thinking" on international cooperation. Druker (1995) also argues that the greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of the relationships based not on ownership but on partnership. Thus ISAs have become an important means of ationalizing operations to overcome potential difficulties and to help firms regain and maintain their competitive position in international markets (Ohmae, 1989).

ISAs are a popular strategy for firms for sharing risks and exchanging resources, accessing new markets, achieving economies of scale and obtaining synergy and competitive advantages (Dacin *et al.*, 1997). They may also serve as an exchange arrangement for partners to learn and acquire from each other the technologies, skills and knowledge that are not available within their own organizations. Although most studies on strategic alliances focus on advanced countries where strategic resources are abundant, such alliances are also useful for companies in developing countries as a means of gaining access to new technologies and new markets. For example, Gilroy (1993) attributes the success of some East Asian developing countries to inter-firm linkages established by indigenous companies with counterparts in the more advanced countries. These linkages provide technologies, entrepreneurial and managerial know-how and market access, to aid an export-oriented development strategy.

2.3 Summary and conclusion

When defining the concept of SAs, it should be thought of as a process of pooling resources, a collaborative arrangement, a way to achieve competitive advantage, a long term agreement and as being domestic or international in its nature. While some researchers follow a narrow conception of SAs by excluding mergers and acquisition in particular from the domain of SAs, others believe in a wider concept. It is worth noting that a joint venture (both equity and non equity) is the major form of SAs because it is more durable, requires more commitment of resources, and needs more control than other forms of SAs. Although SAs were originally used as a commercial device by the merchants of Ancient Egypt and Mesopotamia to conduct overseas commercial transactions, it is only since the 1970s that their unique characteristics and problems, growth, and geographic extent have experienced significant changes. The effect of globalization and the presence of international organizations such as the World Trade Organization (WTO), as well as the development in information technology followed by a reduction in communication costs and an increase in the intensity of competition are among the major reasons that led to the emergence and evolution of SAs.

The next chapter will be devoted to reviewing the major theories of SAs and explaining the process of strategic alliance formation.

CHAPTER 3
Strategic alliances: A theoretical analysis

3.1Introduction

To account for the emergence of SAs and their operation, the major theories and studies of SAs are reviewed in this chapter. The chapter is made of two parts. In the first part, theories of strategic alliances are analyzed and discussed. The dominant transaction cost theory is reviewed critically by evaluating the views of its major contributors, among them are Williamson (1975, 1985), Buckley and Casson (1988), Hennart (1988, 1991), Ring and Van De Ven, (1992) and Oxley (1997). The resource-based theory (Barney, 1986, 1991; Wernerfelt, 1984; Cohen and Levinthal, 1990; Prahalad and Hamel, 1990; Das and Teng, 1997, 1998, 2000, 2001, 2002, 2003; Mahoney, 2001) and its extension, knowledge-based theory (Hamel, 1991; Parkhe 1993a; Yan and Gray, 1994; Kogut, 1998; Lane and Lubatkin, 1998; Inkpen, 1998; Mowery *et al.*, 1996) are also reviewed. Part two is devoted to analyzing and discussing a theoretical framework of the formation process of SAs which involves major phases as well as factors affecting the process. The chapter ends with some remarks summarizing the features of the theoretical framework.

3.2 Theories of strategic alliances

In this part, the major theories of SAs are presented and analyzed. These theories are transaction cost theory, resource-based theory and its extension knowledge-based theory. It is important to analyze these theories because they set the bases for understanding the reasons for forming SAs and the way they are operated and managed.

3.2.1 Transaction cost theory

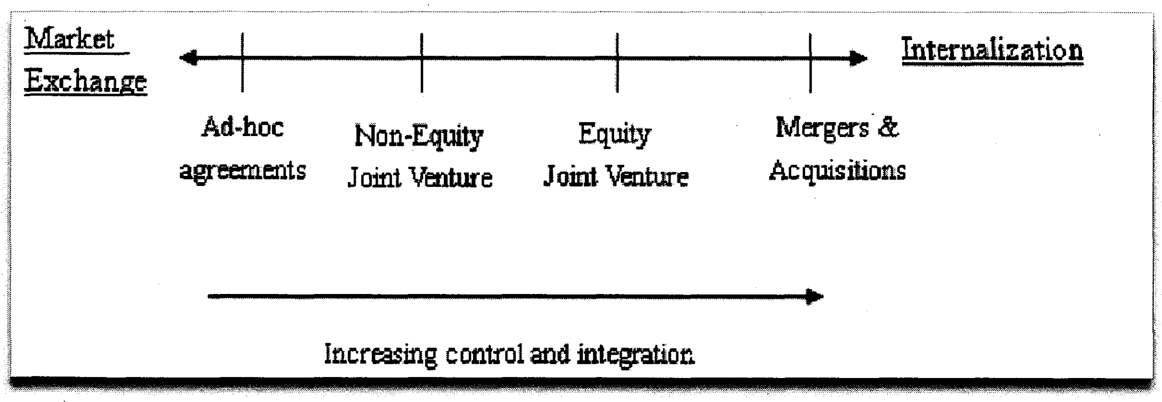
According to Williamson (1981) a transaction occurs when a good or service is transferred across a technologically separable interface. One stage of activity terminates and another begins. Using an example, he conceptualized the term transaction cost:

> *"With a well-working interface, as with a well working machine, these transfers occur smoothly. In mechanical systems we look for frictions: do the gears mesh, are the parts lubricated, is there any needless slippage or other loss of energy? The economic counterpart of friction is transaction cost: do the parties to the exchange operate harmoniously, or are there frequent misunderstandings and conflicts that lead to delays, breakdowns and other malfunctions?"* (1981:552).

In transaction cost economics, a firm's ownership decision centres on minimizing the sum of transaction costs and production costs (Coase, 1937; Williamson, 1975). Hence, in business transactions there are two kinds of costs needed to be considered; transaction costs and production costs. While transaction costs refer to costs that are incurred from activities necessary for an exchange (such as writing and enforcing a contract), production costs come from coordinating activities in-house, in terms of learning, organizing, and managing production (Das and Teng, 2000b). Furthermore, Gulati (1995) observed that alliance transaction costs include those concerned with negotiating and writing contingent contracts, monitoring partner performance relative to the contract and dealing with the breaches of contractual commitments. While production costs may vary from firm to firm according to proprietary knowledge, abilities to learn, and economies of scale, transaction costs may vary from transaction to transaction according to the expenses incurred for writing and enforcing contracts. Should the sum of these two costs be higher if a transaction is carried out in the market, the market will be internalized. The firm will expand its boundaries to include the specific transaction for as long as this comparison of relative costs holds. In contrast, the market will be the preferred mechanism for carrying out the transaction when the opposite occurs (Williamson, 1981). Some transactions will, thus, be internalized, while others will be carried out through the market (Hemphil and Vonortas, 2003). High transaction costs are, therefore, the result of incomplete contracts. A contract is incomplete when it does not fully specify the actions of each party in all states of the world. The inability to write complete contracts will often lead to a decision to overcome high market costs by internalizing the market, in other words by expanding the boundaries of the firm. It should be stressed that a firm might find it optimal to think strategically and internalize a transaction even if currently carrying out the transaction through the market is the least expensive way. This, for example, can happen if the firm expects opportunistic behaviour by the other party in the transaction. Therefore, hierarchical governance structures (i.e., firms) are better than market contracting when opportunistic behaviours are probable, and therefore, transaction costs are high (Williamson, 1975).

Scholars such as Gulati (1995) and Kale *et al.* (2000) consider SAs as an alternative to internalization on the one hand and market exchanges on the other. Since internalization (e.g., mergers, acquisitions, and internal development) controls transaction costs effectively, this will be preferred when transaction costs of an exchange are high. In contrast, market exchanges bear transaction costs but avoid production costs, so that they will be used when transaction costs are low and production costs are high. SAs combine the features of internalization and market exchanges because they partially internalize an exchange (see Figure 3.1). Therefore, alliances can be viewed as "reflecting semi-internalization" where contracts will still be needed, but since they are often incomplete, much of the activities will be left to joint coordination. As a result, researchers suggest that alliances will be preferred when the transaction costs associated with an exchange are intermediate and not high enough to justify vertical integration and when they minimize the firm's transaction cost (Gulati, 1995; Jarillo, 1988; Hennart, 1988). However, Gulati (1998) and Gulati and Singh (1998) opine that central to the transaction cost economics argument is the firm's ability to control alliance coordination costs incurred in decomposing tasks among partners and coordinating actions through integrated decision networks and their associated communication patterns. Buckley and Casson (1988) claim that from a traditional transaction cost/internalization perspective, firms form alliances only when internalizing one or more markets in intermediate goods provides benefits for the SAs, and when significant barriers to a merger exist. Thus, it is widely assumed that firms establish SAs only when the perceived additional benefits from SAs outweigh expected extra costs (Geringer, 1991). In what follows benefits accrued from forming SAs, or in other words motives for forming SAs, are discussed.

Figure 3.1: Strategic alliances as combination of internalization and market exchanges



Source: Gulati, R. (1995), "Does familiarity breed trust? The implications for repeated ties for contractual choice in alliances", ***Academy of Management Journal*** **38(1): 85-112**

3.2.1.1 Motives for forming strategic alliances from a transaction cost perspective

Firms enter into SAs when synergy benefits are likely to be achieved (Abdou and Kliche, 2004). Synergy exists when the companies' value of resources and assets combined is greater than the value of resources and assets of the single companies. Several sources of inter-firm synergy have been discussed in literature. The most important synergy sources are: exploiting economies of scale; learning from competitors; managing risk and sharing costs; facilitating tacit collusion; low-cost entry into new markets; low-cost entry into new industries and new industry segments; and managing uncertainty (Abdou and Kliche, 2004). However, Lorange and Roos (1991) suggest that firms form alliances for both offensive and defensive reasons. Offensive alliances focus on accessing or creating markets, defining or setting industry standards, anticipating or preparing for new political developments, and/or, competitive actions (Bronder and Pritzl, 1992; Doz, 1992). Defensive alliances focus on protecting or (solidifying) an existing market position; sharing the financial risk of an expensive technology; or gaining economies of scale often by combining processes and or production capabilities (Lorange and Roos, 1991; Ohmae, 1989). Alliances are formed also to facilitate learning (Hamel, 1991; Lei and Slocum, 1992). For example learning may involve gaining access to innovative new technology; or to financial, marketing; and production expertise (Teece, 1992). One outcome of this approach is to speed time to market. Therefore, SAs are used to combine complementary inputs (e.g. know-how) held by two separate firms, when the market (purchase) of these inputs is subject to high transaction costs. This is supported by the results of a study made by Hennart (1991) about the Japanese subsidiaries in the United States of America (USA) which suggested that as predicted by the transaction cost theory, Japanese parent companies joint venture in the USA when they need to combine with other firms intermediate inputs which are subject to high market transaction costs. This is occurring in three instances. First, when they are venturing outside their main industry and thus they need complementary inputs from firms active in that industry. Second, when they enter the USA market for the first time and therefore they may need to acquire the tacit knowledge on how to operate and sell in the USA. Finally, Japanese firms join their USA affiliates when they seek access to resources held by their USA partners. Thus, alliances are intended to minimize total transaction costs, are employed for reasons of strategy, and for exchanges of competencies.

Glaister and Buckley (1996) claim that motives for SAs identified in the literature are risk sharing; product rationalization and economies of scale; transfer of complementary technology and exchange of patents; shaping competition; conforming to host government policy; facilitating international expansion and vertical linkage. Neither partner in the alliance bears the full risk and cost of the alliance activity (Porter and Fuller, 1986). More broadly, Contractor and Lorange (1988) identified the ways in which alliances can reduce a partner's risk. These include: i) spreading the risk of a large project over more than one firm; ii) enabling product diversification and thus reducing market risks associated with being reliant on only one product; iii) enabling faster market entry and quicker establishment of a presence in the market; and iv) when the cost of the partnership is less than the cost of investment undertaken by each firm alone. Strategic alliances enable partners to rationalize their products and reach economies of scale through the use of comparative advantage of each partner and the selection of the more advantageous location while producing in large volumes which finally provide further reduction in average unit costs (Contractor and Lorange, 1988). Also, alliances may be used to bring together complementary skills and talents and exchange technology which covers different aspects of know-how needed in high technology industries, a result which is unlikely to be achieved by one firm acting alone (Contractor and Lorange, 1988). One of the oldest rationales for SAs has been building links with local companies in order to accommodate host government policy. Many governments in developing countries insist that access to the local markets can occur only if the foreign company works in cooperation with a local partner (Beamish, 1988). Strategic alliances also facilitate international expansion for many companies which lack international experience. A firm may, for example, have the production capability but lack knowledge of foreign markets for which it depends on partners (Glaister and Buckley, 1996).

It is interesting to note here that benefits from SAs will accrue only through the selection and retention of a partner that can provide skills, competencies, capabilities, and knowledge that assist the focal firm in accomplishing its strategic objectives (Buckley and Casson, 1988; Hamel, 1991). Put it in different words, the specific motive for alliance formation is likely to have an impact on the partner selection process, as firms are likely to value differently the capabilities of a potential partner based on this initial motive (Nielsen, 2003). For instance, if the main motive for forming an alliance is to reduce costs by expanding output (economies of scale), selection criteria associated with access to materials and natural resources and (cheap) labour may be most important. Conversely, if the main motivation for alliance formation is international expansion or market entry, selection criteria pertaining to knowledge about the local, foreign market, such as local market knowledge and/or regulatory knowledge, may be valued higher (Nielsen, 2003).

To summarize, companies do not form SAs unless there are benefits to be accrued from such relationships. These benefits work as the motives which induce firms to form SAs. From the transaction cost perspective these motives are: exploiting economies of scale; learning from competitors; managing risk and sharing costs; facilitating tacit collusion; low-cost entry into new markets; low-cost entry into new industries and new industry segments; facilitating learning and to speed time to market entry.

3.2.1.2 Criticism of the transaction cost theory

The transaction cost theory is criticized by a number of authors for its limitations. In what follows the criticism of the transaction cost theory is presented and discussed.

1. The transaction cost theory is criticized on the ground that it does not assign a significant role to partner firm resources in theorizing about SAs (Das and Teng, 2000b).

2. The theory is also criticized for paying exclusive attention to cost minimization and neglecting value-creation in SAs. Zajac and Olsen (1993) argue that the attention should be shifted to the processes by which alliance partners create and claim value.

3. Many organizational issues are assumed away by the theory such as the effect of trust and culture on SAs. For example, Gulati (1995) argues that the problem with transaction cost theory is the exclusion of inter-firm trust. Accordingly, perhaps the most condemning criticism of transaction cost economics is that it may not matter to actual decision makers (Hyder, 1999).

4. Although the transaction cost theory has proven to be useful in understanding SAs, the logic of minimization does not capture many of the strategic advantages

of alliances such as learning, creation of legitimacy and fast market entry (Eisenhardt and Schoonhoven, 1996).

3.2.2 Resource-based theory

The resource-based theory stresses the internal aspects of a firm. Barney (1991) and Tsang (1998), for example, argue that in the management discipline, a recent development is to examine and develop a firm's strategy by focusing on its resources instead of the external environment. The resource-based advocates, therefore, claim that rather than being defined by the competitive environment, the parameters of a firm's competitive strategy are critically influenced by its accumulated resources. Before embarking into explaining and discussing the resource-based theory, the notion of resources will be discussed below.

Wernerfelt (1984: 172 defines resources as *"those (tangible and intangible) assets which are tied semi-permanently to the firm"*). Other scholars have proposed a number of resource typologies. While Wernerfelt (1984) enumerated two kinds of resources: tangible and intangible resources, Barney (1991) classified firm resources into three categories: physical capital resources, human capital resources, and organizational capital resources. However, Miller and Shamsie (1996) suggest that all resources may be classified into two broad categories based on the notion of barriers to imitation. these are property-based resources and knowledge-based resources. Therefore, the resource-based theory seems particularly appropriate for examining SAs because firms essentially use alliances to gain access to other firms' valuable resources (Barney, 1991). Focusing exclusively on the resource-based theory of strategic alliances, Eisenhardt and

Schoonhoven (1996) found essentially that alliances are more likely to be formed when firms in the alliance are in vulnerable strategic positions; in other words in need of resources or when they are in strong social positions, for example possessing valuable resources to share. The rationale of the resource-based theory is that valuable firm resources are usually scarce, imperfectly imitable, and lacking in direct substitutes (Barney, 1991; Peteraf, 1993). Thus, the trading and accumulation of resources becomes a strategic necessity. When efficient market exchange of resources is possible, firms are more likely to continue alone and rely on the market (Eisenhardt and Schoonhoven, 1996). However, although market transactions are the default mode, efficient exchanges are often not possible on the spot market. Certain resources are not perfectly tradable, as they are either mingled with other resources or embedded in organizations (Chi, 1994). Hence, mergers, acquisitions, and SAs are variously employed. Thus, the resource-based theory considers SAs and mergers and acquisitions as strategies used to access other firms' resources for the purpose of garnering otherwise unavailable competitive advantages and values to the firm (Das and Teng, 2000b). Therefore, the overall rationale of resource-based theory for entering into a strategic alliance is to aggregate, share, or exchange valuable resources with other firms when these resources cannot be efficiently obtained through market exchanges or mergers and acquisitions.

3.2.2.1 Motives for forming strategic alliances from a resource-based view

Kogut (1988) and Das and Teng (1998) suggest that there are two related, but distinct, motives for firms to use SAs: (1) to obtain others' resources; and (2) to retain and develop one's own resources by combining them with others' resources.

Obtaining Resources: Firms may use alliances to obtain resources possessed by other firms that are valuable and essential to achieving competitive advantage. In this respect, Glaister and Buckley (1996) found that access to complementary resources rather than the sharing of risks and development of economies of scale were the primary reasons firms form alliances. In the international arena, multinational companies may seek the resources of their local partners, such as local facilities, knowledge, and connections, by forming international joint ventures (Beamish and Banks, 1987; Yan and Gray, 1994). In new product development, SAs are used to pool the technological know-how and expertise of different firms (Leonard-Barton, 1992; Teece, 1992). For example, E.R. Squibb, a pharmaceutical company (USA), joined with NOVO, a small insulin and enzyme manufacturer (Denmark), to market a new insulin product that had been five years ahead of the market. NOVO supplied product and production technology while Squibb provided the sales and distribution network for the North American market as well as the expertise needed for compliance with US government regulations pertaining to NOVO's newly developed injection system. Likewise, BMW invested in an automated machine-vision inspection system for automotive parts developed for them by American Cimlex (USA). Through the alliance, BMW gained rapid and effective access to a highly innovative product and a fast track from the laboratory to a marketable commercial prototype. American Cimlex, a much smaller company, gained access to otherwise unobtainable financial resources and to BMW's manufacturing know-how and global marketing capabilities (Barney, 1991; Hamel, 1991).

Thus, while alliances and mergers and acquisitions can accomplish the objective of obtaining a selected firm's resources, the resource-based theory suggests that alliances are favoured over mergers and acquisitions when not all the resources possessed by the target firm are valuable to the acquiring firm. Some of the less valuable or redundant resources in a merger and/or acquisition can not be easily disposed of without taking a loss (Ramanathan *et al.*, 1997). Hennart and Reddy (1997) reason that when unwanted assets are mixed with needed assets, and the two are not readily separable, acquisitions inevitably result in unneeded assets. When non-desired assets are not easily separable, SAs allow the partner firms to access only the assets each desires while bypassing non-desired ones, thereby augmenting overall value.

Moreover, when a firm is only interested in learning about one competence among the many possessed by the firm it aims to join, then mergers and acquisitions become virtually meaningless (Badaracco, 1991). For example, in 1983 General Motors (GM) established a 50-50 jointly owned venture, called New United Motors Manufacturing Inc. (NUMMI), with Toyota in the USA. Up to that point, GM had worked at developing a compact car with its "Saturn Project," assembling technicians from around the world drawn from its subsidiaries such as Opel and Vauxhall. However, it was unable to arrive at a compact car prototype with a concept that worked in the world market. But via the inter-organizational learning mediated by its alliance with Toyota, GM could accumulate the development know-how based on the Corolla and Camry, and was able to rapidly introduce a compact car into the market. Moreover, GM learned a management system for automobile production from Toyota and succeeded in raising a productivity that initially paled markedly by comparison with Japanese competitors. On the other hand, by constructing a partnership with the United Automobile Workers (UAW), Toyota was able to transplant the Toyota production style to America. In the beginning, Japanese makers such as Honda and Nissan already had factories in America, but NUMMI was the first to recognize UAW's representational rights. By virtue of this alliance, Toyota was able to take from GM a variety of information and know-how concerning the American workers, parts makers, government, and so forth. With such things as the establishment the following year in Kentucky of a subsidiary in which it held a 100 per cent share, it applied the information it had accumulated in its subsequent North American expansion and was able to advance its operations in North America more rapidly and smoothly than the other Japanese competitors (Akio, 2004). Thus, the distinct benefit of SAs is to have access to precisely those resources that were needed, with minimum superfluity (Das and Teng, 2000b). In support of this argument, Hennart and Reddy (1997: 4) found that "firms prefer acquisitions when the desired assets are digestible"

To summarize, there are some resource characteristics that encourage firms to form SAs. These characteristics have been identified as: imperfect mobility, imperfect imitability, and imperfect substitutability (Barney, 1991; Chi, 1994; Dierickx and Cool, 1989; Peteraf, 1993). Imperfect mobility, imperfect imitability, and imperfect substitutability of firm resources are essential for sustained resource heterogeneity as well as being instrumental in the formation of strategic alliances. Imagine a firm whose resources are perfectly or easily mobile, imitable, and substitutable. Clearly, other firms would be in a position to bid desirable resources away from such a firm in factor markets. There would then hardly be a need to form SAs. Should all desirable resources be available for acquisition in factor markets at fair prices, it would be foolhardy for firms to get involved in SAs, which usually entail high governance costs (Osborn and Baughn, 1990) and some sacrifice of organizational control (Lyles and Reger, 1993). A fairly self-evident premise for this argument is that resources that are not perfectly mobile, imitable, and substitutable can be obtained through alliances. The point is that the more imperfect the mobility, imitability, and substitutability of a firm's resources is, the more likely that others will be interested in forming alliances with it. For example, Intel Corp. (USA) and NMB Semiconductor Co. (Japan) enjoyed several years of an excellent working relationship supplying each other with a variety of electronic items. They have teamed up to build a semiconductor foundry in Japan. The new facility will give NMB access to Intel's worldwide sales and marketing network, an area where NMB has been weak. On the other hand, it will give Intel an assured source of high quality memory chips (Kuhn, 1989). Thus, these alliances are examples of the benefits that can be derived from a long-term commitment made by the members of the alliance. In order to develop complex technology and properly introduce it into, in many cases, a foreign market, an extended time frame is required. Such an alliance may last for an extended time period, often ten years or more, and will often produce numerous new products.

Retaining Resources: Whereas the motive of obtaining resources is to reach others' resources, the motive of "retaining resources" is to keep one's own valuable resources securely in the firm. Kogut (1988) suggests that firms may wish to maintain certain resources but lack the setup to make use of them. For example, sometimes there may be an excess of research personnel, without sufficient meaningful work at hand. Rather than laying these individuals off, firms out-source them by seeking projects that can be carried out in conjunction with the resources of other firms, such as financial and physical resources. To that end, SAs may help retain those resources that are currently under-utilized internally. Nelson and Winter (1982) maintain that, to prevent their know-how from decaying, firms sometimes need to engage in alliances, in order to avail themselves of opportunities to keep using these capabilities or remembering-by-doing. In this case, the choice between alliances and mergers and acquisitions is about whether one should relinquish one's resources permanently (mergers and acquisitions) or for a specified period only (alliances). The possible advantage of SAs over mergers and acquisitions is that the firm only temporarily relinquishes its resources, which remain available for future internal deployment (Kogut, 1988). For example, Winbound Electronic Corporation, Taiwan's third largest semiconductor maker formed an alliance with NCR Corporation (USA). Under the agreement Winbound would sell NCR's chip products in the Taiwanese market and NCR would sell Winbound integrated circuits in the US market. Both companies are gaining access to the other's home distribution network (Whenmouth, 1993).

3.2.2.2 Criticism of the resource based theory

The resource-based theory has been criticized by a number of authors for its limitations. In what follows are some of the criticisms:

1. The resource-based theory is criticized on the basis of its claim that it assumes an absence of opportunism. Mahoney (2001) argues that the claim that resource-based theory assumes an absence of opportunism was not correct. Such an assumption may simplify matters greatly but it comes at an obvious loss of realism with uncertain gains in predictive power. However, Williamson (1991) maintains that to assume an absence of opportunism will miss much of the action.
2. The concept of "valuable resources" is an ambiguous benchmark with which to measure the competitive advantage of a firm. In the resource-based theory the

valuable endowments of a firm are taken as given. Also the concept of "rare resources" does not necessarily ensure the competitive advantage of the firm, even if these resources generate a large "rent" due to its relative scarcity (Contractor and Lorange, 1988).

In summary, the resource-based theory has provided a powerful theoretical perspective within which a substantial body of international business research is embedded (Peng, 2001). International business research historically has been critiqued as phenomenon-driven with scattered, unconnected topics. The resource-based theory helps address this criticism, by presenting a unifying framework through which a large number of diverse research topics can be theorized as subscribing to the same set of underlying theoretical and competitive logic. In other words, the resource-based theory has made international business research more theoretically rigorous (Peng, 2001). In this respect, Barney (2001) suggests that the resource-based theory represents an "innovation". An innovation is "an idea, practice, or object that is perceived as new by an individual" (Rogers, 1983:11). According to this definition, Peng (2001) believes that even the resource-based theory's critics would accept that it represents a theoretical innovation.

3.2.3 Knowledge-based view of the resource-based theory

The expansion of markets, both domestically and internationally, intensifies environmental turbulence, impelling firms to enhance flexibility (Volderba, 1996) and to improve their level of knowledge of exploration (March, 1995).. In this context, knowledge has became one of the most strategically significant resources (Grant, 1996) and there is increasing recognition that the competitive advantage of firms depends on their ability to create, transfer, utilize and protect knowledge asset (Teece, 2000). As an extension of the resource-based perspective, the knowledge of a firm's employees and the knowledge that is subsequently built through it may be the most enduring source of competitive advantage, especially in complex competitive environments (Foss, 1999; Grant, 1996; Liebeskind, 1996; Birkinshaw, 2001). In the same way that the knowledge-based theory of the firm has grown out of resource-based theory of firms (Grant, 1996) knowledge-based explanations of the formation of strategic alliance formation have their roots in resource-based approaches to alliances.

Several studies of SAs (such as Inkpen and Crossan, 1995; Kale *et al.*, 2000; Khanna *et al.*, 1998; Larsson *et al.*, 1998; Lyles, 1988; Glaister and Buckley, 1996; Lei *et al.*, 1996; Mowery *et al.*, 1996; Simonin, 1997, 1999; Dyer and Nobeoka, 2000; Grant and Fuller, 2004) found that the sharing of knowledge including technology, know-how and organizational capability, and learning from partners are the dominant objectives of SAs. The knowledge-based view of SAs claims that at least partly through learning, alliances help companies overcome limitations in their own resource set (e.g., competence limitations), solving internal environmental problems, and extend the application of their core competencies to achieve competitive advantages (Hagedoorn, 1995; Mitchell and Singh, 1996). Thus, companies seek to establish through alliances a resource bundle that is valuable, rare, and difficult to imitate (Gulati *et al.*, 2000). A resource bundle might include, for example, the integration of cutting edge technological resources held by one partner with another firm's complementary resources such as access to and knowledge of specific markets (Stuart, 2000). Also it is argued that in ISAs, companies must contribute valuable and rare resources. However, the types of resources contributed may differ from local to foreign partners. For example, it would be unusual for the local partner not to contribute some local knowledge such as understanding of local market, cultural, and environmental conditions but this may not be the only contribution (Inkpen and Beamish, 1997). In contrast, the primary knowledge contribution of the foreign partner generally involves technology, management expertise, and global support (Yan and Gray, 1994).

3.2.3.1 Inter-organizational learning and knowledge transfer

Alliances provide a platform for organizational learning, giving companies access to the knowledge of their partners. Through shared execution of the alliance task, mutual interdependence and problem solving, and observation of alliance activities and outcomes, companies can learn from their partners. Inter-organizational learning is based on the absorptive capacity, which is the ability of the firm to value, assimilate, and make use of new external knowledge (Cohen and Levinthal, 1990). Absorptive capacity depends on the knowledge bases, organizational structures, and dominant logics of companies that cooperate (Lane and Lubatkin, 1998). Moreover, firms with a greater absorptive capacity will invest more on research and development through alliances (Cohen and Levinthal, 1990). Know-how access is another main reason for firms in technology-intensive industries to carry out cooperation agreements because it makes possible the quicker development of innovations and makes easier their market introduction in a short period of time, giving important advantages and encouraging learning (Stuart, 2000).

Nevertheless, not all characteristics of alliance learning are positive. Hamel (1991) argues that alliances yield opportunities for learning races between partners and that the outcome of acquisition of partner's knowledge and learning may be a "competition for learning" where each alliance member seeks to learn at a faster rate than its partner in order to achieve a positive balance of trade in knowledge (Hamel, 1991). The partner who first learns the desired capabilities can then dissolve the alliance even if the other partner has not completed learning the desired know-how. By the same token, Inkpen and Beamish (1997) argue that a firm's motivation and need for an alliance is reduced after reaching its learning objectives. In some cases, this may lead to less cooperation and even alliance dissolution. More worse, a partner may turn into a competitor as was described by Yoshino and Rangan (1995). Using an example, Yoshino and Rangan (1995) explained this situation by describing an alliance between an American and a Taiwanese firm. They stated:

> *"After secretly collecting considerable technological information from its American partner in their two-year alliance, the Taiwanese firm entered the United States market and became a direct competitor"* (1995: 128).

Similarly, Hamel (1991) provides an example regarding a Japanese firm's hidden agenda of secretly capturing its partner's technology. In time, the Japanese firm reached a position to be able to ask "Now what are you going to do for us" (Hamel, 1991:88). In situations like this, existing bargains will tend to become obsolete and the termination of the alliance becomes more probable. However, Peng (2001) observed that some alliances (for example, those between Toyota and its suppliers) are designed to exploit relationship-specific assets (Dyer, 1996; Peng *et al.*, 2001) and the threat of a "learning race" is not significant.

It is interesting to note here that differences in level of economic development can produce differences in alliance motives. In this regard, Dacin and Hitt (1997) argue that the objectives of alliances' partners often differ when one partner is from a developed country and the other is from a lesser developed or developing country. Companies from developed countries frequently seek out new market opportunities for their products. Partners from developed countries look to partners from developing countries to provide access to local knowledge, including customs and business practices, political connections, as well as the ability to satisfy the host government's foreign investment requirements. In contrast, partners from lesser developed or developing countries seek access to technology, export opportunities, and the opportunity to gain international alliance experience. The Joint venture between General Electric and Malaysia Airlines exemplifies the different motives of alliance partners from developed and developing countries. The venture called the "Aero Centre of Excellence" was to overhaul airplane engines in Malaysia. Malaysia Airlines' goal was to upgrade its aerospace technological capabilities, whereas General Electric was to gain access to a new market (General Electric Aircraft Engines News Release, 1996).

3.2.3.2 Criticism of the knowledge-based theory

Some authors observed that knowledge transfer and organizational learning is not as straight forward as the knowledge-based theory suggests. In what follows are the problems of knowledge transfer and organizational learning in SAs which are used as a ground for criticism.

1. It is often argued in internalization theory that the more knowledge-intensive the firm, the lower the propensity to form alliances for fear of misappropriation of

knowledge by allies who could become competitors (Contractor and Lorange, 2002).

2. The transaction cost theorists argued that corporate knowledge is sometimes so deeply embedded or "sticky" in the organization, and partially inarticulable, that its transfer to another ally firm is far from costless or instantaneous (Williamson, 1985; Cohen and Levinthal, 1990; Von Hippel, 1994). Thus the formation of alliances is impeded by fear of misappropriation and cost of knowledge transfer. However, Contractor and Lorange (2002) claim that these fears are mitigated by two regulatory and environmental factors that favour alliances: i) the global spread of the system of intellectual property protection under protocols of the World Trade Organization, which reduces the fear of misappropriation; and ii) greater articulation and codification of knowledge, which reduces the costs of its transfer to allies.

3. There are some difficulties in relation to knowledge transmission and sharing, especially when knowledge is specific, complex, and tacit. This kind of knowledge is difficult to keep and transmit because it depends on the context, experience, language, and previous accumulated knowledge (Grant, 1996; Oliveira, 1999).

4. Firms are especially reluctant to share knowledge with companies that may become competitors in the future. If an adequate level of trust is attained it is possible to create and exchange new knowledge, especially that which is tacit (Inkpen, 1998).

5. The lack of common routines, clear lines of authority, and little hierarchical organizational forms can make cooperation difficult, along with sharing of knowledge and learning of the members of the alliance (Oxley and Sampson, 2004).

However, some solutions are proposed by Inkpen (1998) to resolve the problems of sharing and transferring knowledge in alliances. To achieve solutions to organizational knowledge management problems, some key factors must be considered. The generation of an optimal environment for collaboration can be achieved through training, previous experience, organizational culture and willingness to cooperate, the level of trust, the capability of transforming tacit into explicit knowledge, and the capability of learning from the companies that cooperate are all important factors to be considered.

3.3 A theoretical framework of the formation process of strategic alliances

The process of strategic alliance formation is known for its complexity and delicate nature, leading many theorists to divide the process into several stages. Pett and Dibrell (2001), for example, argue for a four-stage model for strategic alliance development. These stages are: exploration stage; recurrent contract stage; relational contract stage; and outcome stage. Reid *et al.* (2001) propose a three-stage model including pre-formation stage, formation stage, and evaluation stage. Brouthers *et al.* (1997) argue that the cooperative venture literature can be divided into five main stages. These are entry mode selection or deciding whether cooperative venture are the best way to service a market; partner selection; negotiation of a cooperative agreement with the potential partner; managing the venture; venture evaluation. Das and Teng (1997) propose a seven-stage model. The stages are: considering SAs; selecting alliance partners; negotiating the alliance agreement; setting up the alliance; operating the alliance; evaluating alliance performance; and modifying the alliance. Ring and Van de Ven (1992) suggest three sequential steps in forming SAs: negotiation; commitments; and executions. Devlin and

Bleackley (1988) provided guidelines for successful strategic alliance formation in terms of three stages: the decision to form a strategic alliance; the choice of an alliance partner; and the planned management of the alliance. Various other models provided by researchers like Whipple and Frankel (1998) and Spekman *et al.* (1996) also suggest different processes for the formation of SAs. Despite differences between these models, major similarities and commonalities are found between them. Based on these similarities and differences, a theoretical framework is developed examining the process of SAs formation and is discussed in the following section. The framework is divided into five phases namely the recognition of the motives for forming the alliance, selection of the alliance's partners, selection of the alliance's form of structure, alliance's management, and the alliance's performance evaluation. These phases are influenced by two major factors, namely partners' trust and partners' national and corporate cultures.

Figure 3.2: Phases of strategic alliance formation process

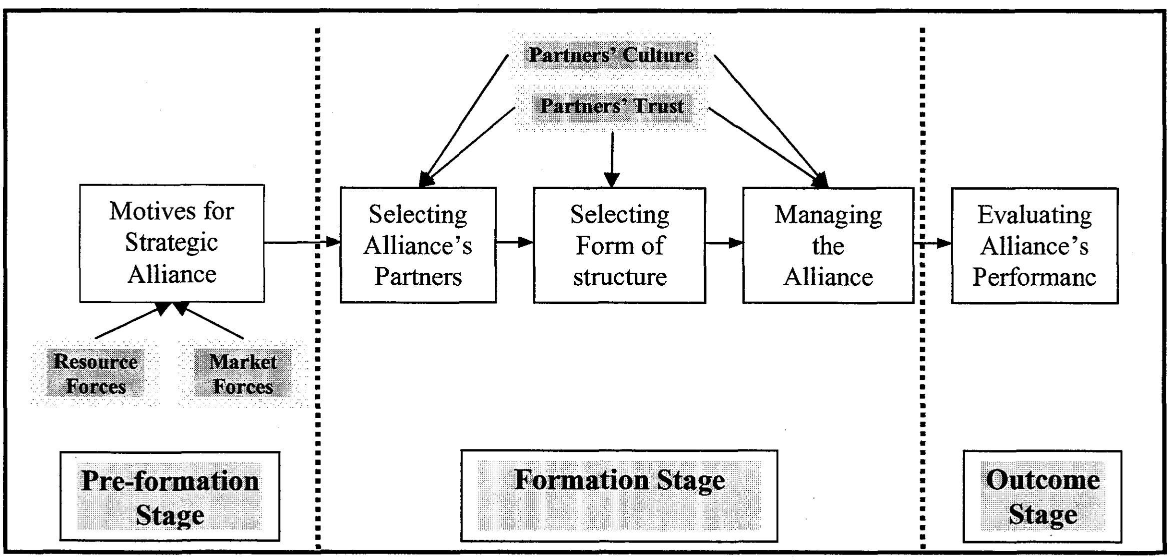


Figure 3.2 above shows a framework for the formation process of strategic alliances. It presents the key phases as well as the factors affecting the process as discussed in the

literature. The strategic alliances literature divides the process into three major stages namely; pre-formation-stage, formation stage, and outcome stage. The Pre-formation stage deals with finding the reasons or motives for forming a strategic alliance. The motives for forming a strategic alliance were found to be influenced by two major factors; the firm's resource endowments and market factors. Formation stage includes three phases: the selection of alliance partners which is directly influenced by two factors; partners' culture and trust between partners, the selection of alliance form of structure which is directly influenced by trust between partners, and the alliance management which is directly influenced by two factors; partners' culture and trust between partners. The outcome stage includes the evaluation of alliance performance. The following part gives more explanation of each phase as well as the factors influencing the formation process.

3.3.1 Phase 1: Motives for strategic alliance formation

This step involves two major questions. First, does the firm need to make any changes in its strategy? In other words, is the firm motivated by the desire to gain some benefits or the need to compensate for the absence of, or weakness in, a (perceived) needed asset or competency? (Das and Teng, 1997). Once it is perceived that the firm is motivated to change its strategy, a second question that arises is: Should we choose SAs as a strategic option, along with other alternatives such as vertical and horizontal integration and market-based transactions? (Das and Teng, 1997). The answers to both questions are already discussed in this chapter from three different perspectives namely transaction cost, resource-based, and knowledge-based views (see Part 3.2). However, some brief explanations are provided in the following section.

Any change initiative begins with awareness of a problem or need (Bennis, 1987). In this respect, Whipple and Frankel (1998) argue that alliance conceptualization begins when a firm determines a change in business strategy and practice is justified (need awareness). This realization is triggered by competitive forces such as globalization, industry consolidation or declining profit/sales volume. However, Mintzberg *et al.* (1996) maintain that, problem awareness is not enough to induce change. Whipple and Frankel (1998) provided more explanation of the strategic alliance initiative:

> *"The organization must be convinced the possibility for an improved system exists. Given the belief that improvement is possible, a firm must then establish goals as the basis for its revised strategy. In other words, a firm must identify what goals constitute an improved system. Based on these goals, the firm develops initial expectations regarding the benefits of the new strategy. Examples of initial expectations include gaining competitive advantage, new product development, and entering new markets"*, (Whipple and Frankel, 1998:339).

Similarly, Ring and Van de Ven (1992) assert that in forming SAs, organizations attempt to fill gaps either in their technology, resources, or markets that a member in its own is unable to gain or acquire. Lack of resources or technology can come in various forms, including some natural resources, technological inability, or cost of production (Contractor and Lorange, 1988). By having organizations coordinate efforts through SAs, it is often believed that these unmet needs can be satisfied (Pett and Dibrell, 2001). Motives for forming SAs are fully discussed in Part 3.2. of this chapter.

Having convinced strategic change is necessary, the firm may need to find justifications for choosing SAs. This can be done by comparing SAs with other alternatives such as internalization strategies, which include mergers, acquisitions, and internal development on the one hand and market transactions on the other hand (see Part 3.2). In this stage, the organization has to examine the potential advantages and threats of entering into a strategic alliance. To recap, SAs are a special mode of conducting inter-firm transactions, in that sense the companies internalize some of the inter-firm transactions into a somewhat formal structure, while conducting the rest of the transactions via price mechanisms (Burgers *et al.*, 1993). Therefore, SAs combine the features of internalization and market exchanges because they partially internalize an exchange, examples include equity and non-equity joint ventures. As compared to market transactions, SAs have the advantage of eliminating the risks and uncertainties of market transactions which include demand uncertainty and competitive uncertainty. Markets could fail because these uncertainties cost the companies extra in order to secure the deal. It seems clear that when the uncertainties of inter-firm transactions are high, it is more efficient to conduct the transactions within the organization (internalization) or through SAs (Das and Teng, 1997). However, SAs are not free of threats. The biggest threat to alliances arises from the fact that they are cooperative by nature, so that they inevitably generate problems in managing the inter-firm relationships (Mohr and Spekman, 1994). Therefore SAs are a viable option only when substantial benefit accrued from partially integrating two firms; otherwise, they should be avoided because of their managerial complexity (Das and Teng, 1997).

3.3.2 Phase 2: Alliance's partner(s)' selection

After a firm has made the decision to engage in an alliance, selection of an appropriate partner is the next critical decision (Hitt *et al.*, 2000a; Koot, 1988; Geringer 1991; Das and Teng, 1997; and Tatoglu, 2000). For example, Das and Teng (1997: 52) argue that:

> *"The choice of an alliance partner has a profound impact on the sustainability of the alliance, just as the choice of a spouse largely determines the fate of a marriage" (1997:52).*

A logical question here is why the decision of partner selection is so important to the management and performance of SAs. A dominant motivation behind the formation of inter-organizational alliance is to gain access to valuable partner-held resources (Reid *et al.*, 2001). However, Brouthers *et al.* (1995), claim that an ideal partnership should involve two or more companies with complementary resources and skills, compatible objectives in the alliance, and a certain level of inter-firm trust. Similarly, Geringer maintains that:

> *"prior research has suggested that the choice of a particular partner is an important variable influencing international joint venture performance, since it influences the mix of skills and resources which will be available to the venture and thus the international joint venture's ability to achieve its strategic objectives"* (1991:42).

In a similar vein, Cavusgil and Evirgen (1997) point out that any inappropriate or incomplete assessment of the prospective partners may result in a poor fit, leading to adverse monetary and strategic effects. They opine that potential conflicts between partners can be avoided if they are anticipated before the venture is established. At a minimum, the partners should be able to provide complementary capabilities that, in both the short and the longer term, are necessary to enable the venture to be competitive. In that sense, Das and Teng (1997) argue that emphasis on complementary resources and skills of the partners ensures that the intended synergy sought to be created by combining two firms is not an illusion.

Moreover, researchers such as Gullander (1976), Killing (1983), Harrigan (1985), Buckley and Casson (1987), Dymsza (1988), Geringer (1991), Al Khalifa and Peterson (1999) concluded that it was vital that a partner be "complementary" since such a choice depends upon the balance of resources and skills and hence the success or failure of a venture in reaching its objectives. Das and Teng (1997) also argue that partners must have compatible objectives in the alliance in order that the alliance is beneficial to both partners. Obviously, incompatible objectives of the partners will tend to bring the alliance down in short order. In addition to complementary resources and compatible objectives, Das and Tang (1997) claim that a sense of inter-firm trust is a vital factor in the success of strategic alliance. Only a sense of trust may allay the firm's suspicion of each other and postpone expected returns to a future period.

Thus, it seems important to identify and classify the selection criteria employed as well as their relative importance (Nielsen, 2003). The selection of an alliance partner is hypothesized by Spekman (1988) to be a two-step approach. The first step involves creating evaluative criteria to develop a "threshold" level. These criteria represent the characteristics a firm must possess in order to be considered as an alliance partner. This threshold level is essentially the first cut that provides a smaller "pool of potential strategic partners". The second step final selection. The development of refined expectations helps a firm to identify strategic and operational characteristics that another firm should possess to qualify as a potential alliance partner.

<u>Criteria for partner(s) selection</u>

The aforementioned discussion implies that partners enter in collaborative ventures with certain expectations and objectives and thus, it is critical for managers to identify and understand effective partner selection criteria prior to the alliance formation. A relatively early study of the selection procedure undertaken by Tomlinson (1970) related to the strategic alliance process in Pakistan and India tried to simplify the selection criteria by grouping them into six categories of which it was generally agreed by his respondents that "favourable past association" was the most important, while not being enough in itself to ensure sound SAs performance. Four categories, "resources", "facilities", "partner status" and "forced choice" were seen as being about equal in standing. Geringer (1991) distinguished between "task related" and "partner related" criteria. The former criteria apply to the operational skills and resources needed by a venture to achieve success in the market, and the latter are related to the effectiveness of co-operation between the partners. On the one hand, "partner related" criteria are concerned with variables which are specific to the character, culture and history of the partners involved. For example, past association between partners, compatibility between the partners' management teams, the national or corporate culture of the partners, a partner's organizational size or structure. In this regard, Gyenes (1991) argues that potential partners should list their strengths, available resources, strategic needs, and expectations. These two lists should then be set side by side and assessed in terms of two questions: (i) do the strength of each partner fulfil the needs and expectations of the other? (ii) are the combined resources of the partners sufficient to achieve their expectations? If the answer to either question is no, stand up, shake hands, and walk away. You have made the right decision. Conversely, if the answer to both questions is yes, proceed to the next step. On the other hand "task related" criteria relate to those variables which focus on operational and performance characteristics. Such variables include patents, technical knowledge, experience of management, access to marketing and distribution systems, financial resources, in other words a wide range of variables, tangible or intangible, human or non-human. Al-Khalifa and Peterson's (1999) research indicates that the partner-related factors are significantly more important than task-related factors in selecting a partner. They argue that task-related factors are dominant in the decision to engage in a strategic alliance as a strategic device, the choice of partner to implement the decision is dominated by partner-related factors. However, many alliances are formed by chance meetings or through previous experience with the partner. For example, Texas Instruments and Hitachi developed a joint venture to produce memory chips. However, the two firms first began a working relationship in 1988 by conducting joint research. Thereafter, they incrementally expanded their relationship (Hitt *et al.*, 1997).

Factors influencing the choice of partner(s) selection criteria

Criteria used by companies to evaluate and select their strategic alliance partners differ between these companies. Three major factors are responsible for the variation in partner selection criteria used by companies. These factors are differences in the national context between partners' countries; differences in economic development level between partners' countries; and differences in the technological development level between partners' companies.

1. Differences in the national context between partners' countries

A research by Hitt *et al.* (1997) demonstrated differences in the criteria utilized by USA and Korean executives in strategic decision making. This work suggests that companies from different countries tend to approach strategic problems in different ways largely as a function of variances in their strategic orientations. For example, the joint venture between General Motors (GM) of the USA and Daewoo of Korea was unsuccessful, largely because the two companies had different strategic orientations and goals and as a result were largely incompatible. Because of these differences, Daewoo was seeking growth and access to new markets while GM's overriding goal was to achieve reasonable financial returns. Because the financial returns were negative, GM management was unwilling to make further investments to achieve the growth desired by Daewoo. As a result, they ended their partnership, both losing substantial investments in the joint venture (Hitt *et al.*, 1995). Corning, Inc. is a leader in forming successful SAs with a simple approach to evaluating potential partners. According to them "(We) go and sniff their hindquarters and see if they smell like us" (Booth, 1995). While this quote may seem somewhat vulgar or disgusting, it really is a very simple way of stating that they prefer to form partnerships with those companies whose management philosophies, strategies and ideas most similar to their own. Indeed, differences in corporate partners' personalities, like differences in spousal personalities, can often lead to tragic results (Elmuti and Kathawala, 2001). However, Inkpen (2001) argues that the perceived value of each of the parent companies need not be the same, although each alliance partner must gain some benefits for an alliance to be the preferred option. For example, General Motor's strategic objective for its successful joint venture, NUMMI, with Toyota may have included access to North American production of high quality small cars for the United States market and access to Toyota's manufacturing technology. Toyota's objectives were very different. As Toyota's first attempt at building cars in North America, the joint venture provided the company with an opportunity to develop an understanding of the North American manufacturing environment. Despite differences in objectives, this strategic alliance is a success story.

2. Differences in economic development level between partners' countries

A study by Hitt *et al.* (1998) of international partner selection of companies from emerging markets (Mexico, Poland and Romania) and developed markets (Canada, France and USA) showed that the set and importance of partner selection criteria varied across emerging and developed market contexts. Emerging market companies emphasize financial assets, technological capabilities, managerial capabilities, and the willingness to share expertise in selecting partners of ISAs. In contrast, developed market companies try to leverage their resources through partner selection. In particular, they emphasize complementary capabilities, market knowledge access, cost of alternatives, unique competencies in the selection of international strategic alliance's partners. However, In their study of the partner selection process in IJVs in the Kingdom of Bahrain, Al Khalifa and Peterson (1999) found that the critical factors in strategic alliance partner selection criteria were related to the reputation, experience and personal knowledge of the partner organizations as well as to some of the personal characteristics of their Chief Executive Officer (CEO).

3. Differences in resource endowment between partners' companies

Ireland *et al.*, (2002) reported that companies search for partners having specialized resources that are not readily available from others (Doh, 2000). Specialized resources can involve management teams with significant and specialized experience (McGee *et al.*, 1995) or unique technological know-how (Nagarajan and Mitchell, 1998). In that sense, Stuart (2000) found that large companies with leading technologies were considered highly valuable partners, particularly for younger and smaller companies often without the resources that could allow them access to such technology.

Additionally, it is found that companies from emerging markets with lower access to technology use technological capabilities as a primary partner selection criterion (Hitt *et al.*, 2000a).

Searching for and evaluating alliance partner(s)

Companies that actively search for alliance partners are more likely to come across more potential candidates and to obtain more information about them. In this regard, Tatoglu (2000) contend that active search for alliance partners will generate additional, more specific information increasing the chance of identifying a partner who meets company criteria. Tatoglu (2000) also argues that experience is a key factor influencing the organization and management of the information process. Experienced managers will know better than inexperienced managers which sources to use and how to assess different alternative partners. Therefore, the more extensive a company's previous experience with finding partners in emerging markets, the more likely it will find satisfactory trading partners. However, small and medium-sized companies may lack infrastructure and contacts, making it extremely hard to find good trading partners. Small and medium-sized companies often lack the resources to engage in extensive research, especially to collect information from external sources (Souchon and Diamantopoulos, 1996a).

It is worth noting here the distinction between the search for partners and the evaluation/selection of partners. With regard to search, both the number of different sources consulted (the breadth of search) and the extent to which each source is used (the depth of search) will have an effect on the outcome (Tatoglu, 2000). The more sources the company consults, the more likely it is to find reliable information about alternative partners. Hitt *et al.*, (1998) also contend that a company's involvement in internationalization will affect the search and evaluation/selection process for trading partners. More specifically, the greater a company's involvement in international markets the more likely a company is to devote effort to the search process and hence to find an appropriate trading partner. However, extensive search does not automatically imply extensive evaluation, although on the contrary, extensive search is a prerequisite for extensive evaluation and selection. Based on this concept, Tatoglu (2000) further considered two observations. First, the broader and the deeper the evaluation and selection process the more likely a company is to find a satisfactory trading partner. Second, an extensive evaluation/selection process will enhance the positive effect of a deep search process on the outcome of the partner selection process.

To sum up, allying firms use different criteria for partner selection. However, the choice and use of these criteria is determined by a number of factors. Once selection criteria are decided, companies start searching for, evaluating and selecting their allying partners. Having partners elected, the allying companies start negotiating and making future strategic decisions concerning the formation of the alliance and negotiating the alliance agreements.

3.3.3 Phase 3: Selecting a form of structure and crafting a plan

This phase involves a discussion of what forms of structures are available for partners to choose when they form a strategic alliance and how partners should agree on a plan. This is another important phase we need to understand in the study of strategic alliance formation because like making the right choice of partners, developing a clear plan and making the right choice of the alliance's structure are fundamental for value creation in SAs.

Selecting a form of structure

Strategic alliances are known for the variety of their agreements relating to their governance structure. Among the common structures are JVs, equity investment, research consortia, joint research and development, joint marketing, and others (Das and Teng, 1997). One underlying issue seems to considerably matter alliance partners in the choice of the governance structure is how much flexibility and embeddedness the alliance should have. Flexibility serves as a key benefit of SAs, as compared to traditional hierarchical organizations (Das and Teng, 1997). The importance of flexibility in SAs is explained by Parkhe (1991). According to Parkhe, with SAs, the partners may be involved in a project partly, without contributing any or all the needed capital, technology, and human resources. As a result, it becomes easier for the partners to exit from the alliance, if things do not work out as expected (Das and Teng, 1997). These alliances are termed "non-equity alliances". Embeddedness, nevertheless, is also a necessary element for sustaining alliances. This is true for three reasons. First, to embed the partners in the alliance helps align the interests of the partners, as the partners realize that they are in the same boat. Second, deeply embedded partners are discouraged from behaving opportunistically. Third, a sense of trust may be generated by embeddedness, as the partners become more committed to the alliance. As opposed to non-equity alliances, equity alliances (including joint ventures and equity investment) can be used to ensure embededness (Das and Teng, 2001).

In discussing the way companies choose between equity and non-equity forms of SAs this researcher has been inspired by the work of Das and Teng (2000b). Das and Teng (2000b) discussed how the resource type (property-based resources and knowledge-based resources) would determine the structural preferences in terms of four major categories of alliances (equity joint ventures, minority equity alliances, bilateral contract-based alliances, and unilateral contract-based alliances). In so doing, they choose the resource typology of Miller and Shamsie (1996), which classifies all resources into two broad categories: property-based resources and knowledge-based resources. Property-based resources, including financial capital, physical resources, human resources, etc. cannot be easily obtained by partners, because they are legally protected through property rights in such forms as patents, contracts, and deeds of ownership (Miller and Shamsie, 1996). Because others cannot take property-based resources away, alliance partners will not be concerned about unintended transfers of such resources. Knowledge-based resources such as tacit know-how, skills, and technical and managerial systems are not easily imitable because they are vague and ambiguous. Thus, they are not protected by patents. Because others can get adequate access to knowledge-based resources, alliance partners will be concerned with losing their knowledge-based resources through an alliance (Hamel 1991 and Mowery *et al.*, 1996).

Table 3.1: Resource types and a firm's structural preferences

	Partner Firm (B)	
Firm (A)	Property-Based Resources	Knowledge-Based Resources
Property-Based Resources	Unilateral Contract-Based Alliances	Equity Joint Ventures
Knowledge-Based Resources	Minority Equity Alliances	Bilateral Contract-Based Alliances

Source: Das, T. K., and Teng, B. (2000b) "A resource-based theory of strategic alliances", *Journal of Management* 26: 31-61

Das and Teng (2000b) synthesize a four-part alliance typology which is similar to Gulati's typology (1999): (1) joint ventures; (2) minority equity alliances; (3) bilateral contract-based alliances; and (4) unilateral contract-based alliances (see Table 3.1). They argue that the type of resources is a key dimension in predicting the structural preferences in the prospective alliance. From a resource-based view, companies are interested not only in obtaining their partners' valuable resources, but also in retaining their own valuable resources. Thus, the partners' structural preferences will be based on balances of the two issues: being able to procure valuable resources from another party without losing control of one's own resources. In what follows a description of each form and the situations in which it is preferred over the other forms if provided.

<u>Equity joint ventures</u>

When the partners work shoulder to shoulder in the same entity for an extended period, it becomes difficult to keep partners from accessing one's tacit know-how (Hamel,1991). Consequently, equity joint ventures provide the best opportunities to acquire partners' tacit knowledge and other knowledge-based resources because of the significant extent to which partners are exposed to each other (Mowery *et al.*, 1996; Kogut, 1988). Therefore, they are preferred to the firm if knowledge-based resources are its partner's primary resource in the alliance. Therefore, the advantage of a joint venture for a particular firm will be limited if its partner contributes mainly property-based resources. Furthermore, although companies will ordinarily want to acquire their partners' know-how, they are also wary about losing their own knowledge-based resources in a highly integrated operation characteristic of a joint venture. Thus, they prefer equity joint ventures only when knowledge-based resources are not their primary resource type in the alliance.

<u>Minority equity alliances</u>

In minority equity alliances, one or more partners take an equity position in others. Das and Teng (2000b) believe that firms will prefer minority equity alliances when they have primarily knowledge-based resources to contribute to the alliance and their partners have primarily property-based resources. Contract-based alliances will be less attractive in such cases because they do not offer sufficient safeguards against opportunistic behaviour regarding knowledge-based resources. In this situation, equity joint ventures are also not preferred for two reasons. First, there are no substantial knowledge-based resources contributed by the partners available for exploitation. Second, there are altogether too much of one's own knowledge-based resources that the partner could potentially appropriate, making it too risky to form a joint venture.

<u>Bilateral contract-based alliances</u>

These alliances require partners to put in resources and work together on a continuing basis, so that they are integrated in a tighter manner. Joint research and development, joint marketing and promotion, joint production, and enhanced supplier partnership are some good examples of bilateral contract-based alliances (Mowery *et al.*, 1996). Because equity joint ventures facilitate the process of transferring knowledge-based resources, they can be a disadvantage if both partners have substantial knowledge-based resources in an alliance. Thus, equity joint ventures may be too risky a choice in such situations. Scholars suggest that once learning has been accomplished, alliances are likely to be intentionally terminated (Inkpen and Beamish, 1997). Hence, contract-based alliances, which are much easier to dissolve, will be preferred over equity joint ventures and minority equity alliances.

Unilateral contract-based alliances

Alliances are unilateral contract-based when they embody a well-defined transfer of property rights such as the "technology for cash" exchange in licensing agreements. Licensing, distribution agreements, and research and development contracts are the main forms of unilateral contract-based alliances. The key feature here is that individual firms carry out their obligations independently of others. Such contracts tend to be complete and specific, and partners are expected to perform on their own accordingly, without much coordination or collaboration. In unilateral contract-based alliances such as licensing agreements, the transfer of tacit knowledge will be difficult "because the very knowledge that is being transferred is organizationally embedded" (Kogut, 1988:323). Following this logic, Das and Teng (2000b) argue that unilateral contract-based alliances will be preferable when both partners intend to contribute primarily property-based resources to a prospective alliance.

To summarize, when the need for internal stability (e.g., aligned interests, inter-firm trust, and satisfactory co-operation) outweighs the need for controlling uncertainties in the competitive environment, equity alliances should be preferred. Exit clauses are needed more in equity alliances while lawsuit provisions and detailed monitoring procedures are needed more in non-equity alliances.

Crafting an alliance plan

In addition to selecting an alliance form of structure, partners also need to agree on a future plan. In this regard, Gynes (1991) argues that in addition to providing direction for those later assigned to manage the venture, and to providing a basis for comparing and analyzing the results of future business operations, carefully crafted and clearly stated plan will also confirm that the intended partners share similar expectations for their collaborative efforts. Thus, the idea is to provide a vision and sense of direction to the strategic alliance. The initial plan should focus on the development of a mission statement and the determination of the venture's strategic objectives (Gynes 1991). On the one hand, a carefully crafted mission statement tells everybody the direction in which the company wants to go. It answers the simple question, "who are we?" At least, it should: (i) provide the rationale for the existence of the venture (its purpose); (ii) describe the external perception that the partners are attempting to create (how others will see them); (iii) establish the standards that the business and its employees will be expected to uphold. It should also serve as a constant reminder to the partners of their shared commitment to the venture. On the other hand, strategic objectives articulate the vision of a venture's future. These objectives respond to the question, "Where do we want to go?" and are directly related to the motives for the alliance formation as discussed earlier in

Part 3.2 of this chapter. Das and Teng (1997) also propose three important issues that partners should discuss and agreed on them during the planning or "alliance set up stage". These issues are: controlling the alliance; staffing the alliance; and blending partners' cultures. Control becomes a critical means of keeping the alliance on track. According to Das and Teng (1997: 56):

> *"By assigning your own people to the key positions in the alliance, the partners exercise managerial control of the alliance. Partners often fight hard for the post of general manager in the joint venture. However, letting one firm have a predominant position in the alliance could discourage the other partners, whose commitment to the alliance may ebb in consequence. A reasonable share of controlling power that encourages positive involvement is more desirable"* (1997:56).

Besides controlling the alliance, staffing and human resource issues also largely determine the sustainability of alliance and therefore should be agreed on at earlier stages. In his model, Whipple and Frankel (1998) use the term managerial imbalance to refer to a situation when alliance partners fail to provide equivalent managerial support in terms of the number of key participants assigned to the alliance and/or their organizational level. This imbalance creates the perception that one firm is less committed to the alliance than the other, causing the partners to question their continued effort. Devlin and Bleackley (1988) state that one factor of a successful alliance is the assurance that partners "contribute equally" to the alliance. When this does not occur, and a managerial imbalance is created, strategic effectiveness is negatively affected. Finally, to set up a sustainable alliance, the partners should work consciously toward blending their cultures. Cultural differences between the partners have caused the failure of many alliances, as the partners found themselves unable to compromise and assimilate enough

(Das and Teng, 1997). Being aware of the potential harm, the partners should work hard to set up an alliance that harmonizes their cultures.

Besides the agreement on the alliance goals and objectives, there are other contractual arrangements that to be negotiated, including exit clauses, arbitration clauses, lawsuit provisions, and details of co-operation and monitoring. These arrangements affect the degree of flexibility and embeddedness as well. For example, exit clauses facilitate the process of terminating alliances, and therefore give the partners an extra degree of flexibility. By comparison, lawsuit provisions and detailed monitoring procedures attach more embeddedness to the alliance (Das and Teng, 1997).

3.3.4 Phase 4: Operating and managing the alliance

During the operation stage partner firms collaborate and implement all agreements of the alliance. Alliance operation and management issues include the choice of governance mechanisms, enhancing trust and reciprocity between partners, managing the integration of project staff from different organizational cultures, and resolving conflicts which may arise among partners with divergent expectations about contributions to their collaboration (Todeva and Knoke, 2005). Thus operating and managing SAs is basically centred on maximizing cooperation between alliance partners while minimizing competition, a process that requires mutual understanding, commitment, trust/confidence, and sharing of control (Das and Teng, 1997; Todeva and Knoke, 2005). In what follows, cooperation as a critical factor in SAs management is discussed.

Role of cooperation in managing strategic alliances

Strategic alliances seem to be particularly troublesome in operation. One major reason is that the partners have to strike a simultaneous balance between two seemingly contradictory themes: cooperation and competition. On the one hand, inter-firm cooperation is the hallmark of SAs (Das and Teng, 1998). Cooperation is defined as *"the willingness of a partner firm to pursue mutually compatible interests in the alliance rather than act opportunistically"* (Das and Teng, 1998:492). Opportunism, defined as *"self-interest seeking with guile"* (Williamson, 1975:9), can be seen as the opposite of partner cooperation in SAs. Whereas opportunistic behaviour in alliances is exemplified by cheating, shirking, distorting information, misleading partners, providing substandard products/services, and appropriating partners' critical resources, partner cooperation is characterized by honest dealing, commitment, fair play, and complying with agreements (Das and Teng, 1998). Nevertheless, partners often have trouble in nurturing a high level of cooperation, due to either a lack of trust or the pursuit of self-interest (Ring and Van de Ven, 1992). Moreover, stimulating cooperation in SAs requires enhancing some factors. Cooperation requires understanding and commitment (Sharma, 1998), share of control (Glaister and Buckley, 1995; Inkpen, 2001), and trust/confidence (Ring and Van de Ven, 1992). In what follows the concepts of understanding, commitment, control and trust as crucial factors in the development of cooperation will be discussed.

Understanding is reached through interaction (Anderson and Weitz, 1992). Sharma (1998) emphasized the importance of interaction to reach understanding between partners. Through interaction, partners in a strategic alliance gain understanding of each other's goals; resources and competencies. In his model for governance in ISAs, Sharma

(1998) contends that interaction in SAs can be described in four dimensions: frequency, surface area, variety, and the medium used. Frequent interaction means that little time elapses between the assessment of one exchange and the occurrence of the next. Parkhe (1993a) found a positive relationship between strategic alliance success and frequent interaction between alliance partners. The more intensive and regular the interaction is in an alliance, the better the coordination of the production, marketing, and other activities.

The surface area of the interaction refers to the number of people belonging to the alliance partners who are involved in the interaction. A wide contact area implies a multiplicity of contact points and channels. As the contact area widens, the soft knowledge acquired becomes multi-faceted and the relevance and credibility of the exchange improve. Variety implies that people from different functional areas interact. Increasing variety improves the quality of the exchange between the alliance partners (Sharma, 1998). The concept of interaction between alliance partners and its importance in developing understanding and cooperation between partners could be further illustrated by using the example of the Scandinavian Chemicals (ScanChem), a middle size transnational corporation. According to Sharma (1998), in 1973 ScanChem entered into a strategic alliance with AsianChem. The initial alliance was for a period of five years. During this period the workforce of ScanChem was around 1,000 people. AsianChem employed around 150 people. During the first year of the alliance two to three people from ScanChem interacted with the people in AsianChem. In two to three years time some 70 people from ScanChem and an equally large number of people from AsianChem were working together on the same floor in the same building and interacting. The people from ScanChem belonged to a number of different functions such as marketing, purchasing, production, and general management. A number of employees from AsianChem regularly visited the head office of ScanChem for discussions. The exchange of information was face-to-face, rapid and regular. Frequent interaction, using rich interaction media and involving a large number of people from both sides, allows the partners to understand each other's goals and resources and to avoid conflicts.

Commitment is another important factor in enhancing cooperation between alliance partners. Empirical evidence suggests that committed partners are willing to invest valuable resources and time in a cooperative agreement and can be relied on to perform essential functions in the cooperation (Anderson and Weitz, 1992). Sharma (1998) argues that two conditions must be satisfied for commitment to be realized. First, there must be a willingness on the part of the alliance partners to pool their resources. Second, the alliance partners must possess and be able to invest alliance-specific resource. Xerox is an example of a company which has demonstrated high level of senior management commitment to SAs. Xeroxe even has executives with titles such as Senior Vice President for Corporate Strategic Alliances and Vice President for Worldwide Alliances (Ernst and Stern, 1996). In addition, alliance-specific investments such as partner's invested time and resources in developing alliance-specific knowledge and installing hardware and machinery to facilitate the exchange of resources with a specific alliance are examples of partners' commitment (Sharma, 998). Alliance-specific investments also support continuity in SAs. This is evident from the experience of Scandinavian Equipment (ScanEq), a multinational firm manufacturing dairy and farming equipment. ScanEq has production units in over ten countries. In the middle of 1970s, ScanEq came into contact with Arab Dairy which had decided to establish a dairy and farming operation costing around US$2 million. Arab Dairy lacked the technical and managerial expertise needed to procure dairy equipment from the international market and to manage such a large investment. ScanEq was interested in supplying equipment to this project. In order to show its commitment to Arab Dairy, ScanEq accepted two conditions. For the first time ScanEq agreed to manage the business operations of its client. As a result, ScanEq invested non-recoverable resources to acquire new areas of expertise in dairy and farming operations, and marketing dairy and farming products. Secondly, ScanEq acquired 12.5 per cent of the equity in Arab Dairy. ScanEq investment was enough to prove commitment to the buyer and to establish a long-term relationship with Arab Dairy. This was useful in obtaining future procurement contracts. A few years later, Arab Dairy expanded its operation and invested around US$700 million. A major portion of the supply orders went to ScanEq. The alliance was extended for another seven years period. Gradually, a third major expansion was implemented and ScanEq was the largest supplier of equipment (Sharma, 1998).

Control is another critical factor for successful management and performance of cross-border SAs (Glaister and Buckley, 1995). Control in alliance context refers to the process by which partner firms influence an alliance entity to behave in a manner that achieves partner objectives and satisfactory performance (Inkpen, 2001). Geringer and Hebert (1989) identified three dimensions of alliance control: i) the mechanism by which control may be exercised; ii) the extent of control exercised over a strategic alliance; and iii) a focus dimension. With regard to the first dimension, the mechanisms of control, partners were found to frequently rely on majority ownership or on voting control (itself determined by majority equity shareholding) to achieve effective management control of alliance activities (Glaister and Buckley, 1995). However, Friedman and Beguin (1971) suggest that control is not a strict and automatic consequence of ownership because a variety of mechanisms are available to firms for exercising effective control such as right of veto, representation in management bodies, and special agreements related to either technology or management. A partner might also be able to rely on its technical superiority and managerial skills, as a means of guaranteeing participation in the management of the alliance's operations (Glaister and Buckley, 1995). In this respect, Gyenes (1991) argues that control of the alliance should be granted on the basis of operational and financial risks. The means of exercising managerial control can also be found in the nomination of one of the parent firm's managers as the alliance general manager, as well as the employment of different ownership structure arrangements (Rafii, 1978; Gullander, 1976). Hence, sharing control would improve cooperative arrangements between alliance partners.

The extent of control is the second dimension of strategic alliance's control. The difficulty of managing SAs arises from the fact that such alliances have more than one parent. These parents, moreover, unlike the shareholders of a large, publicly owned company are visible and powerful and can and will disagree on just about anything. The extent of control is measured by the extent to which an alliance was dominated by either of its parents by focusing on the way in which decisions were made and, in particular, by determining how much influence each parent had on various types of decisions (Killing, 1982, 1983). In this respect, Brouthers *et al.* (1997) also argue that there are three styles of management in SAs. The first style is the dominant management style where one of the partner firms is assigned or assumes responsibility directly to oversee the operations of the venture. The second style is dual management which functions when both partners share management responsibility of the venture. This is the most difficult management style to implement effectively, because there is the likelihood that dual managers will interfere with each other or give conflicting instructions to employees, thus making the venture inoperable. The third style proposed by Brouthers *et al.* (1997) is termed independent management. Independent management is desired for those ventures where neither partner has specific management expertise that can be easily transferred directly to the venture. In this style of management, managers of the cooperative venture are responsible for managing the activities, setting goals, establishing policies, etc. The partners monitor the activities of these managers through a board of directors. This method relies on managers being very competent and in a high level of inter-firm cooperation.

The third dimension, focus of control, emphasizes whether alliance partners seek to control the overall alliance or target specific activities or processes perceived as crucial for achievement of the alliance or the partners' strategic objectives. In this regard, several studies (see Geringer and Hebert, 1989) found that the exercise of effective control should emphasize selective control over those dimensions a parent company perceives as crucial rather than attempting to control the entire range of the alliance activities.

Besides understanding, commitment, and control, researchers contend that having ***inter-firm trust and confidence*** is another important factor in partner cooperation (see Ring and Van de Ven, 1992). A certain minimum level of inter-firm trust is indispensable for any strategic alliance to be formed and to function. Obviously, the more the partners believe in the goodwill and reliability of each other, the more confidence in cooperation between the partners (Das and Teng, 1998). Generating trust among alliance participants is crucial to overcoming partners' initial suspicions about possible partner opportunism, which may prevent effective implementation of their collaborative agreement (Todeva and Knoke, 2005). Researchers (for example Goel, 1994; Chaudhuri, 1995; Brousseau and Quelin, 1996; Lin and Germain, 1998) argue that imbalances in organizational power, indicated by disparities in the resources contributed and controlled by each partner organization, can impede trust creation due to the partners' unequal capacities to fulfil their obligations. However, inter-firm trust and social knowledge of the partners may well serve as a substitute for control (Das and Teng, 1997). Once both partners gain mutual confidence through continual testing, then "informal psychological contracts increasingly compensate or substitute for formal contractual safeguards as reliance on trust among parties increases over time" (Ring and Van de Ven, 1994:105). This indicates that repeated SAs among experienced partners are more likely to rely on inter-organizational trust than on formal safeguards against potential partner opportunism. However, managing SAs is not an easy task because managers confront a number of difficulties in managing such alliances. These difficulties are discussed in the following part.

<u>Potential difficulties associated with managing strategic alliances</u>

Inevitably, conflicts will arise in strategic alliances (Gyenes, 1991). Zineldin and Dodourova (2005) and Johansson (1997) found that dissimilar objectives, inability to share risks, and lack of trust lead to an early alliance demise. Similarly, Elmuti and

Kathawala (2001) and Zineldin (2000, 2002) concluded that problems that alliances face are: i) lack of clear goals and objectives; ii) lack of trust and opportunistic behaviour; iii) clash of cultures and "incompatible personal chemistry"; iv) lack of coordination between management teams; v) differences in operating procedures and attitudes among partners; vi) possibility of creating a future local or global competitor; and vii) performance risk as a result of external and internal factors. Gyenes (1991) argues that conflicts between alliance partners usually take on either of two forms. The first arises out of conflicting operational priorities. These usually revolve around which projects or activities will receive the most attention. The second involves financial priorities. In these instances, financial pressures within either or both partners' businesses may influence or postpone important decisions. Similarly, Al Khalifa and Peterson (2004) discussed two major problems associated with strategic alliances. First, opportunism, which is a common characteristic of inter-firm behaviour, although it is not inevitable (Williamson, 1975, 1983; Kogut and Zander, 1993; Madhok, 1995). However, Al Khalifa and Peterson (2004) argue that a major method of avoiding opportunistic behaviour is to engender trust between the parties concerned and to place emphasis on long, rather than short term, commercial success. Second, leakage of information when strategic alliances can suffer drainage of efficiency through leakage of information, and this puts partners at a disadvantage relative to direct market entry and hierarchies (Agarwal and Ramaswami, 1992; Nanda and Williamson, 1995; Bleeke and Ernst, 1995; Pan, 1996).

To sum up, some authors such as Harrigan (1985), Kanter (1994), and Killing (1983) contend that the essence of alliance management is to work toward harmonious relationships by various means like sharing power, enhancing communication, building trust, and so forth. For an alliance to operate and proceed efficiently, initial disorder and conflicts of interest created by working with partner firms need to be severely curbed. If inter-partner conflicts get out of control, the alliance will be in the way towards reformation or termination (Das and Teng, 2002). Collectively, to contribute to alliance success and be a source of competitive advantage, managers at all levels must work together to find ways to balance their interests with those of their counterparts in partner firms, and to learn how to effectively manage the tension between cooperation and competition (Douma *et al.*, 2000).

3.3.5 Phase 5: Alliance's performance evaluation

The literature on strategic alliance performance has been reviewed from two perspectives: first, measures of performance; second, determinants and factors affecting performance (Boateng and Glaister, 2002). In this part, determinants and factors affecting alliance performance is discussed first, followed by a discussion of criteria used for alliance performance evaluation.

Factors affecting alliance performance

Many alliances have been plagued by unsatisfactory cooperation and poor performance. According to some researchers, about 69 per cent of alliances can be considered as failures (Beamish, 1985; Das and Teng, 2000b). Performance may negatively be affected because of risks associated with strategic alliances. Das and Teng (1998) suggest that there are two distinctive and equally important types of risk that may influence the performance of SAs: relational risk and performance risk. Relational risk is concerned with cooperative relationships, or the probability that the partner does not comply with the spirit of cooperation. Opportunistic behaviour of the partners (Williamson, 1983, 1985) is a typical source of relational risk. On the other hand, performance risk refers to the probability that intended strategic goals of an alliance may not be achieved, even though cooperation between the partners is satisfactory. The presence of these risks would affect the outcome of the strategic alliance. There are four possible outcomes namely stability, reformation, decline or termination (Das and Teng, 2002). An alliance may need to be restructured or reformed if the expectations of the partners are not met. Decline may well call for similar actions although it may be a prelude to termination (Das and Kumar, 2007). However, many alliances are showing successful records. Elmuti and Kathawala (2001) maintain that a survey by Technology Associates and Alliances (1999) asked 455 CEOs to rank the importance of certain success factors for SAs and the results were that these factors are senior management commitment, similarity of management philosophies, effective and strong management team, frequent performance feedback, clearly defined, shared goals and objectives, thorough planning, clearly understood roles, international vision, partner selection, communication between partners and maintaining relationships.

Criteria for measuring alliance performance

Brouthers *et al.* (1997: 41) maintain that "one of the most difficult questions to answers is 'how is the cooperative venture performing?" Evaluating performance of ISAs is a complicated process for two reasons. Firstly, because alliances are formed for a variety of purposes and often operated in highly uncertain settings (Contractor and Lorange, 1988). Secondly, because firms from different countries and cultures generally apply divergent success criteria (Si and Bruton, 1999; Yan and Zeng, 1999). An example of how difficult it is to judge venture performance is the KLM (Netherlands) and Northwest (United States) airline venture. By all financial appearances this venture should be deemed a success by its owners, profits top $200 million, and market value exceeds $2 billion. However, neither partner was happy with the arrangement. KLM approached other US airlines as possible replacements for Northwest (Brouthers *et al.*, 1997). Hence, the measurement of alliance performance has bedeviled alliance researchers for decades (Inkpen, 2001). A major issue of considerable debate is the yardsticks to be used for assessing strategic alliances performance (Glaister *et al.*, 2005). Performance of SAs can be measured in several different ways. These include alliance longevity (Beamish and Banks, 1987); profitability (Reuer and Miller, 1997); growth and cost position (Geringer and Hebert, 1991); and the state of the alliance such as harmony, morale, productivity, and learning (Das and Teng, 1998). In this respect, Hyder (1999) distinguished between tangible returns such as profit, market share, etc., and intangible returns, such as partners' relationship, local market know-how, local identity, etc. Therefore, practitioners and academicians often measure long-term alliance success by examining the extent to which alliance objectives have been met (Geringer and Hebert, 1991; Das and Teng, 2000b). Motorola's Semiconductor Sector provides an instructive example of SAs evaluation procedures. Several years ago, when Motorola began partnering in earnest, senior management devised a one-page "Statement of partnership goals" that summarized what Motorola expected to achieve for both itself and key customers from the partnership process. The key objectives spelled-out in this partnership can be briefly paraphrased as follows:

- All partnership programs (for example co-design or joint development) will result in profits for both Motorola and its partner firm;

- Motorola's sales to the partner firm will be substantial and/or exhibit significant growth potential;
- Motorola should have a significant, if not exclusive, share of the partner's business;
- The partnership should contribute significantly to the achievement of Motorola's "technology roadmap goals".

Periodically, senior management compares outputs from each of the Semiconductor Sector's approximately 60 partnerships to the goals specified on the partnership statement. In order to gauge the benefits of the partnership to the customer firm, managers examine results of Motorola's annual customer satisfaction survey. The survey summarizes Motorola's performance from the perspective of partner firm's managers from such functional areas as manufacturing, engineering, purchasing, and research and development. Following consultation with customer managers, partnerships that do not meet objectives are "downgraded".

Measuring alliance performance becomes more complicated when partners begin to consider complementary goals (common benefits) as well as conflicting goals (private benefits) in measuring performance and success. According to Khanna *et al.*, (1994) complementary goals are common and shared collectively by all participants whereas conflicting goals are individualistic in nature and accrue only to a subset of participants. In that sense, studies (such as Dollinger and Golden, 1992; Thomas and Trevino, 1993) have evaluated alliance performance in terms of meeting the objectives of individual partner firms. However, other studies do not consider success unless common goals are achieved as well (Khanna *et al.*, 1994). Therefore, the partners should decide *ex ante* what type of benefits they wish to measure, whether only common benefits or both types of benefits. In some alliances such as joint research and development and joint marketing, the partners tend to receive more private benefits than common benefits from the deal. In other types of alliances, such as JVs, common benefits are more prominent than private benefits (Das and Teng, 1997). In that sense, the partners may have either a short-term orientation or long-term orientation. A short-term orientation regards the alliance as transitional, so that it is expected to dissolve sooner or later. Special emphasis is placed on the prompt, current financial performance of the alliance. On the contrary, firms with a long-term orientation tend to theory the alliance as semi-permanent, and they pay less attention to the current performance of the alliance. Many alliances dissolved because the partners took a short-term orientation, or expecting too much too soon, so that partners did not have the patience to wait for the results. Therefore, partners should decide *ex ante* what type of benefits they wish to measure, whether only common benefits or both types of benefits.

Moreover, Das and Teng (2002b) argue that there are four possible outcomes of SAs, namely: stability; reformation; decline; or termination. If the alliance has met the expectations of its partners it will be stable and may even expand and would, consequently, tend to reaffirm their trust and commitment to each other. An alliance may need to be modified or reformed if the expectations of the alliance partners are not met. Modifying the alliance along the way at least provides a means for correcting some of the inappropriate decisions. Das and Teng (2000b) distinguished between positive modification and negative modification. Positive modifications refer to those that are intended to give the alliance a second chance for survival. In contrast, negative modifications are those that tend toward termination of the alliance. Decline may well call for similar actions although it may be a prelude to termination.

3.3.6 Factors influencing the formation process of strategic alliances

Despite the fact that SAs are influenced by several factors such as government policies and level of economic development of the partners' countries, the prominent two, as found in the literature, are trust among partners and partners' national and corporate culture. Although trust and commitment were discussed above as an important factor to develop cooperation for the purpose of operating and managing SAs (see step 4 in the process), they are also discussed as factors influencing the whole process of forming a strategic alliance.

3.3.6.1 Partners' culture

For the purpose of this study, the term culture is based on the definition of Hofstede that "culture is the programming of the mind acquired by growing up in a particular country" (1991:5). Therefore, the collective programming of a nation leaves an imprint on a person's process for daily living including work, leisure, and social skills. Consequently, individuals living in a particular country tend to share similar values, and that they bring these values to the firms for which they work. In contrast, individuals living in different countries are expected to have different values (Hofstede, 1980, 1997). For example, Japan has a collectivistic culture, whereas the USA has an individualistic culture (Hofstede, 1980, 1991). Tihanyi *et al.* (2005) also define culture as the homogeneity of characteristics that separates one human group from another, and submit that it characterizes the norms, values, and institutions of a society. Hofstede found that cultures of the nations differed along four primary dimensions and that various business and consumer behaviour patterns can be closely linked to these four dimensions:

1. ***Power distance:*** *"the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally"* (1991:28).
2. ***Uncertainty avoidance:*** *"the extent to which the members of a culture feel threatened by uncertain or unknown situations"* (1991:113).
3. ***Individualism versus collectivism:*** ranges from "societies in which the ties between individuals are loose" to *"societies in which people from birth onwards are integrated into strong, cohesive in-groups"* (1991:51).
4. ***Masculinity versus femininity:*** ranges from *"societies in which social gender roles are clearly distinct" to "societies in which social gender roles overlap"* (1991:.82).

Therefore, national culture is a macro level concept. Consequently, for national culture to play a role in an organization's decision making process, a link must be made between national culture and organization (Pett and Dibrell, 2001). In that sense, it is argued that the organization is a reflection of the national culture (Clark *et al.*, 1979). Accordingly, McDermott and O'Dell (2001) argue that each organization has its unique culture, which develops overtime to reflect the organization's identity in two dimensions: visible and invisible. The visible dimension of culture is reflected in the espoused values, philosophy and mission of the firm while the invisible dimension lies in the unspoken set of values that guide employees' actions and perceptions in the organization. Therefore, organizational culture can be defined as the shared, basic assumptions that an organization learnt while coping with the environment and solving problems of external adaptation and internal integration that are taught to new members as the correct way to solve those problems (Park *et al.*, 2004). However, Pett and Dibrell (2001) argue that if the organization is molded and constrained by national culture, then the top management team can also be influenced by national culture. For example, if a Japanese organization's top management team perceives, based on its cultural background, that the long-term gain is a higher priority than the short-term, then an organization will emphasize a long-term strategy. Conversely, if a US organization's top management team perceives that the short-term gain is a higher priority than the long-term, then a US organization will emphasize a short-term strategy (Pett and Dibrell, 2001). Other researchers (for example Franke *et al.*, 1991 and Katz *et al.*, 2000) argue that culture is strongly related to an organization's perception of its environment and therefore can be reflected to its strategy. Thus, an organization's country of origin will play a significant role in how top management in organizations perceive and react to SAs.

Based on the aforementioned discussion it is expected that cultural differences between alliance partners are reflected in fundamental differences in goals and strategies (Chung *et al.* 2000; Yoshimura and Anderson, 1997; Hitt *et al.*, 1997) which in turn will make it more difficult for alliance partners to agree on common goals, to solve problems, and to resolve conflicts than if they come from the same country (Smith *et al.*, 1995). Consequently, other researchers contend that national cultural differences have been often linked to alliance conflict (Lane and Beamish, 1990), misunderstandings (Lyles and Salk, 1996), collaborative problems (Mowery *et al.*, 1996), knowledge transfer problems

(Hamel, 1991), and poor performance or even failure (Meschi, 1997). The end result, of course, is reduced revenues and profits, and increased bureaucratic inefficiency which obviously affects the basic operation of the strategic alliance as well as its chance for success. Similarly, a study by Wilson (2003) of participants from various cultural backgrounds (Japanese, Americans, Southeast Asians and others), have indicated that the inability to manage culturally diverse employees leads to unproductive meetings, presentations, teamwork, product marketing and development, and decision making.

Thus, cultural differences often create problems in making strategic alliances work – especially between Asian and Western companies (Vyas *et al.*, 1995). Moreover, strategic alliance parents who come from different countries will also often have different mother tongues, and this can be expected to cause communication difficulties. Verbal communication may suffer from both perceptual and encoding/decoding gaps (Root, 1994). Hence while a context of a meeting may be quite unimportant in a low-context culture such as the U.S., a cheap and hurried lunch offered by an American host will be interpreted as lack of interest by a Japanese top executive (Hennart and Zeng, 2002). Yet effective communication between strategic alliance parents is crucial for strategic alliance management for at least two reasons (Doz, 1996). First, strategic alliance parents do not usually start their collaboration with full understanding of each other's goals, capabilities, and behaviours. Failure by parents to quickly learn about each other may lead to misunderstanding and suspicion, and eventually to lower commitment, poor economic results and dissolution (Doz, 1996; Inkpen and Birkinshaw, 1994; Shenkar and Zeira, 1992). Second, in most cases unanticipated events render the initial strategic alliance agreement quickly obsolete and require it to be renegotiated. Therefore, close interaction is crucial for partners' mutual understanding. To illustrate, Texas Instruments (TI) and Hitachi managers had to bridge their cultural differences and learn to work together over time prior to the development of their memory chip joint venture (Hitt *et al.*, 1997). This was due to significant differences in their decision-making processes. TI managers used a common American approach whereby managers would meet to discuss an issue, brainstorm solutions and then make a decision. Alternatively, Hitachi managers often held informal discussions and agreed on a decision prior to a formal meeting where the decision was ratified.

Companies from western countries may also experience difficulties in managing their partnerships. Perhaps this is best illustrated by reviewing the turbulent strategic alliance of KLM from Netherlands and Northwest from the USA. The relationship between these two companies has been described by KLM's president as a classic clash in cultures, a collision of two diametrically opposed philosophies of doing business. It is the European way versus the American way (Tully, 1996). The differences were so strong between the two companies that the senior management of the two organizations fought constantly, eventually ceased virtually all communications, and began a battle for control of the organization. The philosophical differences of KLM and Northwest were, in part, due to cultural differences, so there is significant potential for other cross-border alliances to include such wide spread differences in managerial philosophies as well (Elmuti and Kathawala, 2001).

Therefore, in order to ensure the best chance of success, companies should either seek partners who do have similar management philosophies, or draft an alliance agreement that adequately addresses the differences, and provides for their resolution (Ernst and Stern, 1996). However, Park and Ungson (1997), Luo (1997) contend that a successful partnership does not require two closely matched cultures. For example, in a study of Japanese-US SAs, Park and Ungson (1997) found that organizational measures of compatibility were not important in dissolution rates. Surprisingly, they also found that JVs between Japanese and U.S. parents survived longer than those between two U.S. parents. They attributed this finding to the fact that Japanese managers have higher trust, longer term orientation and are keen to uphold their good reputation. Gary (2004) contends that the Fuji-Xerox partnership is now in its 42^{nd} year, and Samsung and Corning have been working together since the 1970s. Similarly, Wilson (2003) concluded that culture in general or in particular as measured by Hofstede, might not be powerful enough to explain success or failure of strategic alliances. Fey and Beamish (2001) also looked at 24 SAs between Russian and Canadian, American, British or Finnish parents. They found that the cultural distance between the home base of the foreign parent and Russian did not affect the performance of the alliance. Other factors, such as competition, political constraints, tax situation might have at least the same influence on the alliance.

3.3.6.2 Trust among partners

In an alliance context, partners' trust is defined as an individual's belief or a common belief among a group of individuals that another individual or group: i) makes good-faith efforts to behave in accordance with any commitments both explicit and implicit; ii) is honest in whatever negotiation preceded such commitments; and iii) does not take excessive advantage of another even when the opportunity is available (Cumming and Bromiley, 1996). According to Cumming and Bromiley (1996) trustworthy behaviour means that individuals actually behave according to i), ii) and iii) stated above. Cullen *et al.* (2000) further argue that mutual trust and commitment are central for ISAs for several reasons.

First, no contract or other agreement, no matter how complete or detailed, can account for every issue or every contingency that might arise. Formal contracts can never anticipate and identify all the events and changes that occur over the lifetime of the strategic alliance. Likewise, it is not feasible that partner companies rewrite an agreement every time a new issue or situation arises. Necessarily, much of what happens between partners in alliances develops informally in the alliance relationship. Ultimately, especially in evolving or long-term alliances, managers must default to trust and commitment, the social fabric of the relationship, to fill the gaps in the formal agreement and to keep the relationship running smoothly.

Second, the alliance of two or more companies creates a strong potential for dysfunctional conflict and mistrust. Companies often differ in strategic goals and objectives for the alliance. They differ in the extent and type of experience with alliances. Companies also differ in organizational cultures and management philosophies and in their routine policies and procedures. When the partners are from different national cultures, these differences are magnified and commonly generate misunderstandings.

Without a sense of mutual commitment to each other, partners often fail to work out the inevitable problems of cross-national alliances.

Third, mutual trust is important because successful cooperation requires alliance participants to contribute quality inputs into the alliance organization. When partners do not trust each other, they hold back information or take unfair advantage of each other if given the opportunity. If this happens, the alliance seldom produces all the mutual benefits possible from the cooperation. Unreliability, unfairness, and opportunistic behaviour by partners set the alliance on a path not only of sub-optimization, but also toward dissolution.

Fourth, the reason that trust and commitment are important in SAs is learning, which often cited as one of the major benefits and motivations for SAs. According to Inkpen (2005), firms within an alliance can learn from their partners' past experiences and transfer their knowledge and experiences back to the parent organization. In that sense, trust is essential in order for alliance partners to be willing to share key information on a strategic and operational level (Whipple and Frankel, 1998). Partners share information with confidence because of the development of trust (Koka and Prescott, 2002). If partners do not trust each other and are not committed to the alliance, technology transfer is greatly inhibited.

To sum up, the benefits of inter-firm trust in strategic alliances include lowering transaction costs (Gulati, 1995), improving desirable behaviour and quickly transfer resources and competencies to realize the value and achieve the objectives of the relationship (Madhok, 1995), gaining full cooperation and transferring resources between partners (Ireland *et al.*, 2002), reducing the extent of formal contracts (Larson, 1992), and facilitating dispute resolution (Ring and Van de Ven, 1994) and ultimately improving alliance performance (Inkpen and Currall, 1997; Zaheer *et al.*, 1998). However, the lack of trust and suspicion are common in business. Lack of trust is viewed as a reason for alliance failure and, as such, is important to alliance performance (Larson, 1992; Sherman, 1994). Lack of trust could be attributed to several factors. Hitt *et al.* (2001d), for example, maintain that cultural, economic, and institutional differences across countries increase the difficulty of developing trust between partners with home bases in separate countries. To illustrate, consider the example of Toshiba (Japan), IBM (USA), and Siemens AG (Germany). Although they are traditional competitors, these firms united in a Research and Development strategic alliance to produce the next generation of computer chips. Over 200 scientists from these culturally different companies and countries work in the IBM research facility in New York. In theory, the cultural diversity and varied backgrounds were supposed to foster creativity and dramatic advances. Unfortunately, not all went smoothly. Initially, the Japanese found it difficult to work in small isolated offices. The closed cubicles were totally different from their accustomed open office spaces. The Germans were horrified that Japanese slept in meetings when a topic did not concern them. The IBM staff complained that the Germans planned too much and were slowing things down. Difficulties with communication in English, lack of sufficient cross-cultural training, and differences in management styles also affected the venture. The result was a lack of trust, a withdrawal of the Japanese, Germans, and Americans into their own teams and, perhaps more important, the belief that the other companies' scientists and engineers held back information and did not share ideas (Browning, 1994). In the above example, trust and commitment did not build so that cultural differences could be bridged and communication problems could be solved. Browning (1994) argues that firms often begin a relationship suspicious of each other's motives. For example, typical fears and questions include the following: Do they want to steal our technology? Are they trying to take us over? Are we creating a new competitor? Are we giving away too much proprietary knowledge? Will they or can they provide what we agreed on? If this reluctance is apparent in the firm's behaviour and interactions with the partner firm, it can be interpreted, perhaps rightly so, as distrust. However, Arino *et al.* (2001) argue that in achieving the objectives of SAs, reliance on trust is not sufficient since trust is a complex issue and management should focus on a broader concept – the quality of the alliance and the critical success factors of enhancing the overall quality of the alliance. More specifically, by defining relational quality as "the extent to which the partners feel comfortable and are willing to rely on trust in dealing with one another" (Arino *et al.*, 2001:111), the scholars clarify that relational quality encompasses a broader concept than trust, such as the degree of compatibility of corporate culture and decision-making style, and a convergence of worldviews.

3.4 Summary and conclusion

Three major theories describing the rationale for the formation of strategic alliances have been reviewed in this chapter. These theories are the transaction cost theory, the resource-based theory, and the knowledge-based theory of strategic alliances. Transaction cost theorists argue that strategic alliances help firms minimize the sum of both transaction costs and production costs. While transaction costs refer to costs that are incurred from activities necessary for an exchange (such as writing and enforcing a contract), production costs come from coordinating activities in-house, in terms of learning, organizing, and managing production (Das and Teng, 2000b). Therefore, from transaction cost perspective, firms enter into SAs for several reasons such as risk sharing; cost, sharing; product rationalization and economies of scale; transfer of complementary technology and exchange of patents; shaping competition; conforming to host government policy; facilitating international expansion and vertical linkage. The resource-based advocates claim that a firm's competitive strategy is influenced by its accumulated resources rather than being defined by the competitive environment. The essence of the resource-based theory is gaining access to other firms' valuable resources. Valuable firm resources are usually scarce, imperfectly imitable, and lacking in direct substitutes. Therefore, the overall rationale of resource-based theory for entering into a strategic alliance is to aggregate, share, and exchange valuable resources with other firms when these resources cannot be efficiently obtained through market exchanges or mergers and acquisitions. SAs are used to pool the technological know-how and expertise of different firms. Thus, the distinct benefit of SAs is to have access to precisely those resources that are needed while retaining those resources that are currently under-utilized internally. Recently, there is an increasing recognition that the competitive advantage of firms depends on their ability to create, transfer, utilize and protect knowledge asset. Advocates of the knowledge-based view of strategic alliances argue that the sharing of knowledge including technology, know-how and organizational capability, and learning from partners are the dominant objectives of SAs. Therefore through learning and sharing valuable knowledge with partners, the knowledge-based view of SAs claims, strategic alliances help companies overcome limitations in their own resource set, solving internal environmental problems, and extend the application of their core competencies to achieve competitive advantages.

Researchers provided various models for the formation of strategic alliances. Despite differences between these models, major similarities and commonalities were found between them. Based on these similarities and differences, a theoretical framework is developed examining the process of SAs formation. The framework is divided into three major stages which involve five phases, namely: motives for forming the alliance; selection of the alliance's partners; selection of the alliance's form of structure; alliance's management; and the alliance's performance evaluation. The phases were found to be influenced by two major factors, which are partners' cultures and partners' trust.

In the next chapter the context within which this study is conducted, The United Arab Emirates, will be presented and analyzed.

CHAPTER 4
The context of the United Arab Emirates

4.1 Introduction

The objective of this chapter is to discuss the context in which this study takes place. The historical, political, and social background of the UAE is presented. The economic context is also analyzed in details with more emphasis on the global business environment of the UAE. Such background information helps to uncover factors that have led to the emergence and evolution of the phenomenon of SAs. The chapter consists of four parts. To start with, a general overview of geographical and demographic information about the UAE is given in the first part. The second part reviews some significant historical events in the state prior to the federation in 1971. In the third part a description of the UAE during the federation is provided including related political, social, and economic dimensions. The fourth part, the main part of the chapter, analyses the global business environment of the UAE and its role in enhancing foreign direct investments and foreign trade. More emphasis is made on this part because it directly relates to the study problem and objectives. The chapter ends with concluding remarks.

Throughout the chapter the currency referred to is United States Dollar (US$), although most of the figures were originally in United Arab Emirates Dirham (AED). For the reader, however, the use of US$ makes it less complicated to compare the figures from the UAE with other figures, and at the same time be familiar with the numbers. I consequently use the rate at the time of this thesis which is fairly stable at 1 US$ = AED 3.67.

4.2 Geographical and demographic background

The United Arab Emirates (UAE) is located in Southwest Asia and in the Eastern block of the Arab World. It lies on the South-eastern side of the Arabian Gulf sharing borders with Qatar to the Northwest, with Saudi Arabia to the West and South, and with Oman to the east and Northeast (UAE Yearbook, 2007). The total area of the UAE is 83,600 square kilometres (including approximately 200 islands). The largest emirate, Abu Dhabi, occupies 67,340 square kilometres which accounts for 87 per cent of the UAE's total area (World Bank Fact Book, 2006).

The demographic structure of the UAE has been changed considerably by sharp rise in population over the last three decades. The population censuses and estimates conducted over the period 1975-2003 explain the demographic situation in the UAE over the years. Table 4.1 below demonstrates the rapid population growth rates of both nationals and non-nationals. It is important to note that official UAE statistics data on population of the years 1968, 1975, 1980, 1985, and 1995 are available but the data of the years 2001 and 2003 are based on official estimates only due to the lack of official statistics data.

Table 4.1: Population growth (1968-2003)

Year	UAE Nationals	Percentage	Non-Nationals	Percentage	Total
1968	114,444	63.5%	65,782	36.5%	180,266
1975	187,366	30.0%	390,521	70.0%	557,887
1980	290,544	27.9%	751,555	70.0%	1,042,099
1985	399,707	28.9%	982,757	71.1%	1,382,464
1995	588,294	24.4%	1,822,747	75.6%	2,411,041
2001	768,000	22.0%	2,720,000	78%	3,488,000
2003	808,200	20.0%	3,023,200	80.0%	4,041,000

Source: Central Statistical Administration, Ministry of Economy and Planning-UAE, (2004)

According to the UAE Year Book (2006), the UAE's population is rising at a rate of around 6.9 per cent, reaching 4,320,000 in 2004 compared to 4,041,000 in 2003. A strong economy, healthy social development and political stability have all supported steady rise in population, making the UAE one of the fastest growing nations in the world. Additional factors supporting this growth include the influx of foreign workers and investments, a sharp drop in infant mortality rate and a comparatively higher birth rate.

4.3 Historical background

Very little is known about pre-Islamic civilizations except that trading activity at *Julfar* (to day called Emirate of Ras Al-Khaimah) and *Dibba* (today belongs to Emirates of Sharjah and Fujairah). This trade activity brought both people and goods from the far and near east to the region since before the recorded history (Potts, 1990:339). However, the first known foreign invasion took place in this region was that of the Portuguese under *Vasco De Gama*. In the early 16th century *Vasco De Gama* found maps produced by *Ibn Majid* (d. c. 1500) and *Sulaiman Al-Mahri* (d. c. 1553) (Tibbetts, 1971) and then launched a brutal invasion and occupied the coast and region for nearly 143 years (1507-

1650) (Adam, 2003). The Portuguese were driven out of the region in 1633 when they lost control of the Strait of Hormuz. Then the Dutch and the British fought each other to gain control of the Gulf until the British drove the Dutch out of the region in 1766. The British invasion was based on their desire to control the maritime routes of trade between the Gulf and India (Al-Qasimi, 1986). While the British competed for regional supremacy, a local uprising by the Qawasim (local tribe) was gathering strength and built up a fleet of over 60 large vessels and could put nearly 20,000 sailors to sea. In the first two decades of the 19th century a series of clashes between the two sides ended in the virtual destruction of Qawasim fleet and the consolidation of British influence in the Gulf region (UAE Year Book, 2007). Following the defeat of the Qawasim, the British signed a series of agreements with the sheikhs (rulers) of the individual emirates that later augmented with treaties on preserving a maritime truce and to protect the British ships in the Arabian Gulf and the Indian Ocean (Al-Fahim, 1995).

In 1892 another treaty signed between Britain and the respective chiefs of the sheikhdoms of Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Umm Al-Quwain, and Ras Al-Khaimah. Under this treaty, the sheikhs agreed not to enter into any agreement or correspondence with any power other than the British and not to cede, sell, or mortgage any part of their territory to anyone other than Britain without British consent. In return, the British promised to protect the Trucial Coast from all aggressions by sea and to help out in case of land attack (Washington Institute, 1991). In 1952 Britain recommended that the rulers of the seven sheikhdoms establish the *Trucial Council* to encourage the adoption of common policies in administrative matters, possibly leading to a federation of states (Federal Research Division, 2006).

In the early 1900s, fishing and pearling were the major occupations of the population. It was the export of pearls that paid for most of the country's imports, but by the late 1930s the pearl trade had slumped and never recovered. Able-bodied men left the more densely populated areas along the coast to find work elsewhere, while inland, a number of nomadic tribes maintain their simple lives on a diet of dates and camel milk. The discovery of oil a few years later, and its production from 1962, were the catalyst for the UAE's development into one of the world's wealthiest countries, with per capita GDP being US$ 44,000 in 2007 (UAE Year Book, 2009).

In 1968 the British announced that it would withdraw from the Gulf. Its somewhat special protective relationship with the sheikhdoms would end in the year of 1971 (Hudson 1977:196). The British decision to leave the Gulf came as a surprise to the rulers and the people of the Trucial States. They were not prepared to face the unresolved territorial claims, to defend the growing oil wealth, to deal with the ideological trends sweeping the Arab world, or to guard against the possibility of subversion (Heard-Bey 1999:129). In 1971 six of the Trucial States (Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, and Umm Al-Quwain) agreed on federal constitution for achieving independence as the United Arab Emirates (UAE). The seventh emirate, Ras Al-Khaimah, formally acceded to the new federation on 10th February 1972 (UAE Year Book, 2007)

4.4 The UAE under the federation

This part reviews the UAE after the federation in 1971. It is made of three subparts. Part one when reviews the political life and system of the state and its development since federation to date. Changes and developments in the social life are covered in part two. The last part is dedicated to the economic features and development. The importance of discussing the socio-economic and political features of the UAE stems from the fact that they directly affect the global business environment of any state. Political stability and socio-economic development affect the competitive advantage and attractiveness of any economy for foreign investments.

4.4.1 Political background

The UAE is governed by hereditary rule, namely the Supreme Council of Rulers, which is made up of the rulers of each Emirate, along with the Crown Princes and deputies of each ruler. The Economist Intelligence Unit states that:

> *"The Supreme Council of Rulers is the highest federal authority in the country. It has the power to decide policy, elect the federal President and his deputy, admit new embers to the federation, and appoint and dismiss the Prime Minister and the judges of the Federal Supreme Court"* (2006a: 7).

The Supreme Council elects the Cabinet that is headed by the prime minister, a position currently held by Sheikh Mohammed bin Rashid Al-Maktoum, the vice president of the UAE and the ruler of Dubai. In 1994, Sheikh Mohammed was appointed Crown Prince of Dubai. In 2006, Sheikh Mohammed became ruler after the untimely passing of his brother Sheikh Maktoum, who had held the position previously. Sheikh Mohammed has been a driving force behind the economic development of the country, particularly Dubai, as the UAE moves to reduce the level of dependence on oil and diversify into manufacturing, tourism, trade, logistics, and services. The Cabinet initiates legislation and also approves the federal budget and oversees the federal government (Economist Intelligence Unit, 2006a:8).

The UAE's political system, as a unique combination of a traditional and modern system, has underpinned political stability and success, enabling the country to develop a modern administrative structure while at the same time ensuring that the best of the traditions of the past are adapted and maintained (Rees *et al.*, 2007). The philosophy behind the state was declared and explained in a statement that was released on 2 December 1971 when the new state was formally established. The philosophy states that:

> *"The United Arab Emirates has been established as an independent state, possessing sovereignty. It is part of the greater Arab nation. Its aim is to maintain its independence, its sovereignty, its security, and its stability, in defence against any attack on its entity or on the entity any of its member Emirates. It also seeks to protect freedoms and rights of its people and to achieve trustworthy cooperation between the Emirates for the common good. Among its aims, in addition to the purpose above described, is to work for the sake of the progress of the country in all fields, for the sake of providing better life for its citizens, to give assistance and support to Arab causes and interest, and to support the Charter of the United Nations and international morals"* (UAE Year Book, 2006:45).

Under the provisional Constitution of 1971, each emirate reserves considerable powers, including control over its own oil and mineral wealth and some aspects of defence and internal security, although the Federal Government asserts primacy in most matters of law and government. In this milieu, federal powers have developed slowly. Traditional rule in the emirates has generally been patriarchal, with political allegiance defined in terms of loyalty to the tribe leaders (The Bureau of Democracy, Human Rights and labour, 1997).

The UAE is a federation of seven emirates, each with its own ruler. The rulers of the emirates are all members of the Supreme Council, the highest authority of the state. The Supreme Council elects the Cabinet that is headed by the prime minister. The Cabinet is the executive body of the Federation and is responsible for foreign and internal affairs in accordance with the Constitution and Federal laws. The cabinet also approves the federal budget and oversees the federal government (Economist Intelligence Unit, 2006a:8). The National Federal Council (NFC), the Parliament, has legislative functions. The NFC is constituted of the representatives of the emirates, and each emirate has the right to nominate its own representatives. Parliamentary elections for 20 seats on the 40-seat NFC, the first in the UAE, were held in December 2006. The remaining 20 representatives were appointed by the rulers in the respective emirates. In total, Abu Dhabi and Dubai have eight seats each; Sharjah and Ras Al Khaimah have six seats each; and Ajman, Umm Al Quwain, and Fujairah each have four seats. The NFC is responsible for reviewing drafts of federal laws and global agreements and discussing the public issues that concern the federation.

4.4.2 Social background

Thirty years ago, only people in the major towns had access to education or medical services. In 1971, the population of the UAE was slightly over 180,000 and only 46 nationals had a university degree (Kirkwood, 1995), most of which were gained in the United States, Britain and other Arab countries, because the UAE did not have its own university until 1977. In 1980, over half of men over the age of 45, and over three quarters of women were illiterate (Wilkins, 2001). Over the same period of time, only a handful of tarmac roads existed and the high rise building was virtually unknown. Today modern and impressive high-rise buildings, well equipped hospitals, dependable electricity and water supplies, educational establishments, modern transportation networks are many examples of how the rulers have transformed the UAE (Rees *et al.*, 2007). The UAE government has adopted a development strategy that aims to develop the human capital in the first place, and at the same time to exploit oil revenues to build the infrastructure for the industrial, service, and agricultural sectors. As a result, many industrial and services projects have been carried out as part of successive development plans. These projects included the building of houses, the construction of integrated modern cities, and the establishment of hospitals, clinics, schools, universities, and basic frameworks of infrastructure including bridges and roads that connect the different cities of the UAE. The projects also included laying down water pipes and electricity grids in all cities, creating transportation and communication services, and providing other basic service utilities to ensure the progress of the country and satisfy the aspirations of nationals for prosperity, security, and stability (Kirkwood, 1995). A considerable part of these projects are planned and implemented in joint venture form by local UAE and foreign companies.

4.4.3 Economic background

According to the UAE Year Book (2009), the UAE's real economic growth rate in 2007 was 5.2 per cent compared to 11.5 per cent in 2006 (see Figure 4.1). Meanwhile, nominal GDP (based on current prices) grew by 16.8 per cent in 2007 compared with 28.7 per cent in 2006 and 25.6 per cent in 2005, GDP at current prices in 2007 reaching Dh729.73 billion compared with Dh624.62 billion in 2006. The Growth Competitive Index for 2004, a composite of macroeconomic environment, state of public institutions, and technology readiness, ranks the UAE 16th in the world with a high score of 5.21 and at the top of the list among the GCC countries (The IMF Country Report No. 05/269, 2005). The country remained one of the fastest growing economies in the world. This was not solely due to a rise in value of the oil and gas sectors, which increased by 18.2 per cent in 2007, related in part to a 13.1 per cent hike in average oil prices. The non-oil sector also performed impressively, reaching Dh467.9 billion, equivalent to 64.1 per cent of overall GDP. Key factors influencing growth in the economy were (based on Central Bank statistics) increases in the construction and building sector (25.6 per cent), along with significant growth in manufacturing and industry (19.8 per cent); real estate (16.9 per cent); the financial sector (11.5 per cent); transportation and communications (8.3 per cent); and tourism, which continued its steady growth at a rate of 6.4 per cent. Added to these positive influences, the state maintained its strongly supportive role through investment in government services, electricity and agriculture. Indeed, the government services sector output actually increased by 22.7 per cent in 2007, reaching a figure of Dh49.27 billion.

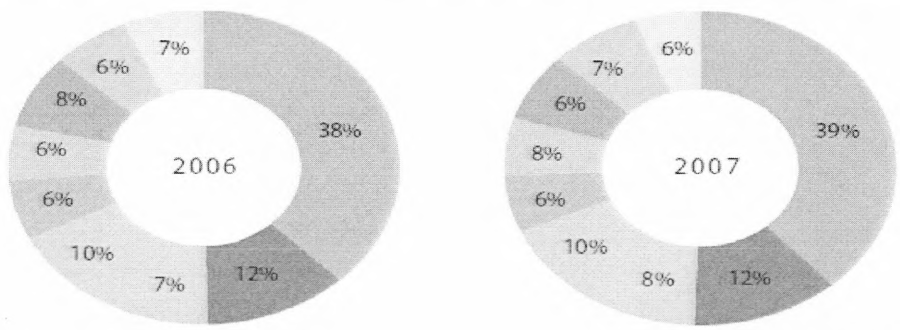
On October 09, 2007 the Executive Board of the International Monetary Fund (IMF) concluded Article IV consultation with the United Arab Emirates and issued Public Information Notice (PIN) No. 07/125 which reviewed the IMF's economic findings on the UAE. The report concludes that:

> *"The rapid economic expansion in the U.A.E. has continued uninterrupted for the fourth consecutive year, with non-hydrocarbon GDP growth averaging in excess of 10 per cent. This has been aided by an outward-oriented development strategy, a favorable business climate, and sustained high oil prices. The fiscal and external surpluses remain large, allowing for further accumulation of official foreign assets. However, strong demand growth and housing shortages have led to sharp increases in rents and contributed to upward pressure on other prices. As a result, consumer price inflation exceeded 9 per cent in 2006. The medium-term outlook is very positive with real GDP growth projected to remain strong in 2007"* (2007:5).

Executive Directors of the IMF commended the United Arab Emirates for pursuing prudent macroeconomic policies, the prudent management of oil resources, and an outward-oriented development strategy, which have resulted in low inflation and high growth, as well as sizeable fiscal and external current account surpluses, a comfortable international reserve position, and the accumulation of foreign assets.

Figure 4.1: UAE's GDP contributions of economic sectors for the Years 2006 and 2007

GDP BY SECTOR (in millions of dirhams)



Sectors		2006*	2007**
(1)	Non-financial enterprises sector	554,611	647,394
	Agriculture, livestock & fishery	12,595	12,797
	Extractive industries	239,115	282,633
	A. Crude oil & natural gas	237,952	281,340
	B. Other	1,163	1,293
	Manufacturing	75,555	90,530
	Electricity, gas & water	9,796	10,893
	Construction	46,428	58,301
	Wholesale / retail trade & maintenance	64,345	72,781
	Restaurants & hotels	10,733	11,419
	Transportation, storage & communication	39,631	42,926
	Real estate & business services	47,455	55,495
	Social & private services	8,958	9,619
(2)	Financial enterprises sector	36,705	40,919
(3)	Government services sector	40,153	49,266
	Household services	2,702	2,798
(less) Imputed bank services charges		9,548	10,645
TOTAL		624,623	729,732
Total non-oil sectors		386,671	448,392

Including agriculture, livestock & fishing; electricity & water; restaurants & hotels, social & personal services and household services
Source: Ministry of Economy * Adjusted data ** Preliminary data

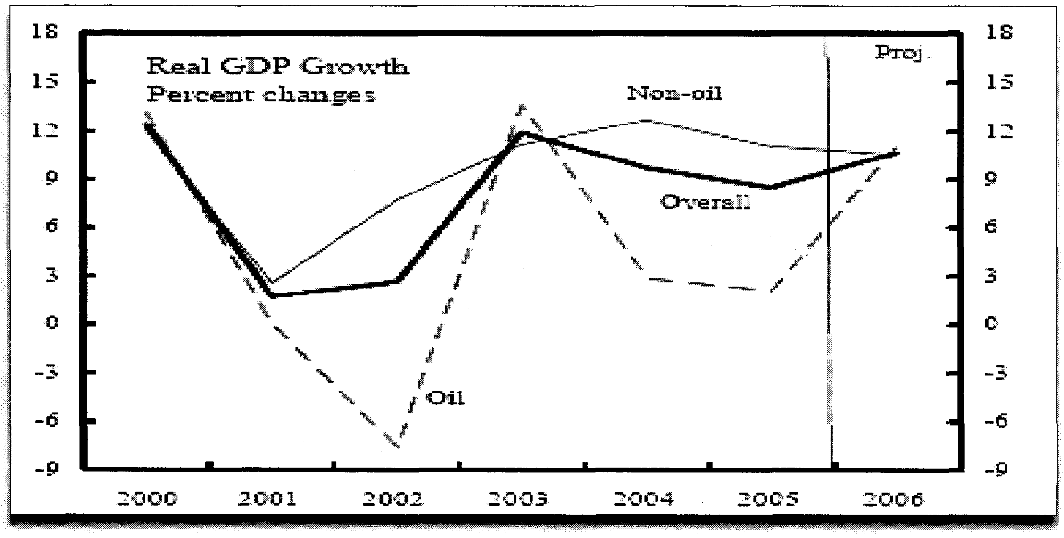
Source: UAE Year Book, Ministry of Economy and Planning (2009)

4.4.3.1 Investments and economic diversification

The late President of the UAE established a program of economic reform and liberalization that has received high consideration and approval ratings from key international organizations such as the International Monetary Fund (IMF). The IMF Country Report No. 06/257 states that:

> *"Based on the oil dependency ratio, measured by the ratio of the oil revenues as a share of total government revenues to oil exports as a share of total exports, the UAE has gone from being one of the most oil dependent economies 'about 90 per cent' in 1980 to one of the least oil dependent economies by 2004 "about 50–60 per cent" (2006:4) (see Figure 4.2).*

Figure 4.2: Percentage change in real UAE's GDP growth



Source: The IMF Country Report No. 06/257 (2006)

Prompted by such a conviction as "economic growth should ideally occur with productive investments in all sectors" (Ministry of Economy and Planning-UAE, 2006), the country was ever keen to diversify investments as illustrated by the various projects which covered all economic and social sectors. In 2005, total investment activities in the UAE were worth US$ 25.5 billion, or 19.3 per cent of the concurrent GDP. The private sector undertakes a large role in investment. Its contribution of total investments implemented in 2005 was slightly higher than one-half (50.9 per cent). However, private sector investments are basically directed to manufacturing industry, trade, restaurant and hotels, real estate transportation and warehousing (UAE Annual Economic and Social Report, 2005). Overall, the economic diversification efforts have led to sustained investments in non-oil sectors such as the development of free zones, tourism, manufacturing, banking, re-exports, information technology, and other sectors that are increasingly dominated by the private capital (Elhiraika and Hamed, 2002:3).

4.5 The global business environment of the UAE

This part reviews the global business environment of the UAE which led to the proliferation of the phenomenon of the SAs. It is divided into four sections. A brief explanation of the emergence of SAs in the Middle East is provided in the first section. The second section discuses the foreign direct investments (FDI) including free zone investments. The UAE foreign trade is discussed in section three. Section four gives some global indices of the UAE's global business environment.

4.5.1 Foreign direct investment in the Middle East

Strategic alliances in general and joint ventures in particular in the Middle East were mainly formed for the purpose of oil production (Sulej, 1998). According to Stevens (1976), three types of JVs have operated in the Middle East for the purpose of oil production. The first type is the "old style" concessions which have dominated during the period 1901-1972. The first successful agreement of this type in the area was the concession granted to D'Acry in 1901 by the Persian Government. The second is the contract agreement, which first appeared in the area in 1966. Of the 19 new oil agreements signed in Iran, Saudi Arabia, Kuwait, Iraq and Egypt between 1957 and 1965, 2 were concession agreements and 17 were joint venture agreements. The third type is the equity joint venture, which first came in use in 1972.

4.5.2 Foreign direct investment in the UAE

Although for the UAE, FDI is the highest in the region at around US$19 billion in 2007, the government has been active in its efforts to improve conditions to meet with the aspirations of international, regional, and local investors (UAE Year Book, 2009). Among key incentives to investors is the very favourable tax environment especially in the free zones where in most cases there are no corporate and income taxes. It helps that the UAE per capita income is one of the highest in the region. Coupled with this, its population growth rate is among the highest worldwide. These factors create a 'virtuous cycle': i.e. a market with very high, and rapidly growing, purchasing power, which attracts further FDI (UAE Year Book, 2009). A survey of more than 800 foreign companies in the UAE conducted by the Ministry of Economy and Planning in 2008, investigated conditions for FDI. It identified a range of pluses and minuses in terms of the country's FDI attractiveness. Among major attractions were the UAE's political stability, its excellent access to regional markets, its favourable geographical position and the convenience of access to world markets. Among significant negative factors were rising operating costs, fuel prices and tough foreign competition. Following years of success in promoting diversification of the UAE's economy and creating numerous opportunities for private investment in UAE-based businesses, leading government officials and finance experts are the first to admit that there is still considerable scope for investment growth, both through encouragement of private national investment in the UAE and through further attraction of foreign direct investments (UAE Yearbook, 2006).

The IMF Country Report No. 05/268 (2005) described the global business environment of the UAE as being:

> *"An outward-oriented development strategy, based on: first, an open trade regime and unrestricted capital outflows; second, a deregulated and competitive business environment with low taxes; third, a well-developed physical and institutional infrastructure; and fourth, an open and unrestricted labour market, has resulted in an impressive economic growth and diversification of the UAE's economy" (2005:6).*

The report further shows that the UAE fares very well in most of the priority areas of investment climate constrains that a World Bank Investment Climate Survey has identified based on responses from more than 26,000 firms in 53 developing countries (see Tables 4.2, 4.3 and Figures 4.3 and 4.4).

Table 4.2: Growth competitive index

Country	Rank	Score
UAE	16	5.21
Singapore	7	5.56
Hong Kong	21	5.06
Chile	22	5.01
Bahrain	28	4.91
Tunisia	42	4.51
Morocco	56	4.06

Source: The IMF Country Report No. 05/268 (2005)

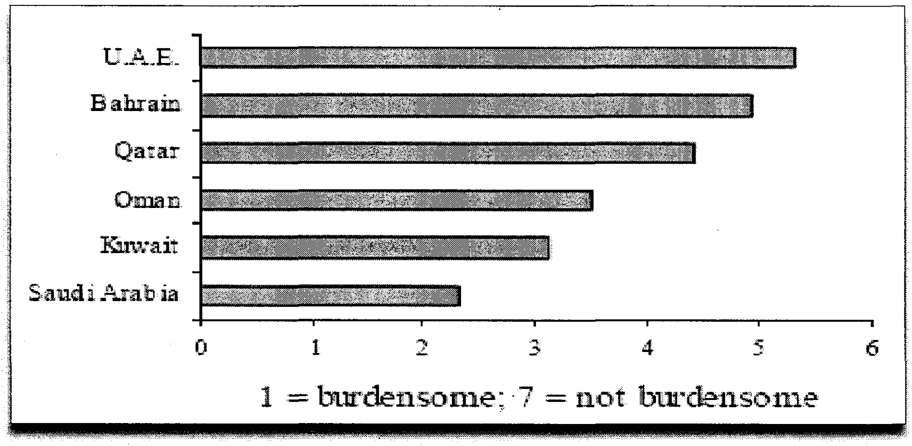
Table 4.3: Doing business – snapshot of business environment

Indicator	Average		
	UAE	Regional	OECD
Rigidity of employment index (Avg. hours, hiring and firing) **1/**	33.0	38.7	34.4
Cost to create collateral (per cent of income per capita)	9.4	18.5	5.2
Protecting investors			
Disclosure of index (ownership, audit, financial information) **2/**	2.0	2.6	5.6
Enforcing contract			
Number of procedures	53.0	38.0	19.0
Cost (per cent of debt)	16.0	17.9	10.8

1/ Lower score = less rigid
2/ Higher score = more disclosure of information

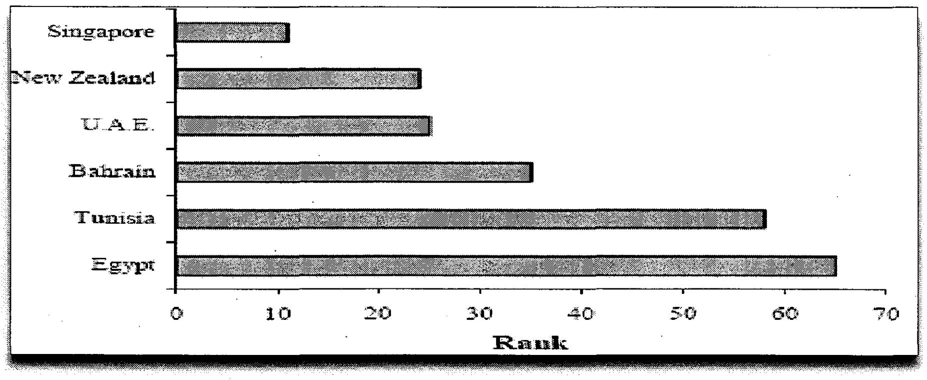
Source: The IMF Country Report No. 05/268 (2005)

Figure 4.3: Administrative regulations



Source: The IMF Country Report No. 05/269 (2005)

Figure 4.4: Technology index



Source: The IMF Country Report No. 05/268 (2005)

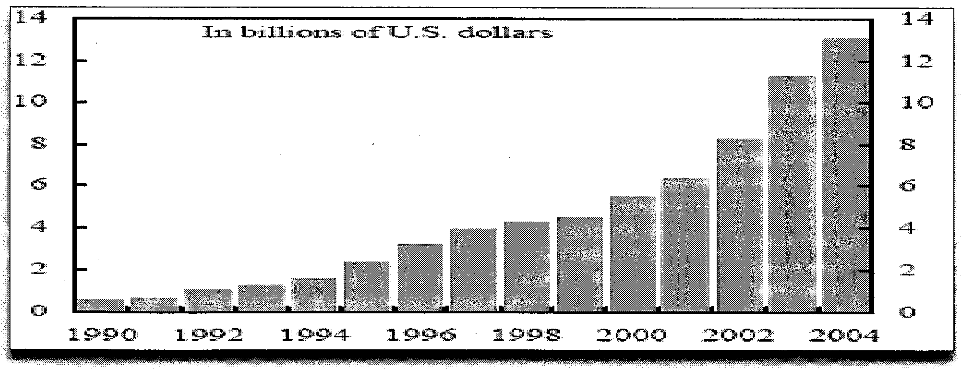
FDIs are regarded as crucial in order to transfer knowledge and expertise to areas that are not yet the country's core competencies, open new market opportunities by the creation of new networks and create employment in knowledge intensive and high value-added sectors (UAE Yearbook, 2007). However, the primary aim of attracting FDIs is not so much to do with money but more to do with expertise, technology and experience, contributing to the improved production methods and enhanced infrastructure (UAE Yearbook, 2007). Strategic alliances play a vital role in this respect. SAs help to establish long-term collaborative agreements to share resources, knowledge, and marketing channels between foreign companies and those from the UAE.

4.5.2.1 Free zones

The UAE Annual Economic and Social Report (2004) defined a free zone as a zone within the geographic borders of a state, but in terms of customs it is treated like a foreign country as concerns its relationship with the rest of the parts of its original country. It is called free because of the freedom that the concerned zone enjoys in trading with the rest of the world, that is, no customs fees are imposed on trading exchanges between the free zone and other countries. However, the legislation of the state and other regulations are valid within the free zone; it is subject to the state's sovereignty, except for taxation sovereignty, in its relationship with foreign countries. Establishing free trade zones has been a significant step taken by the government to diversify the economy (Moore, 2004). The no-tax policy and the relaxed rules for foreign ownership within these zones, combined with the strategic location of the UAE, have enabled the country to become a business hub for trade and export. The mid 1980s witnessed the emergence of several free zones in the Emirates. The first of which was Jebel Ali in Dubai in 1985, then free zones started to spread all over the Emirates, whether at sea ports or airports, such as the free zone in Fujaira (1987), the free zone in Um-Ulquwain (1987), the free zone in Ajman (1988), the free zone in Sharja (at Sharja International Airport) (1985), Al Hamriyah free zone in Sharja (1996), the free zone at Dubai International Airport (1996), and Abu Dhabi free zone (1996). The UAE founded free zones in order to realize several aims, among which, are: attract foreign capitals and technology, beside national capital; to work inside the country, through providing financial and legislative facilities for projects operating at the free zone, whether national or foreign projects. Another aim is to encourage industries for exports to help to realize surplus in the state's trade balance (see figure 4.5). Several factors helped the UAE to establish the free zones. According to the UAE Annual Economic and Social Report, 2004, among the most important factors are:

- Availability of capitals;
- The UAE, by virtue of its location, is considered an important trading centre;
- The UAE represent an open economy in terms of trading;
- Availability of some raw materials required by industry;
- Availability of energy resources required by industry.

Figure 4.5: Free zone exports

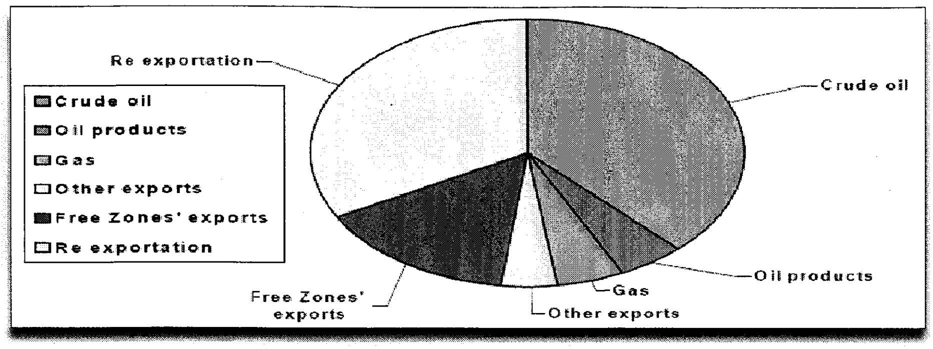


Source: The IMF Country Report No. 05/268 (2005)

4.5.3 Foreign trade

Foreign trade is a main indicator that reflects the openness of any economy. In this connection, the UAE was the second largest trading nation in the Arab world in 2007 (UAE Year Book, 2009). Trade for the year totalled Dh1.01 trillion (US$244.1 billion) in 2007 (see Figure 4.6), accounting for 22.2 per cent of the total Arab commercial exchange of US$1.234 trillion, despite the fact that its population accounts for just 1.4 per cent of the total Arab population. Economists attributed the surge in trade to an increase in crude oil and gas exports, higher non-oil exports by free zones and other areas, and a sharp rise in imports as a result of strong domestic demand and a steady increase in re-export (UAE Year Book, 2009). Total trade (exports and imports) relative to GDP were 149 per cent, which means that total trade exceeded GDP by 49 per cent (UAE Annual Economic and Social Report, 2005). Statistics also show that the trade surplus grew from US$ 21.2 billion in 2004 to 43.6 billion in 2005. Looking at the structure of foreign trade, it is noted that merchandise exports grew by 27 per cent in 2005 as these increased to US$ 115.5 in 2005 from 91 billion in the previous year. Crude oil constituted 38 per cent of merchandise exports in 2005, free zone exports and re-exports 33 per cent and the balance was mainly petroleum products, gas and exports from the free zone areas (see Table 4.4 and Figure 4.7). By contrast, a review of merchandise imports shows an increase by 12 per cent in 2005 where the total value was US$ 72.2 billion in 2004 and went up to 80.8 billion in 2005 (UAE Annual Economic and Social Report, 2005).

Figure 4.6: Exports structure for the Year 2005



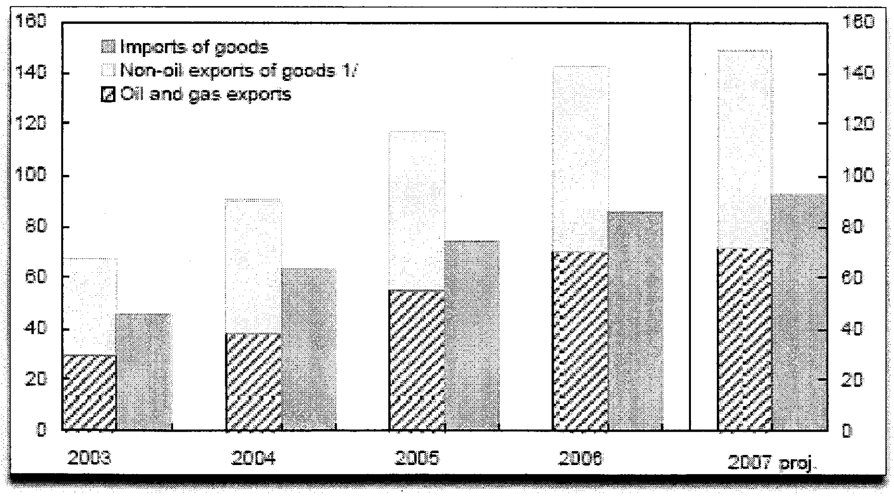
Source: Annual Economic and Social Report, Ministry of Economy and planning (2005)

Table 4.4: Foreign trade structure (2005)

Merchandise Exports		Merchandise Imports	
Crude Oil	43.7	Consumption goods	28.3
Petroleum Products	5.7	Intermediate goods	29.1
Gas	5.7	Capital goods	23.4
Industrial and a Agriculture	4.9		
Goods	17.4		
Free Zone Exports and Re-exports	38.1		
Gross	115.5		80.8

Source: Annual Economic and Social Report, Ministry of Economy and Planning (2005)

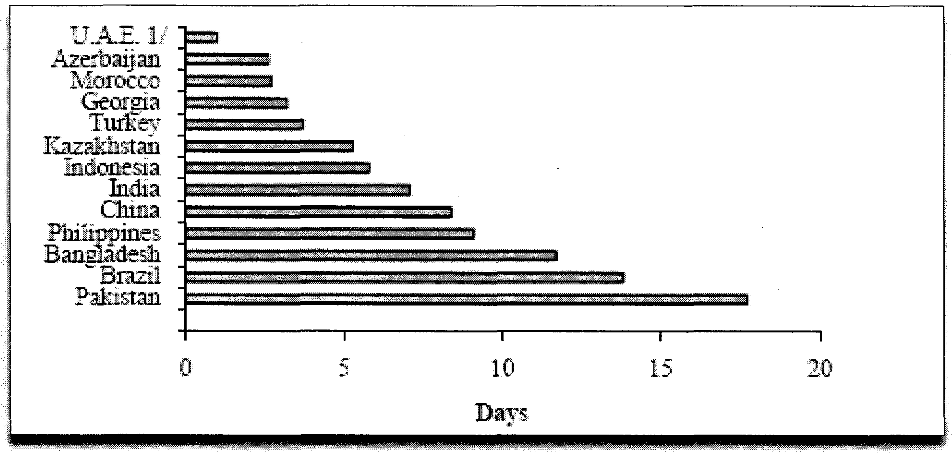
Figure 4.7: Imports and Exports of Goods (in billions of U.S dollars)



Source: The IMF Country Report No. 07/347 (2007)

According to the UAE Yearbook (2005), efficiently functioning ports and customs with minimal administrative procedural and logistical obstacles have contributed to the growth of trade and trade of related services through the provision of good quality backbone services such as transportation, finance, and information and communication technology. The high quality infrastructure and efficient operations of the ports and airports have reduced time and transactions cost in: (i) trade-related activities; (ii) clearing of goods in customs: and (iii) shipping goods overseas. In comparison with other developing countries see Figure 4.8 below.

Figure 4.8: Clearing customs for imports



Source: The IMF Country Report No. 05/268 (2005)

The UAE has had a history of one of the lowest tariff and non-tariff barriers among Singapore, Hong Kong, and Australia. Compared to an average tariff rate of 19 per cent for the Middle East region in 1997, the UAE had an average tariff of 8 per cent (see Table 4.5). Reflecting the trade policies followed thus far, share of non-oil exports (including re-exports) to GDP has grown from less than 10 per cent in the early 1980s to more than 35 per cent in 2004 and larger than the share of oil to GDP (The IMF Country Report No. 05/268, 2005).

Table 4.5: Simple average tariffs*

Country Name	Average Tariffs	
	2004	**1997**
Bahrain	8.0	5.0
Egypt	35.5	9.1
Iran	28.0	22.7
Jordan	23.7	13.0
Kuwait	6.0	5.0
Lebanon	17.5	5.7
Libya	21.5	18.5
Oman	4.8	5.0
Pakistan	35.0	16.5
Qatar	7.0	5.2
Saudi Arabia	12.3	6.0
Sudan	28	22.6
Syrian Arab Republic	35.0	25.0
United Arab Emirates	8.0	5.0
Republic of Yemen	12.9	12.6
Average	19	12

* Average tariff is the un-weighted mean of all tariff lines and includes other duties and charges

Source: The IMF Country Report No. 05/268 (2005)

4.5.3.1 Foreign trade agreements

The attractive business environment of the UAE helped in encouraging trade and investments with countries from all over the world including the European Union's countries and the United States of America. The attractiveness of the UAE's business environment is attributed to, among other factors, a government philosophy which states that economic strength derives from trade partnerships and free trade agreements with countries around the world (UAE in Intensive Talks, 2006). Moreover, in addition to pursuing one-on-one partnerships with various nations such as the United Kingdom, United States, France, Germany, Japan, and South Korea, the UAE is working collectively with the Gulf Cooperation Council (GCC) countries to set up agreements for the region. Although talks with the United States faced impediments, trade between the US and the UAE amounted to US$ 10 billion in 2005, making it the third largest US trading partner in the Middle East. Discussions with China for a bilateral free trade agreement have been also moving forward (Free Trade Agreement with China, 2007). The free trade agreements (FTA) between the GCC and the EU is expected to boost trade between the two regions from its current level of 40 billion Euros in 2006 to at least twice that figure in the future. Talks to establish FTAs have also begun with both Australia and New Zealand (UAE Yearbook, 2007). Additionally, the UAE will participate in the GCC talks with China, Pakistan, India, Turkey, and the European Free Trade Association (Iceland, Liechtenstein, Norway, and Switzerland). All in all, the UAE is negotiating eight FTAs with key economic blocs that will significantly impact on trade. Whilst the potential benefits of such agreements are clear, final deals have proven to be somewhat elusive. Agreements with the European Union and the US are particularly important for exports, economic diversification and attracting foreign investment into the region (UAE Year Book, 2009).

4.5.4 The regulatory environment

Laws that can affect the organization and the operations of business being conducted within the country are the (1) Federal Companies Law, (2) Commercial Agencies Law, (3) Federal Industry Law, and (4) Government Tenders Law (Dark, 2004). The Federal Companies Law is regulated by the Ministry of Economy and Panning and applies to limited liability companies and to branch offices of foreign companies. Business may establish a presence in the country as a limited liability company (LLC), which requires a UAE national to have 51 per cent ownership, although profits may be distributed differently. Alternately, foreign investors may choose to set up a branch or a "representative" office. Both require the appointment of a UAE national as agent who will have no financial interest in the business but will be paid an annual fee. Alternately, a company may set up in a free trade zone (Getting Started, 2006). A business being established must register in and follow the regulations of the respective emirate. Procedures for obtaining a business license will vary. Applications made to the Abu Dhabi Municipality require approval from other government departments. In Dubai, the Department of Economic Development (DED) handles branch office licensing and exempts certain services/activities from requiring ministry approval. The Commercial Agencies Law applies to the relationship between foreign investors and the local agent or distributor. The agent/distributor must be a UAE national or a business wholly owned by a UAE national. The law stipulates terms and conditions such as exclusivity of the relationship, compensation, and termination actions. The July 2006 amendment modified the regulations about relationship fixed terms, termination and registering an agency with the Ministry. According to the Minister of Economy and Panning:

> *"A revision of the Commercial Agencies Law was required to bring it fully into conformity with the laws and regulations of other jurisdictions as far as concerns commercial contracts and exclusive agency rights, to improve transparency in the agent-principal dispute resolution process through the referral of disputes to the courts and to ensure that price stability is maintains through the enforcement of price controls with respect to exclusive agencies"* (Khalifa Issues, 2006:19).

The Federal Industry Law relates specifically to industrial projects. Again, national ownership must be at least 51 per cent. Alternately, should the business have a board of directors, the majority must be UAE nationals. Industries exempted include those that engage in the extraction and refining of oil, gas, and other natural resources. Other exemptions may be extended to firms with small capital investment or projects that are convened under special laws and agreements (UAE Investment Guide, 2004). The Government Tenders Law sets out the regulations for any supplier or contractor wishing to tender a bid for public-sector work or to sell to the federal government. The "seller" must be a UAE national individual or wholly owned business, a foreign business entity with 51 per cent national ownership or a foreign business entity that is represented by a national agent. The law is applied federally rather than to individual emirates' contracts (Dark, 2004).

4.5.4.1 Tax law

According to Al Tamimi and Company *"There is no federal tax legislation on the taxation of corporations in the UAE; instead each emirate has its own tax"* (n.d:9). Within the Abu Dhabi emirate, oil and gas companies are taxed at a rate that is specified in concession agreements; branches of foreign banks are taxed at a flat rate on annual profits, and a flat- rate service tax is applied to hotels and entertainment. Abu Dhabi has a sliding-scale formula for an incorporated business based on taxable income. Dubai has a similar percentage scale formula for businesses. However, in practice, no tax is paid. In Dubai, oil companies are taxed at 55 per cent of UAE taxable income and according to concession agreements; banks pay 20 per cent on UAE taxable income. Property taxes vary across emirates and are generally a percentage of annual rents. In Abu Dhabi, the rate is approximately 10 per cent for businesses and 5 per cent for residences. Dubai charges residential tax based on employment status. Banks are levied 15 per cent property tax, whereas other business endeavours pay 5 per cent. For residential tenants in Sharjah, the annual property tax is 2 per cent. Personal income taxes are not levied, and double taxation treaties have been signed with a number of countries. Businesses located in the free trade zones are exempted (Al Tamimi and Company, n.d.). The UAE joined the GCC Customs Union in January 2003. A 5 per cent tariff was established on 1,500 imported items from non-member countries. Imports of liquor, which are available in all emirates except Sharjah, are subjected to 50 per cent custom duty. Tobacco is levied a 100 per cent tariff. Even at that, prices are considerably lower than in many Western developed countries. Duty exemptions are in place for more than 50 food and agriculture items (National Bank of Dubai, 2006).

4.5.4.2 Intellectual property rights

The UAE leads the region in the protection of intellectual property rights and is a contracting party to the World Intellectual Property Organization (WIPO). The UAE also supports the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) as part of its WTO membership and has signed the Paris Convention for the Protection of Industrial Property (patent, trademark and related industrial property). In 2002, the government enacted the copyright law and amended the trademark law. The government is committed to *"amend and expand the scope of landmark copyright, trademark and patent laws"* (UAE Investment Climate Statement, 2006:6). All these actions augmented the country's global business environment and made it an attractive hub for international business.

4.6 Summary and conclusion

Despite its small geographical area and population size, the UAE is one of the fastest growing economies in the world. This was not solely due to a rise in value of the oil and gas sectors, but also to the economic diversification policy and free-market economy policies adopted by the UAE government. The economic diversification efforts have led to sustained investments in non-oil sectors such as the development of free trade zones, tourism, manufacturing, banking, re-exports, information technology, and other sectors that are increasingly dominated by the private capital. The fast economic growth and the diversification efforts necessitated partnerships and strategic alliances with foreign companies which in turn encouraged the government to pursue free-market policy. The UAE has an attractive global business environment. Among key attractive factors is the very favourable tax environment especially in the free zones where in most cases there are no corporate and income taxes. It helps that the UAE per capita income is one of the highest in the region. Other attractive factors include the UAE's political stability, its excellent access to regional markets, its favourable geographical position and the convenience of access to world markets. All these factors, and others, accelerated the number of strategic alliances.

CHAPTER 5
Research methodology

5.1 Introduction

The aim of this chapter is to explain the research methodology used in this study. This study is a phenomenological, exploratory one which entails multiple types of evidence gathered from different sources, often using different data collection methods to explore and understand the formation process of SAs. Hence, following a phenomenological approach to the use of qualitative research, this study is based on a case study and interviews method to help in data collection and analysis. The grounds for this choice are elucidated below, considering the objectives of the present study.

5.2 Research approach

Social research is characterized by a number of different perspectives or philosophies (Stiles, 2001), where the positivist and phenomenological schools of thought have been argued as addressing the philosophical extremes of social research (Strauss and Corbin, 1990; Easterby-Smith *et al.*, 1991; May, 1993; Miles and Huberman, 1994). Some of the frequently referred perspectives include positivism, symbolic interactionism, ethnomethodology, realism, idealism, and phenomenology. The perspectives can vary significantly in, for example, their theoretical background, or in their substantive interest (Knorr-Cetina, 1981). Also the implications of these different approaches, their underlying views, and their application to the research phenomenon are, however, an important consideration when undertaking any research project. Each will influence the design of the research methodology and the interpretation of the investigation at hand (Easterby-Smith *et al.*, 1991; May, 1993). In what follows, key characteristics of the two extremes, positivist and the phenomenologist paradigms, and key characteristics of the resultant qualitative research and quantitative research are described.

5.2.1 Positivism vs. phenomenological approach

5.2.1.1 The positivism approach to research

This approach primarily claims that reality is external and objective, and knowledge is only of significance if it is based on observations of this external reality (Easterby-Smith *et al.*, 1991). Similarly it holds that facts and values are distinct and scientific knowledge consists only of facts (Archer, 1988). Accordingly, the scientific knowledge is utterly objective and only scientific knowledge is valid, certain, and accurate (Crotty, 1998). To achieve such a scientific knowledge, this approach, according to Lee (1991), involves the manipulation of theoretical propositions using the rules of formal logic and the rules of hypothetico-deductive logic, so that the theoretical propositions satisfy the four requirements of falsifiability, logical consistency, relative explanatory power, and survival. Heidegger (1962) and Evered and Louis (1991) argue that the overall aim of the positivist research process is to construct a set of theoretical statements that are generalizable and service the development of universal knowledge. This approach therefore tends towards the use of questionnaires for data collection and analytical statistical analysis such as hypothesis testing, random sampling, aggregation, precision and measurement (Stiles, 2003).

5.2.1.2 The Phenomenology approach to research

The foundation of this approach is that knowledge comes from human experience, which is inherently continuous and non-logical, and which may be symbolically representable (Evered and Louis, 1991). Such an approach aims to understand phenomena from the point of view of participants directly involved with the phenomenon under study (Cavaye, 1996) or from the actor's own frame of reference (Bogdan and Taylor, 1975). Rather than concentrating on a generalizable result, the ultimate aims of the study from this perspective are to develop situational relevance. This may then be used as the basis for future more generalizable investigation. Phenomenological approaches, according to Stiles (2003), therefore tend to favour such techniques as observation, in-depth interviews, and case studies in an attempt to gather depth and idiographic perspective upon which the phenomenological paradigm relies. Researchers working with the phenomenology approach are more likely to work with qualitative data, investigating small samples in depth or over time, and using multiple methods to establish different views of phenomena (Easterby-Smith *et al.*, 1991). Data derived in this way are arguably characterized by a greater richness than the positivist stance and allow the researcher to discover the basis for new ideas and theories. Table 5.1 summarizes the distinguishing features of positivism and phenomenology, considering the basic beliefs underpinning each approach, role played by the researcher, and preferred methods of analysis associated with each approach.

Table 5.1: Key features of positivist and phenomenological paradigms

	Positivist Paradigm	Phenomenological Paradigm
Basic beliefs:	The world is external and objective Observer is independent Science is value free	The world is socially constructed and objective Observer is part of what is observed Science is driven by human interest
Researcher should:	Focus on facts Look for causality and fundamental laws Reduce phenomena to simplest Elements Formulate hypotheses and then test them	Focus on meaning Try to understand what is happening Look at the totality of each situation Develop idea through induction from data
Preferred methods include:	Operationalizing concepts so that they can be measured Taking large samples	Using different methods to establish different views of phenomena Small samples investigated in depth or over time

Source: Adopted from Easterby-Smith M., Thorpe R., and Lowe A. (1991) "Management research: An introduction", pp. 27, Sage Publications, London.

It is noteworthy that the selection of a particular approach depends on the research objectives, research questions, and the interest of the researcher (Easterby-Smith *et al.*, 1991; Morgan and Smircich, 1980). Hence, the realism approach is used for the purpose of conducting this research. Realism embraces a middle ground in a dichotomy identified as positivism and phenomenology (Easterby-Smith *et al.*, 1991; Knor-Cetina, 1981; May, 1993; Miles and Huberman, 1994; Stiles, 1995). The continuum is identified (Stiles, 1995 after May 1993) as positivism-empiricism-realism-idealism with idealism being at the phenomenological extreme. This research uses the perspective of realism in which Stiles (1995) observed that there is a need to understand the process by which people interpret the world and that theory is used to explain observations from the social world. Proponents of this perspective argue that it is also necessary to explain observations from the social world through the use of theoretical frameworks in order to determine the underlying mechanisms that influence people's actions. Consequently, the realist methodological approach tends to favour a process of mixed methods and therefore, provides an element of unification by offering a philosophical "bridge" between the positivist and the phenomenologist view because it relies on semi-structured interviews or group observation to enable the collection of rich, subjective data (Stiles, 2003). This is, however, reinforced or underpinned by the inclusion of more deductive methods such as supporting questionnaires and extant research. The information is then analyzed through a process of triangulation. Stiles (2003) argues that a critical area of importance for the research focused around the need to gain a full and true understanding of the reality in question (the formation process of SAs in our case) rather than concentrating upon the need to establish universal applicability. Stiles (2003) also argues that for the purpose of exploratory research into strategic alliance partnerships, the realist paradigm presents the most appropriate basis from which to develop a specific method of enquiry. Under these circumstances the chosen approach needed to offer the ability to achieve depth, opportunity and support for an exploratory approach (Evered and Louis, 1991).

5.2.2 Qualitative vs. quantitative research

It is also important to further understand the distinction between qualitative research and quantitative research. The gathering, analysis and interpretation of data are always conducted within some broader understanding of what constitutes legitimate inquiry and warrantable knowledge (Henwood and Pidgeon, 1993). Some key theoretical principles of ***quantitative research*** are: reality is objective, i.e. there is one reality in nature, one truth; explanation is restricted purely to positive phenomena; and the logical form of a theory is deductive (Sarantakos, 1998). Quantitative evidence, however, appears to be both precise and hard because it deals with numbers, though the value of the numbers depends both upon the assumptions under which they are produced or calculated and on the way in which they are interpreted (Remenyi *et al.*, 1998:127).

The aim of ***qualitative research is*** not to uncover the "fact" but to offer an interpretation of participants' meanings, understandings and experiences (Sarantakos, 1998). In particular, qualitative research allows theory development to be pursued in a highly effective and economical manner (Hammersley and Atkinson, 1983). Thus, the research questions in the qualitative study may not be formulated in detail until the research problems and context are clarified (Maxwell, 1998). However, it has been often argues that qualitative research does not provide as a great reliability as does quantitative research (Sarantakos, 1998). One way of approaching this is through attempting to use a variety of methods and multiple data sources in order to provide richer insights – so called "triangulation" (Maxwell, 1998). Qualitative researchers often study only a small number of individuals or sites, using theoretical or purposeful rather than probability sampling. The perceived value of qualitative research has been increased, because the qualitative research allows theory development to be pursued (Hammersley and Atkinson, 1983; Maxwell, 1998).

This study seeks to explore the process the decision makers use to form SAs in the UAE. It also attempts to find out factors responsible for success or failure of SAs in UAE 's enterprises. According to Cherry (2000:12) a qualitative exploratory research design is very useful when we know little about a group of people or phenomenon. In addition, methodologists have strongly argued that qualitative methods are suitable and vital when the research is exploratory (Darlington and Scott, 2002; and Yin, 2003) and when the research questions are: what is, how or why (Amaratunga *et al.*, 2002; Spencer *et al.*, 2003; and Yin, 1994). In certain cases, exploratory research is undertaken in order to provide a basis for further study, while in other cases it is undertaken to gain information on the issue itself. Thus, based on the premise and the features of phenomenological approach, the exploratory research design is considered suitable for the purpose of conducting this qualitative research.

5.3 Research methods

Based on the research questions and objectives of this study, it has been found that the case study method based on in-depth interviews, where two types of interviews were used: semi structured interviews along with structured interviews (self administered questionnaires), and documentary records and observation is more appropriate to follow in this study. In what follows the rationale and justification of using this method is given.

5.3.1 Case study

A case study is defined by Eisenhardt as *"a research strategy which focuses on understanding the dynamics present within single settings"* (1989:534). Another relevant definition of a case study is provided by Yin as *"an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used"* (1989:23). Similarly, Hartley argues that *"case study research consists of detailed investigation, often with data collected over a period of time, of one* *or more organizations, or groups within organizations with a view to providing an analysis of the context and processes in the phenomenon under study"* (1994:208).

The above mentioned definitions indicate that a case study is an appropriate investigative framework for understanding a phenomenon alongside its context. Case study is widely used in the field of management and organizational studies. In that sense, in strategic studies such as SAs, empirical data have been collected by means of case studies and interviews (Chandler, 1962; Allison, 1971; Mintzberg, 1973; Quinn, 1980; Eisenhardt and Bourgeois, 1992; Lorange *et al.*, 1992; Frankel *et al.*, 1996; Qi, 2000). Starting from theories and known facts in literature, qualitative data generated by interviews and case studies are utilized to gain a better direction for the deep explorative study. There are three types of case study that have been identified in the literature on research methods (Locke, 2001). The first type, the intrinsic case study, focuses on the uniqueness of a particular case; researchers are interested simply in understanding the case itself for its particularity and uniqueness. The second type, the instrumental case, is where researchers are interested in a particular case because of the potential it has to offer providing insight into a substantive issue or to advance a theory. The third type is collective cases, when the instrumental case extends to more than one case. This typology is embedded in Yin's (1989) approach, which indicates that case studies can involve either single or multiple cases, and numerous levels of analysis. If there are multiple cases, the logic is of replication rather than sampling. Furthermore, Eisenhardt (1989) argues that case studies typically combine data collection methods such as archives, interviews, questionnaires, and observations. The evidence may be qualitative (e.g., words), quantitative (e.g., numbers), or both. Moreover, Eisenhardt (1989) added that case studies can be used to accomplish various aims: to provide description, test theory or generate a theory. Stake suggests that case studies have become "one of the most common ways to do qualitative inquiry" (2000:435).

The present research uses case study as the main research strategy in investigating the process by which enterprises in the UAE form SAs. There are three reasons why case study method has been employed in this study.

First, as it is mentioned in chapter one, this study is the first of its kind to explore the process of forming SAs in a particular context, accordingly this study is basically an exploratory attempt to describe "how" SAs are formed in a developing context (i.e. United Arab Emirates) and to explain "why" it is developed in that particular way. When research work involves knowledge generation and acquiring understanding of a complex subject a case study is the only appropriate method (Yin, 1989). Yin (1989) further argues that when the research objectives evolve around how and why with regard to a contemporary set of events, over which investigator has little or no control, the case study will be the most appropriate investigative framework. Case studies can be particularly useful for studying a process, program or individual in an in-depth, holistic way that *allows for deep understanding of a particular phenomenon. Therefore, "a case study is employed to gain an in-depth understanding of the situation and meaning for those involved. The interest is in the process rather than outcomes, in the context rather than a specific variable and in discovery rather than confirmation"* (Merriam, 1998:19)

Second, Rosen (1991) clearly argues that to understand a social process, one must get inside the world of those generating it. The simplest way to do this would seem to be to get access to the actors themselves and to elicit their interpretations directly (Johanson, 1987; Nandhakumar, and Jones, 1997). This could be satisfactorily done only through being involved within each site and in-depth interviewing of these actors. Also case studies allow one to target multiple responses within and across cases, and thus may provide in-depth information to address the research problems (Maxwell, 1998). A case study, therefore, has been chosen because it is a useful and important qualitative research method that helps to understand complex phenomena in their natural setting especially when the researcher does not know the important variables to examine (Creswell, 2003).

Third, for a sound understanding of the process of ISAs formation, both inner content (organizational) and outer context (environmental) should be considered. According to Merriam (1998), in focusing on a particular phenomenon in a case study, it is impossible to separate the phenomenon from its context. Hartley (1994) cogently argues that case studies are useful where it is important to understand social processes in their organizational and environmental contexts. Yin (2003), who is also in line with Merriam and Hartley, argues that case studies are often necessary where the object needs to be studied within its real-life context. However, in this study, it is important to note that the context is understood as part of the process. Thus, using a case study approach allows for gaining significant knowledge and in-depth understanding of the process of SAs in particular contexts.

Based on these foregoing arguments, it has been judged that the case study method would be the most appropriate strategy for understanding the complexities surrounding the process of ISAs in a developing context through an in-depth interviewing of those who have been involved in its making. In this respect, Eisenhardt (1989) attempted to produce a roadmap for building theories from case study research. This roadmap is summarized in Table 5.2 below.

A common criticism of the case study method, however, is that it provides little basis for scientific generalization. However, Yin argues that *"case studies, like experiments, are generalizable to theoretical propositions and not to population or universe"* (1989:21). Yin contends that the case study, because it does not represent a "sample", should be regarded in the same way as the experiment. With the case study method, the investigator aims to expand and generalize theories, "analytic generalization", and not to enumerate frequencies, "statistical generalization" (Yin, 1989). In this study the researcher started with developing a framework for SAs from the theory, which then subjected to rigorous tests. The research is a deductive one where research questions are deduced from the theory to generate a set of testable propositions about the formation process of SAs in a developing context and the outcome of the inquiry is examined.

Table 5.2: Process of building theory from case study research

Step	Activity	Reason
Getting Started	Definition of research question Possibly a priori constructs	Focuses efforts Provides better grounding for construct measures
Selecting Cases	Neither theory not hypotheses Specified population Theoretical, not random, sampling	Retains theoretical flexibility Constrains extraneous variation and sharpens external validity Focusing efforts on theoretically useful cases – i.e., those that replicate or extend theory by filling conceptual categories
Crafting Instruments And Protocols	Multiple data collection methods Qualitative and quantitative data combined Multiple Investigators	Strengthens grounding of theory by triangulation of evidence Synergistic view of evidence Fosters divergent perspectives and strengthens grounding
Entering the Field	Overlap data collection and analysis, including field notes Flexible and opportunistic data collection methods	Speeds analyses and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features
Analyzing Data	Within-case analysis Cross-case pattern search using divergent techniques	Gains familiarity with data and preliminary theory generation Forces investigators to look beyond initial impressions and see evidence thru multiple lenses
Shaping Hypotheses	Iteractive tabulation of evidence for each construct Replication, not sampling, logic across cases Search evidence for "why" behind relationships	Sharpens construct definition, validity, and measurability Confirms, extends, and sharpens theory Builds internal validity
Enfolding Literature	Comparison with conflicting literature Comparison with similar literature	Builds internal validity, raises theoretical level, and sharpens construct definition Sharpens generalizability, improves construct definition, and raises theoretical level
Reaching Closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Source: Eisenhardt, K. M. (1989) "Building theory from case study research", Academy of Management Review 14(4): 532-550.

5.3.2. Interviews

Byrne (2001:22) argues for the usefulness of interviewing as a data collection technique for researching strategy processes by stating that;

"interviewing is one of the most common methods for collecting data in qualitative research. Interviews allow participants to provide rich, contextual descriptions of events.

The process of interviewing is time consuming, and the quality of data often is dependent on the aptitude of the interviewer".

Types of interviews are commonly divided between: structured, semi-structured, and unstructured (Saunders *et al.,* 2000). The types chosen for this qualitative research were structured interviews and semi-structured interviews with more emphasis on semi-structured ones. To sum up, the reasons for choosing these forms of interview are explained below:

Semi structured interviews

This form of interview utilizes open-ended questions which give depth as well as flexibility to interviews and allow interviewees to provide extensive and developmental answers and can be used to obtain facts and attitudes. According to Dane:

> *"The semi structured interview is flexible as it allows the interviewer to investigate more fully the opinions and behaviours; therefore, the total collection of responses should contain more information that is diverse in details" (1990:125).*

Moreover, Denzin (1989) argues that semi-structured interviews would adequately provide for a combination of objectivity, flexibility and depth. Prior to the interviews the writers prepare themes and questions to ask. However, if necessary new questions or follow up questions were asked to the interviewees in order to maximize the benefit of the interview. The interviews consisted of a series of open-ended questions discussing perceptions of past and present phenomenon. According to Bryman (2001), in a semi-structured interview the researcher has a list of questions or fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply. Therefore, semi-structured interviews enabled the researcher to pose some questions regarding specific issues, while allowing participants to respond with knowledge and experience from their own work environment, and to add whatever other issues they deemed relevant. Interview guides were prepared before each interview took place. Each interview's questions were based on feedback from the previous interviews. The emphasis was to discover the processes through which SAs were formed and carried out.

Structured interviews (self-administered questionnaires)

This was the second type of interviews used for data collection. Bryman (2001) argues that it utilizes closed and probing questions. Closed questions were used to save interviewees' time, establish exact facts, and confirm an opinion. Towards this goal, closed questions were designed in a form of self administered questionnaires which were later being administered in my presence. Although both interview questions and the self administered questionnaire contained the same parts of questions, questions in each part were different (see Appendices 3,4 &5).

5.3.3 Documentary records

Evidence for case studies come form six documentary sources: archival records; interviews; direct observation; participants' observation; and physical artifacts (Yin, 1989). In this connection, Lincoln and Guba (1985) defined a document as any written or recorded material. In addition, Punch (2000) described documents as a rich source of data for social research. Documentary evidence sought to "*corroborate and augment evidence from other sources*" (Yin, 2003:31). Multiple sources of data are used in case studies to increase validity and reliability (Yin, 1994). Information derived from documents also can be used to generate interview questions or identify events to be observed. However, the effective use of archival information in organizational research is often achieved through it being used alongside data from other sources such as interviews (Poole and Lampard, 2002).

5.4 The research journey

The process of collecting data passed through a number of stages. This process can be conceptualized as a journey which has been completed over a period of time. Before deciding to move from one stage to the next, a report is prepared showing the progress made, difficulties faced and their proposed solutions and a plan is prepared for the next stage to secure maximum success. However, the journey was not as straight forward as it seems here. Many difficulties were encountered at each stage and some steps had to be repeated. Formal as well as informal relationships and social networks were utilized to get to the end of this journey which started in March 2007 and ended in December 2008. In order to secure the achievement of research goals, the journey was preceded by some preparatory steps.

5.4.1 Preparation for the research journey

Some preparatory steps were taken, before the research journey, to facilitate the successful completion of the journey. These steps included conducting a pilot study;

requesting research director's support; and attempting collaborative agreements with some organizations.

5.4.1.1 Conducting the pilot study

A pilot study was conducted to test the efficacy of the research instrument and cases, the clarity of the questions and instructions, and the time required to complete the interview. A pilot study is as "*an abbreviated version of a research project in which the researcher practices or tests the procedures to be used in the subsequent main study*" (Dane, 1990:43). Similarly, Champion argues that *"pilot studies allow the researcher to detect any faults with the methods of data collection and to gain ideas with regards to the effective execution of the main study"* (1998:233). To save researcher's limited resources and to avoid repeating the process of contacting enterprises to participate in the pilot study, the researcher decided to send request letters to as many companies as possible to secure a large pool of respondents for future selection. Nine enterprises that had formulated SAs in United Arab Emirates were contacted to participate in this study, only four replied among them two agreed to participate in the study and two apologized. Three executives from the participating enterprises were interviewed. The interview questions were checked for clarity by colleagues from the College of Business and Economics on the United Arab Emirates University. The interview questions were revised in light of the results of pilot study. Some questions had to be deleted, other questions had to be added, while others had to be clarified. That is why some clarifications and explanations were sent to the executives prior to the interviews. The pilot study also revealed a problem relating to the difficulty of getting access to the proposed enterprises. The researcher observed that there was negative attitude towards research and reluctance among the top executives to participate in such studies. Accordingly, it was expected that the process of collecting data by conducting in-depth interviews with the top executive would be a complicated one. Therefore, it was thought that a pilot study was needed for this study in order to refine the data collection plan with respect to both the content of the data and the procedures to be followed.

5.4.1.2 Seeking support from the study supervisor

To increase the possibility of getting the maximum positive response from the potential enterprises, it was decided to approach them with a support letter from the research supervisor. This was discussed with the supervisor who promptly provided me with a letter directed to the targeted enterprises. The letter explained the objectives and the importance of the study and requested executives to facilitate the process of getting access to data while emphasizing the fact that the data would be only used for academic purposes and ensured maximum confidentiality and anonymity (see appendix 1 A).

5.4.1.3 Attempting collaborative agreements with organizations

Attempts were made to find established collaborators who were expected to share similar research interests with the researcher. Organizations, both governmental as well as private, were contacted for this purpose. These organizations were mainly research and consultancy organizations such as Emirates Centre for Strategic Studies and Research (ECSSR) and Institute for International Research (IIR). The goals of collaboration, the roles of each party, and the expected benefits for each party were explained (see appendix 1 C). The researcher's major goal was to utilize the contacts and influence of these collaborating organizations to find access to enterprises that were believed to be restrictive. Some benefits were secured to these organizations from their collaboration such as providing them with the study results and findings and mentioning their names in the thesis as establishing collaborative organizations. Unfortunately, no organization was interested in this offer since all of them apologized for not being able to participate in the project.

5.4.2 Starting the research journey

The research journey involved three phases. To start with, the process of searching for, negotiating with and securing access to target enterprises is provided in phase 1. Phase 2 involves selection of enterprises and selection of cases studies and respondents within each company. Phase 3 is the conduct of data collection. In what follows each stage is discussed.

Phase 1: Searching the Target Enterprises and Negotiating and Securing Access

The researcher started by searching for enterprises which had formed SAs (either successful cases or failed ones) in order to learn about these enterprises and the process of forming SAs. The sources of data about these enterprises were the Directory of Abu Dhabi Chamber of Commerce and Industry, Directory of Dubai Chamber of Commerce and Industry, Directory of the Ministry of Economy and Planning, national newspapers, and business magazines and bulletins. Although the search process resulted in finding a large number of enterprises engaging in SAs, the researcher's intention was to find large enterprises in the sense that they have clear SAs' plans. Therefore, in order to ensure suitability of selected enterprises and accuracy of data, enterprises were selected according to specific criteria, as follows:

- A company should have formed at least one strategic alliance;
- A company should have a clear strategy for strategic alliance formation;

- A company should be either 100 per cent locally owned or a joint venture between a local company and a foreign company with at least 51 per cent local equity share;
- A company should be from the private sector, public sector, or jointly owned by the private and public sector;
- A company should be either from the manufacturing sector or service sector;
- A decision maker should be available and accessed to conduct interviews;
- Documentary records should be available and accessible.

Based on these criteria, the researcher was able to select 31 enterprises to be contacted (see appendix 2). These enterprises are relatively big, either private, public, or joint venture (private and public), and covering a wide range of business activities such as telecommunications, energy, oil and gas, manufacturing, airline, real estate, trade and investment, and operations of ports and free zones.

To ensure good quality of response, an introductory letter together with a letter of support from my research supervisor were sent to the chief executive officers/presidents of the potential enterprises prior to the administration of the interviews (see appendix 1 A and B) . In this letter, I introduced my self, explained the research purpose, asked for access to data, and assured confidentiality and anonymity. Different responses were received from the enterprises. There were three different outcomes: no response (12.9 per cent); agreed (32.2 per cent); and apologized (54.9 per cent). The justifications for apologizing were 'confidentiality', 'executives too busy', or 'decision makers involved in SAs not available'. However, some enterprises provided conditional approval. For example, Jebel Ali Free Zone, The UAE Offset Group, Emaar Properties, and Emirates Group agreed to answer all interview questions and to mail them back to my address together with documentary reports required for the research without having face-to-face interviews with executives. The UAE Offsets Group further asked for the signing of a confidentiality agreement regarding the information provided. Despite these hurdles, the researcher accepted their offers and conditions with the intention of having a second opportunity in the future to get full access to the decision makers.

However, due to time constraints, an alternate action had to be made by the researcher in order to progress the research. A second attempt was made by the researcher to have full access to enterprises. In this turn, the researcher decided, instead of sending letters, to focus on and to conduct field visits to a smaller number of enterprises in an attempt to convince their top executives of the importance of the study and the benefits that they would have from participating in this study. This new research approach was preceded by using informal relationships and social networks to build rapport and break the ice during the visits. The new strategy was successful in having the researcher secure six enterprises. They are: 1) Abu Dhabi National Oil Company (ADNOC); 2) Emirates Telecommunication Corporation (ETISALAT); 3) Dubai Ports World (DPW); 4) Dubai Aluminum Company (DUBAL); 5) Dubai Cables Company (DUCAB); and 6) Ras Al Khaimah Ceramics Company (RAS Ceramics).

Eventually, three enterprises were excluded later. Dubai Ports World (DP World) was excluded mainly because they provided only general information about the company. When the researcher reached the stage of in-depth interviews and documentary analysis, respondents began to postpone our meetings until I gave up. Dubai Cables Company (DUCAB) and Ras Al Khaimah Ceramics Company (RAK Ceramics) were also excluded mainly because of the unavailability of the decision makers who had participated in forming and managing alliances. This is in addition to the unavailability of documentary records and the lack of appropriate cases to be studied. On the positive side, full and unconditional access was given by three enterprises which proved to have suitable cases to be studied, availability of decision makers involved in forming recent alliances, and accessible documentary records. The enterprises were: 1) Emirates Telecommunication Corporation (ETISALAT); 2) Abu Dhabi National Oil Company (ADNOC); and 3) Dubai Aluminum (DUBAL). Meanwhile and fortunately, at a conference organized by the College of Business and Economics of the United Arab Emirates University (where I work as a senior lecturer) I met his Excellency Mr. Abdulla Al Saleh, the Under Secretary, Ministry of Economy and Planning, who was also in charge of the UAE-World Trade Organization (WTO) negotiations. I had the opportunity to introduce my self to him and to explain the purpose and objectives of my research. Fortunately Mr. Al Saleh was interested in my research study and invited me to his office. Later, I conducted two interviews with him and other two interviews with members of his team which was involved in the negotiations between the WTO and UAE and in charge of managing and supervising UAE's foreign investments. Mr. Al Saleh was very helpful as he facilitated getting prompt access to the foregoing mentioned three enterprises and asked his office staff to provide me with all necessary and available data I needed to complete my study.

Phase 2: Selecting Sites, Cases and Respondents

Based on the criteria of company selection and the results of enterprises search process, following interviews with Mr Al-Saleh and his team and discussions with my research supervisor only two enterprises were selected. These enterprises are Emirates Telecommunications Corporation (ETISALAT) and Abu Dhabi National Oil Company (ADNOC). The reasons for selecting these two enterprises for the purpose of conducting this study are as follows. First, the quality of access in both enterprises were very favourable in such a way that the executives, I met in these enterprises possess rich and relevant data. Second, respondents were either in charge of forming and managing SAs in their respective enterprises; had participated in making decisions relevant to SAs, a situation that secures the issue of theoretical relevance; or had direct access to data. Third, the executives I met in these two enterprises showed some degree of enthusiasm for the study and maintained proper documentary records which are considered important for studying a phenomenon such as the process of strategic alliance formation. Fourth, the selected enterprises share some similar aspects and some differences. They are similar with respect to the fact that both of them have recent as well as established SAs. Also, they are similar in being large and important to the economy of the United Arab Emirates. However, the two enterprises differ in size, culture, and industry.

Once the sites were selected, negotiations started with top executives to select the cases to be studied within each company. The process of case selection started at the first interview when the interviewees were asked to explain the most important ISAs to their enterprises. The importance was broadly defined in terms of novelty (non-routine), complexity and difficulties faced, demand for a commitment of a substantial amount of resources, shareholders reaction, industry reaction, and expected outcome. Therefore, the case studies were selected on the basis of their importance to the company, their continuity status (either ended or still under operation), recently formed vs. established alliances, and their performance status (succeeded, failed, or experiencing difficulties but still running). Recently formed alliances had to be selected in order to reduce as much as possible the errors of distortion and memory failure of actors when collecting data (Mintzberg *et al.*, 1976; Papadakis *et al.*, 1998). However, in all instances the researcher had no opportunity to select the case under study because the case was nominated in advance by the company's executive. Consequently, two case studies were nominated by selected enterprises (see Table 5.3 below), one is quite recent and the other is quite old. Then, executives in each company were asked to identify the decision makers involved in each alliance and to permit them to attend interviews and provide necessary data. Respondents were selected on the basis of roles occupied in the strategic alliance and they were in the capacity of directors, department heads and project managers. Table 5.4 below, shows the names and positions of respondents who participated in the study.

Table 5.3: Strategic alliances nominated by executives for the study in each company

Company Name	Strategic Alliance/ Joint Venture Selected/Nominated for Study
Abu Dhabi National Oil Company (ADNOC)	Abu Dhabi Gas Liquefaction Limited (ADGAS): a joint venture formed in 1973 by ADNOC, BP-UK, Mitsui and Co. Ltd.-Japan, and Total-France to produce and sell and deliver Liquid Natural Gas (LNG), Liquid Petroleum Gas (LPG) and Sulphur.
Emirates Telecommunications Corporation (ETISALAT)	Etisalat Egypt: a joint venture formed in 2006 by Etisalat, Egypt Post, National Bank of Egypt, and Commercial International Bank (Egypt). The goal of this venture is to establish and operate Egypt's third mobile phone network.

Table 5.4: Names and positions of respondents who participated in the study

Company	Area of Business	Person(s) Interviewed
Abu Dhabi National Oil Company (ADNOC)	Energy (Oil and Gas)	Mohamed Al Suwaidi (Chief Executive Officer, ADNOC), Saif Ahmed Al Ghafli (General Manager, ADGAS), and Hassan Al Marzouqi (Deputy General Manager, ADGAS)
Emirates Telecommunication Corporation (ETISALAT)	Telecommunications	Mohamed Al Qamzy (Chief Executive Officer), Abdalla Al Jarwan (Vice President, International Investments) and Ali Al Saeygh (Transaction Manager, International Investments)

The use of these two case studies is appropriate for this research because of their reliability and validity of respondents and data collected. It is also similar to other studies in this respect. For example, Yan and Gray (1994) used a sample of four enterprises when they studied the U.S-Chinese JVs. Neuman (1997) argues that judgmental sampling was often used where a small number of cases was to be examined in depth, and where cases were to be selected on the grounds that had been particularly informative. Therefore, this researcher is in line with Yin who contends that "case studies, like experiments, are generalisable to theoretical propositions and not to population or universe" (1989:1). Yin (1989) further argues that with the case study method, the investigator aims to expand and generalize theories, "analytic generalization", and not to enumerate frequencies, "statistical generalization". Also, the decision regarding the number of cases depends on accessibility, availability of resources, research objectives, etc. (Eisenhardt, 1989). Considering this, the number of enterprises was not of crucial importance. Another important issue relating to case study selection is theoretical relevance which is ensured by selecting these two enterprises. The area of study, here the formation process of international strategic alliance, is kept similar or as Eisenhardt puts it "is likely to replicate or extend the emergent theory" (1989:539).

Phase 3: Data Collection

Data were mainly collected by conducting in-depth interviews. Data obtained from one interview were cross-checked with data from other interviewees, and against the documentary evidence and observations (i.e. triangulation).

Conducting interviews

The researcher prepared an interview guide which includes a sequence of themes to be covered as well as suggested questions. Detailed interview questions were developed from the literature in relation to the research objectives and the research questions. These questions were grouped into nine sets; each is directed toward exploring a specific research question, stage/decision or factor in the process of strategic alliance formation (see Appendix 4). Questions relating to general company's information were located in the first part. The second part includes questions relating to the reasons (motives) for forming the strategic alliance (the case under study). In the third part, the researcher attempted to collect data relating to partner selection (partner search, evaluation and selection). Part four is about building and maintaining trust among partners and the potential effect of such trust on the strategic alliance formation process. Questions relating to choice of the alliance's form of structure and factors affecting such a decision are covered in part five. Part six is about managing and controlling SAs. Questions in part seven explored criteria used to measure the strategic alliance's performance and the factors influencing the performance. Questions in part eight were directed to explore the process of knowledge transfer and organizational learning and their relation to SAs. Finally, questions relating to the impact of organizational and national cultures were located in part nine.

Structured interviews (self administered questionnaires) were also utilized by the researcher. Closed questions were used to save the interviewees' time, establish exact facts, and confirm an opinion. Closed questions were designed in a form of self administered questionnaires which were later administered in the researcher's presence. Although both interview questions and the self administered questionnaire contained the same parts of questions, the questions in each part were different (see Appendix 5)

At the beginning of each interview I firstly introduced myself, research topic and the purpose of the interview; asked interviewees if they had any questions or concerns; and requested permission to tape-record the session. These interviews averaged 80 minutes in length. Interviews were conducted in Dubai and Abu Dhabi from February 2008 to November 2008. The people interviewed include managing directors/chief executive managers, departmental heads as well as top government officials in relevant ministries. The questions were produced in English and answered in English and were checked for accuracy and suitability by my supervisor and two independent advisors; one is a professor in UAE University and the other is the General Director of Dubai Cables (Ducab). Prior to the meeting, interviewees were asked if they would allow the interview to be recorded. It is worth noting at this point that all respondents seemed quite reluctant to tape-record the interviews. Despite its time consumption, the researcher preferred to rely on note-taking because it was observed to be more convenient to interviewees. There are several advantages and disadvantages of these two types of reporting media (see Walsham, 1995:78).

Reviewing documentary records

The researcher had the opportunity to access internal documentary evidence in conjunction with interviews. Internal documentary analysis is important because information contained in documents may not be available in spoken form and such texts endure and thus give historical insights (Hodder, 1998; Yin, 1998). Considerable materials were collected about the enterprises, cases under study, and the broader context from files and official records of companies studied. Documentary records used included joint venture contracts, annual reports, promotional material, and parent company documentation. In addition to the available documents reviewed in each company, the researcher has also used latest data from the Institute of Administrative Development, the UAE Centre for Strategic Studies and Research, the Federal Research Division, Chambers of commerce and industry, the UAE University, and relevant ministries. Other reports produced by the United Nations, the World Bank and the International Monetary Fund as well as local newspapers and business magazines were also utilized for the purpose of conducting this study.

5.4.3 Difficulties encountered in data collection

Data collection in the UAE, especially through case studies and interviews, proved to be a challenging process. In the capacity of a senior lecturer of management in the premier university in the United Arab Emirates (i.e. United Arab Emirates University) and although I was provided by support letters from my research supervisor and from my employer to facilitate the process of data collection, many difficulties were encountered during the stage of data collection. Following are some, but not exhaustive list of these difficulties.

5.4.3.1 Difficulties in getting and maintaining access to the selected companies

Getting access to data was not as straight forward as the researcher was expecting. This was mainly due to the high confidentiality policy followed by most companies in the UAE and due to executives' time limitation. Furthermore, maintaining access to the selected companies was not less difficult than getting initial access. It was noticed in all selected companies that once the first interview was successfully conducted it was not easy to get appointments for subsequent visits/interviews. Moreover, getting access to documentary records was much more difficult than getting access to interviews with key managers because such records are considered strictly confidential.

5.4.3.2 Difficulties resulted from reluctance and negative attitude towards research

With very few exceptions, reluctance was a common attitude shared by almost all respondents. It was also observed that most companies contacted for the purpose of data collection showed negative attitude towards research. Seventeen out of thirty one companies contacted did not reply at all and four apologized for reasons such as time limitation and unavailability of the right person. The reason for such an attitude, I believe, is the strategic nature and sensitivity of the study which led to unwillingness to provide data. This situation required the researcher to spend more time and effort to build trust to access interviewees' minds and to convince them to actively participate in this study. In this respect, Nandhakumar and Jones (1997) contend that relations between field researchers and their subjects rest on a base of trust, which in turn, rest on a base of relationships.

The meetings that I had with his Excellency Mr. Abdulla Al Saleh, the Under Secretary, Ministry of Economy and Planning (see section 5.4.2) not only resulted in getting access to data in the said ministry and in the department in charge of UAE-WTO negotiations, but also helped in getting access to the selected companies as he formally and informally requested these companies to provide support. However, when access is secured and meetings started the researcher exerted substantial effort to build trust and to maintain access.

5.5 Validity and reliability of the research methods

Validity and reliability tests were conducted to measure the soundness of the data collected. According to Bernard (2000), validity refers to the accuracy and trustworthiness of data and the findings from their analysis. By contrast, reliability is to illustrate the level at which the instrument is stable and consistent with measuring the concept to allow repeating the same research using the same data collection method and sample to obtain the same results of those previous study (Sekaran, 1984). Therefore, some of the main steps that the researcher has taken to ensure the validity and reliability of the research methods interviews were:

- To define the main research questions, the researcher relied on the theoretical foundations during the initial stages of the study and reviewed the underlying theories or constructs that explain the formation process of SAs.
- Companies, case studies, and interviewees have been selected systematically, according to established criteria.
- Research questions were cross-checked with the study supervisor for their suitability.

- Interview question were cross-checked for suitability by the study supervisor and two professors from the UAE University.
- A pilot study was conducted, as explained above, on a selected group of respondents. Based on the results of the pilot study, the interview questions were revised and some changes were made accordingly.
- Interview questions were designed and administered in a way that they are consistently understood in a way that ambiguous words were avoided and key terms in questions were defined.
- The role of the interviewer was reduced to the minimum possible in order to avoid any bias or guidance of the data collection process by the researcher.
- All interviews were recorded in note-taking because it was found more convenient for the interviewees than tape-recording.
- To avoid misunderstandings and to maintain the reliability of the data, the interviews were transcribed and sent back to the interviewees for accuracy checking and comments. This cross examination increased the quality of the data.
- The initial findings of the interviews were discussed with the research supervisor and it was necessary to verify some information again with the respondents and to recheck some documents.
- Data was also cross-checked with and feedback received from other independent sources. These sources were different independent informants such as professors from the College of Business and Economics-UAE University. Comments and additional information received from feedback sessions were very valuable as they increased the quality of this research.

The researcher made all possible attempts to reach maximum openness of this study. The researcher attempted to provide the reader ample opportunities to examine the particulars of the study such as what choices were made by the researcher with respect to the construction of the study, what were the steps in the process of forming the research questions, selecting a site, generating and collecting the data and processing and analyzing the data.

5.6 Ethics of research

Involvement in research requires a general awareness and acknowledgement of appropriate and inappropriate conduct (Strydom, 2002). Specified ethical issues and aspects should be considered in the qualitative research, in particular the entire research process in relation to research design and data collection and analysis (Ticehurst and Veal, 2000). Moreover Punch (2000:59) identified some important issues and concerns that the researcher has to consider and fulfil as follows: (1) informing the participants in detail about their involvement in the research; (2) avoiding harm and risk; (3) allowing free choice; (4) ensuring privacy; and (5) guaranteeing confidentiality and anonymity. The researcher has considered these concerns and has adhered to the University Code of Practice in Doing Research (University of Abertay Dundee, 2002, http://quality/) and was granted ethical approval by the School Research Ethnics Committee to conduct this research.

Prior to each interview, letters were sent to the respondents to uncover the researcher's identity, explaining the nature and objectives of the study and emphasizing that collected data would be used only for academic purpose and ensuring maximum confidentiality and anonymity. At the beginning of each interview the researcher made sure that the participants had full information about the nature and objectives of the study. Also the participants were given free choice to continue or withdraw from the study at any time they chose. In fact, the researcher made every possible effort to ensure that confidentiality was kept as promised. Ensuring confidentiality, privacy and anonymity of the participants' responses and identities throughout the research was one of the main principles of conducting this research. All participants had no objection that their names to be mentioned in the draft of the research thesis.

5.7 Data analysis and presentation

The final stage of doing this research is a systematic analysis of the data collected. This section is to describe how data were analyzed and interpreted. However, before discussing the data analysis process, it is important to note that there is, according to Babbie and Mouton (2001), no single neat and tidy approach to qualitative data analysis, nor even one approach to each specific type of analysis under reference. Overall, qualitative data analysis refers to the manipulation of large volume of words obtained by interviews or observations or from documentary records which require describing and summarizing, and subsequently the researcher has to look for relationships between various themes that have emerged through the analysis process to answer the research questions (Lacey and Luff, 2001:3). In view of the fact that qualitative research deals with words rather than numbers, there are few accepted rules and standardized procedures for analyzing qualitative data (Bourgeois and Eisenhardt, 1988). Nevertheless, any technique should be related to the conceptual framework and the research questions or hypotheses and, thus, the collected qualitative data must be categorized through and assessed with respect to the research questions posed and the identified concepts (Ticehurst and Veal, 2000).

Obviously, there are two basic types of qualitative data analysis: content analysis and grounded theory approach (Easterby-Smith *et al.*, 1991; May, 1993; Strauss and Corbin, 1998). Content analysis, on the one hand, is a systematic way of analyzing qualitative data by counting the occurrences of certain key words and phrases that appeared in the data. The frequencies are then analyzed (Easterby-Smith *et al.*, 1991). The central aim is to render issues of interpretation as controllable and non-contentious as possible in order to move quickly on to the more 'scientific' process of counting things (Slater in Seale, 1998:235). Furthermore, this type implements meaning categorization which implies that the interview is coded into categories. Grounded theory, by contrast, provides a more open approach to qualitative data analysis. With grounded theory approach, researchers go by feel and intuition and theory created or discovered through observation of particular cases (Silverman, 2000; Strauss and Corbin, 1998). However, it has been criticized as very time consuming, if it is to be conducted properly to give convincing results (Easterby-Smith *et al.*, 1991). Content analysis and grounded theory seem to be opposite in almost every way. More constructively, however, they could be seen as complementary (Slater in Seale, 1998:244). Miles and Huberman (1994), therefore, suggest analyzing qualitative data by adopting an approach which came halfway between content analysis and grounded theory. This researcher adopts Miles and Huberman's suggestion and its practicalities for doing such qualitative analysis. Thus the researcher had tried to combine the rigor of content analysis with the depth and 'analytic power' (Strauss and Corbin, 1998) of grounded theory.

In this research, data analysis started earlier along with data collection and involved what is referred to by Strauss and Corbin (1998) as microanalysis of data. The purpose of this analysis is to organize the recording of information collected during the interview when the memory is fresh. In this respect, Straus and Corbin (1998) argue that microanalysis demonstrates that analysis is not a structured, static or rigid process; rather it is a free-flowing and creative one in which analysts move quickly back and forth between types of coding, using analytic techniques and procedures. For this purpose, the data analysis stage is divided into three phases. The first phase involves the generation and description of propositions. The second phase involves the interpretation of the generated propositions; and the third phase three deals with elaboration of and reflection on these propositions.

Phase 1: Generation and description of propositions

After completing each interview, the researcher began transcribing the interviews, field notes, documents, and summarizes relevant information gained from the interview. The transcribing of data is a process of converting verbal words into readable written format. Therefore, transcribing the interview from an oral to a written mode was the beginning of the analysis. Transcribing entails organizing and reducing a large volume of collected qualitative data and field notes. Data reduction aims at reducing the amount of collected data without stripping the data from their context. Miles and Huberman (1994) argue that data reduction refers to the course of selecting, focusing, simplifying, summarizing and converting the data of written field notes and the transcriptions of interview data. Therefore, one purpose of data analysis was to reduce this data by excluding irrelevant material and grouping together things that are similar (Kvale, 1996).

Transcribing in this research was in the form of writing up the selected cases from the interviewee's view, using a narrative approach, to describe what was going on in each case, what the case looks like, and how the people involved were acting. This helps in dealing with a surge of data. Having read the case narratives, a categorizing strategy in the form of coding was applied. The goal of coding is to fracture the data and rearrange it into categories that facilitate the comparison of data within and between these categories and that aid in the development of theoretical concepts (Strauss, 1987). Initial coding consists of reading through material and identifying where themes of particular interest are illustrated (Seale, 1998). Accordingly, the transcripts were printed out in code words that identified particular groups of lines as being about a particular topic. Every line of the transcripts was numbered in page. It was certainly necessary to do this detailed type of analysis at the beginning of a research project to discover categories and to uncover the relationships among concepts. However, this did not mean that the researcher steadily codes every bit of data, word by word and phrase by phrase, in each transcript. Rather, the researcher learnt to scan these materials, looking for potentially interesting or relevant analytic information (Strauss and Corbin, 1998). Coding, thus, broke the material down into manageable phrases ready for analysis.

Having coded data, they were then conceptualized. The conceptualization was used to convert data described earlier into abstract concepts, categories, and subcategories, with the intention of relating them to each other. This is what Strauss and Corbin (1998) referred to as conceptual ordering. The identification of concepts and categories was linked to the research questions. The categorization displayed data in a way that made it possible to investigate both similarities and differences within and across cases as well as along the dimensions of the categories. Relational statements are then generated out of the categories after they are integrated and refined. This phase is concluded by writing up a descriptive account of the first and second cases based on the categories generated earlier and using these descriptive accounts to generate propositions about each case as a stand-alone entity.

Phase 2: Interpretation of generated propositions

This phase involves three steps. The first step entails presenting the reduced data in organized and understandable shape to allow the researcher to reach about research propositions. The main goal of this process is to represent the data in a more comprehensive way. The second step was an interpretation of the generated propositions and generation of broad characteristics about the formation process of ISAs within each case as a stand-alone entity. This process implies giving meaning and sense to the analyzed data through searching for descriptive patterns. Arriving at this point requires stepping back and systematically examining and re-examining the data, using a variety of what Miles and Huberman called "tactics for generating meaning" (1994:244-262). The third step was performing across case analysis for revealing common patterns from the cases studied (Eisenhardt, 1989). Each case confirms the emergent findings within the other.

Phase 3: Elaboration and reflection

This phase includes two steps. The first one is elaboration within which each of the generated patterns is explained from the cases. It was found that the generated patterns fit the evidence from each case very well. Eisenhardt states that *"a close fit is important to* *building good theory"* (1989:541). The second step is reflection, in which each of the generated patterns is compared with the existing theories of SAs (chapters two and three). This stage revealed how the findings of this study were similar or different to others' findings and attempted to find interpretation for similarities and contradictions.

5.8 Summary and conclusion

The realism approach is utilised to conduct this research. Realism adopts a middle ground in a dichotomy identified as Positivism and Phenomenology. This approach is utilized by this study because it takes the advantages of both positivism approach and phenomenology approach and helps to understand the process by which people interpret the world. In so doing, the realism approach also calls for the utilization of the qualitative approach. Researchers argue that the qualitative research approach is designed to enable researchers to obtain a detailed description and to attain in-depth information for a better understanding of the phenomenon under investigation. In addition, methodologists strongly argue that qualitative methods are suitable and vital when the research is exploratory. The research method used in this research is the case study based on in-depth interviews, structured interviews (self administered questionnaires), and documentary analysis, which is referred to as triangulation. For the purpose of data analysis, this study utilized some of the procedures and techniques suggested by the within case and across case analysis recommended by Eisenhardt (1989) and the replication logic suggested by Yin (1989) to detect similarities and differences between cases. The two next chapters will be devoted to describing the process of international strategic alliance formation within the two companies that have been studied and to generate propositions of such description.

CHAPTER 6
Description and analysis of findings: Abu Dhabi Liquefaction Company (ADGAS)

6.1 Introduction

The purpose of this chapter is twofold. The first is to familiarize the reader with the background and context within which the formation process of ISAs in Abu Dhabi National Oil Company (ADNOC) was developed. To this end, a brief background about the oil industry in UAE, ADNOC and Abu Dhabi Gas Liquefaction Company (ADGAS), and the case under study are presented in sections 6.2, 6.2.1 and 6.3 respectively. The second is to describe the formation process of ADGAS by ADNOC and its partners and to generate some propositions about the strategic alliance formation process. The chapter ends with concluding remarks.

6.2 Oil in the UAE

Oil production is currently near capacity at about 2.5 million barrels per day, accounting for three per cent of world oil production. This makes the UAE the 9th largest crude oil producer and 6th largest net oil exporter in the world. With official reserves of around 98.2 billion barrels, which will last for more than 100 years at the current production rate, the country owns almost 10 per cent of the world's proven oil reserves. The UAE also has the world's fifth largest natural gas reserves after Russia, Iran, Qatar and Saudi Arabia, the proven recoverable reserves are estimated currently at 200 trillion cubic feet or 4 per cent of the world's total (UAE Yearbook, 2007). Oil and gas production has been the mainstay of the economy in the UAE and will remain a major revenue earner long into the future due to the vast hydrocarbon reserves at disposal of the country. The oil and gas sector provides around a third of the UAE's Gross National Product, and remains the dominant contributor of government revenues. Abu Dhabi is by far the biggest oil producer in the UAE, controlling more than 85 per cent of the UAE's total oil output capacity and over 90 per cent of its crude reserves. Principal offshore oil fields are Umm Shaif, Lower Zakum, Upper Zakum, Al Bunduq and Abul Bukhoosh (ADNOC's internal records). The main onshore fields are Asab, Bab, Bu Hasa, Sahil and Shah. Almost 92 per cent of the UAE's gas reserves are also located in Abu Dhabi and the Khuff reservoir beneath the oil fields of Umm Shaif and Abu al-Bukhoosh ranks among the largest single gas reservoirs in the world. Dubai produces around 240,000 barrels a day of oil and substantial quantities of gas from offshore fields, while Saharjah has smaller oil and gas fields (ADNOC's internal records).

6.2.1 Abu Dhabi National Oil Company (ADNOC)

The Abu Dhabi National Oil Company (ADNOC) is a state-owned enterprise engaged in all phases of the oil and gas industry. It has a complex holding company structure involving, in a manner unusual for Middle East oil companies, equity partnerships with large Western oil companies. It is necessary to understand the historical development of Abu Dhabi's oil industry in order to understand the present structure of ADNOC.

6.2.1.1 History of Abu Dhabi oil industry

Abu Dhabi was a latecomer to the Middle Eastern oil industry, only beginning production in 1962. However, the search for oil had begun nearly 30 years earlier. As elsewhere in the Middle East, this search was in the hands of foreign oil interests organized in a consortium. In 1928 a group of U.K., Anglo-Dutch, and U.S. international oil companies formed the Iraq Petroleum Company (IPC) with a concession which came to cover most of Iraq. Once the IPC was formed, each partner agreed that it would not hold concessions in any other part of the former territory of the Ottoman Empire except in association with all the other partners, and in the same proportions as the IPC. Most of the Persian Gulf states, including Abu Dhabi but excluding Kuwait, were included in this area. Thus, when attention turned to searching for oil in the Trucial States, as the UAE was known until 1971, a consortium with exactly the same ownership structure as IPC was formed. In 1935 a new U.K. company was formed, Petroleum Development (Trucial Coast) Ltd., commonly referred to as PDTC. PDTC's ownership was identical to that of IPC, with the Anglo-Persian Oil Company (later British Petroleum), Shell, Companie Française des Pétroles, and a group of two U.S. companies - Exxon and Mobil Oil - owning 23.75 per cent each of the shares, and investor Calouste Gulbenkian's interests the remaining 5 per cent. PDTC contacted all the sheikdoms offering arrangements for concession rights to explore for oil, and to develop production should oil be found. In January 1939 Abu Dhabi granted PDTC such concessions for a period of 75 years (UAE Yearbook, 2005).

Oil discovery and shipment by foreign companies

Oil exploration in Abu Dhabi was slow to get started. It was delayed first by World War II. Thereafter, the IPC group focused on the search for oil in Qatar, where oil exports began in 1949. At the same time knowledge of the geology of Abu Dhabi was limited, and economic conditions there were very underdeveloped. The town of Abu Dhabi itself was no more than a tiny village, and there were no roads in the entire emirate until the 1950s. Drilling finally began in 1950, but the search for oil proved a prolonged one. In

July 1953 a well was drilled in the Bab field but mechanical difficulties led to its being abandoned despite evidence of the presence of oil. Further drilling at Bab finally established the potential of the field by 1960. The Bu Hasa field was proved soon after oil was discovered in commercial quantities, and exports started in 1963. In the following years, PDTC relinquished its concessions in the other Trucial States to concentrate its efforts on Abu Dhabi. In 1963, PDTC was renamed the Abu Dhabi Petroleum Company (ADPC) (UAE Yearbook, 2005).

Meanwhile, oil had also been discovered offshore by other companies. In 1951 Abu Dhabi had established that the concession granted to PDTC did not include the continental shelf belonging to the emirate. As a result, Abu Dhabi granted a concession to cover the offshore territory first to the International Marine Oil Company, which failed to achieve results, and then, in 1954, to Abu Dhabi Marine Areas Ltd. (ADMA), a new company two-thirds owned by British Petroleum (BP) and one-third by Companie Françaises des Pétroles. In 1959 ADMA's drilling barge struck oil at Umm Shaif, which is located 80 miles into the gulf near Das Island. In 1962 the first shipment of oil was loaded from Das Island. The onshore and offshore oil discoveries made Abu Dhabi a large-scale oil producer. Its total oil production grew from zero in 1960 to 102.8 million barrels by the end of 1965 and 253.7 million barrels by 1970 (UAE Yearbook, 2006). By that date its production was one of the largest in the Middle East, and about one-quarter of that of Kuwait.

Changing the oil ownership structure

During the late 1960s there was growing resentment in Abu Dhabi, as elsewhere in the Middle East, of foreign ownership of oil resources, especially the consortium system. The government concluded a 50-50 profit-sharing agreement with ADPC in 1965 and with ADMA in 1966. In 1971 the government established the Abu Dhabi National Oil Company (ADNOC) as a wholly state-owned company. Following the formation of the Organization of Petroleum Exporting Countries (OPEC), Abu Dhabi followed the general policy of requesting participation in the foreign oil companies active in its territory. Effective January 1, 1973 ADNOC acquired 25 per cent of the assets of ADPC and ADMA. The finalization of the ADMA participation agreement was complicated by BP's announcement in December of 1972 of the sale of a 30 per cent interest in ADMA to the Japan Oil Development Co. (JODCO), formed by a consortium of Japanese companies. The government withheld its approval of this deal until March 1973, when BP agreed to finance the construction of an ADNOC-owned refinery in Abu Dhabi (UAE Yearbook, 2006).

By a further agreement in December 1974, the ADNOC interest in the ADPC and ADMA concessions was raised to 60 per cent. These two companies were later reincorporated as Abu Dhabi Company for Onshore Oil Operation and Abu Dhabi Marine Operating Company. However, Abu Dhabi is distinctive among the OPEC members in the gulf in retaining the former concessionaire companies as equity holders in the operating companies. It did not, as elsewhere, seek to remove foreign ownership entirely. ADNOC, therefore, developed as a holding company with an intricate web of majority and minority equity stakes in other producing companies. The government was motivated to follow this strategy by a desire to pursue production and exploration as energetically as possible. As part of this aim, from the 1960s various new concessions were granted to mostly independent oil companies in areas relinquished by ADPC and ADMA, all of which included provisions for ADNOC to have the option to take up to 60 per cent interest in successful ventures (UAE Investment Climate Statement, 2006).

6.2.1.2 The structure of ADNOC Group of Companies

Since its establishment, ADNOC has steadily broadened its activities through its subsidiaries, creating an integrated oil and gas industry in Abu Dhabi. Today ADNOC is the parent company, or owner of all or majority of the shares, of 14 companies (see Table 6.1) known as the "ADNOC Group of Companies". These companies are involved in oil and gas exploration and production, petrochemical industries, marine transportation, distribution of petroleum products, exploration and production services and facilities, and natural gas processing. ADNOC Group has developed as one of the better managed state oil companies by expanding to different oil and gas sectors through ISAs with foreign companies. Therefore, ISAs with Western oil companies have given ADNOC access to skills and technologies which would have been hard to generate internally. In what follows a brief background is provided about each of the companies of ADNOC group. These companies are classified into six sectors according to area of specialization.

Table 6.1: ADNOC Group of Companies

Company Name	Type of Ownership
Sector 1: Exploration and Production of Oil and Gas	
Abu Dhabi Company for Onshore Oil Operations (ADCO)	Joint Venture (ADNOC, BP, TOTAL, Shell, Mobil, ExxonMobil, Partex)
Abu Dhabi Marine Operating Company (ADMA-OPCO)	Joint Venture (ADNOC, BP, TOTAL, JODCO)
Zakum Development Company (ZADCO)	Joint Venture (ADNOC, ExxonMobil, JODCO)
Sector 2: Exploration and Production Services	
National Drilling Company (NDC)	Wholly Owned subsidiary of ADNOC
ESNAAD	Wholly Owned subsidiary of ADNOC
Abu Dhabi Petroleum Ports Operating Company (IRSHAD)	Joint Venture (ADNOC and Land and Marine National Contracting Company-Lamnalco),
Sector 3: Oil and Gas Processing	
Abu Dhabi Gas Industries Limited (GASCO)	Joint Venture (ADNOC, Shell, TOTAL, Partex)
Abu Dhabi Gas Liquefaction Industries Limited (ADGAS)	Joint Venture (ADNOC, Mitsui, BP, TOTAL)
Abu Dhabi Oil Refining Company (TAKREER)	Wholly Owned subsidiary of ADNOC
Sector 4: Chemicals and Petrochemicals	
Ruwais Fertilizer Industries (FERTIL)	Joint Venture (ADNOC, TOTAL)
Abu Dhabi Polymers Company Limited (BOROUGE)	Joint Venture (ADNOC, Borealis)
Sector 5: Maritime Transportation	
Abu Dhabi National Tanker Company (ADNATCO)	Wholly Owned subsidiary of ADNOC
National Gas Shipping Company (NGSCO)	Joint Venture (ADNOC, Mitsui, BP, TOTAL)
Sector 6: Oil and Gas Distribution	
ADNOC Distribution	Wholly Owned subsidiary of ADNOC

Source: Modified by the researcher from ADNOC'S Five Year Achievements Reports 2000-2004, Pages 14-18

ADNOC also has diversified overseas, again favouring joint venture and mixed ownership structures. Together with the Pakistani government, ADNOC formed Pak Arab Fertilizers Ltd., which started producing chemical fertilizers in Pakistan in 1978 and, by 2004 it was producing 450,000 tons of calcium ammonia nitrate, 350,000 tons of nitro phosphate, 90,000 tons of urea and 847,000 tons Multi Product (ADNOC'S Five Year Achievements Reports 2000-2004). The Pak Arab Refinery, another joint venture between ADNOC and the Pakistani government, started production in 1981. The Dolphin is another project formed by the ADNOC from the UAE, Qatargas from Qatar and foreign oil and gas companies. The project aims at transporting gas from Qatar's huge reserves to industrial consumers in the UAE, Oman and other countries to provide a framework to stimulate investment in a variety of related industries.

6.3 Abu Dhabi Gas Liquefaction Industries Limited (ADGAS)

While on a visit to Das Island in the early 1970s, H.H. Sheikh Zayed bin Sultan Al-Nahyan, the late President and Founder of the UAE, keenly observed and enquired about the burning of associated gases, produced during oil extraction and production, into the atmosphere – a process called flaring. Gas flaring was a standard procedure at the time, but Sheikh Zayed decreed it to be a waste of precious natural resources and an avoidable cause of damage to the environment. This visit resulted in H.H. Sheikh Khalifa bin Zayed Al-Nahyan, then the Crown Prince of Abu Dhabi, issuing a joint directive to cease the unnecessary flaring of associated gases immediately. By laying the groundwork for natural gases to be captured and sold as fuel, this visionary decision has had a tremendous impact on protecting the country's environment, and contributing to the nation's economic development, ultimately benefiting the citizens and residents of the UAE.

While extensive studies were showing that natural gas was one of the cleanest and most environment-friendly fuels available, several large industrialized countries were looking for a reliable, clean and efficient energy supply to address their growing demands. Based on these factors, the decision was made to construct a gas liquefaction plant on Das

Island. In 1972, the Tokyo Electric Power Company (TEPCO) signed an agreement to purchase the Liquefied Natural Gas (LNG) and the Liquefied Petroleum Gas (LPG) to be produced at the plant for a 20-year period for use in power generation in and around Tokyo, the Japanese capital. The following year, ADGAS was officially founded and registered in Bermuda as a joint venture with an initial 20 per cent shareholding for ADNOC (which gradually raised to 70 per cent), 35 per cent for Mitsui and Co. Ltd. (which gradually reduced to 15 per cent), 30 per cent for BP (which gradually reduced to 10 per cent) and 15 per cent for TOTAL (which gradually reduced to 5 per cent). It is interesting to note here that ADGAS was the sixth LNG plant to be built in the world, next to Arzew GL4Z (Algeria, October 1964), Kenai (Alaska, October 1969), Marsa El Brega (Libya, April 1970), Lumut (Brunei, December 1972), and Skikda GL1K (Algeria, December 1972).

Table 6.2: ADGAS' history and evolution

Date	Event
07/09/1971	The Gas Liquefaction Project Agreement signed
14/12/1972	The 20-year Sale Agreement with TEPCO signed
10/03/1973	ADGAS registered in Bermuda with ADNOC holding 20 per cent of the shares
23/03/1973	Contract for the construction of ADNOC plant on Das Island signed
04/12/1973	Sheikh Zayed Bin Sultan Al-Nahyanm lays the Plant's foundation stone
25/12/1975	ADNOC's shareholding increased to 51 per cent
28/03/1977	ADGAS incorporated in Abu Dhabi
29/04/1977	First LNG shipment loaded
04/10/1977	The UAE president officially inaugurates the plant
15/10/1990	ADGAS and TEPCO sign a new 25-year agreement under which TEPCO buys ADGAS' doubled LNG production as from 1994
23/06/1993	First Sulphur shipment exported
11/07/1994	Production started from the 3rd LNG Process Train
01/1995	ADGAS first LNG shipment to Europe exported
24/06/1997	ADNOC's shareholding increased to 70 per cent
11/04/2006	22 million man-hours worked without any LTI (LTI)

Source: ADGAS: Thirty Years Story of Success, 2007

Table 6.2 provides a brief snapshot of the history and evolution of ADGAS. In 1977 the company was incorporated in Abu Dhabi, shortly before the plant became operational. In the same year two processing trains came online, producing the Middle East's first ever LNG and LPG and effectively ending the era of associated gas flaring. The two processing trains were designed to produce LNG with an annual designed capacity of 2.5 million tons; 800,000 tons per year of LPG; 220,000 tons per year of Butane, in addition to 220,000 tons per year of Pentane (ADGAS's internal records). It was not only the first of its kind in the Middle East, but also was, and still is, the only plant in the world capable of processing both associated and non-associated gas streams.

ADGAS's first shipment of LNG left Das Island on April 29th, 1977, making ADGAS the pioneer of the Middle East's gas liquefaction industry. In the 1980s, the company's core operations proceeded smoothly and several improvement projects were undertaken to increase the safety and overall efficiency of the Das Island plant. In addition, construction of seven LNG and LPG storage tanks, and an ambitious sea-water intake project were completed in 1986 and 1988 respectively. In 1990, ADGAS upgraded the Das Island plant control system to a fully computerized digital command centre. Later that same year, as testimony to the strong business relationship that had developed over almost two decades, ADGAS and TEPCO signed a new 25-year agreement – doubling the amount of LNG to be delivered to TEPCO as of 1994. To meet its obligations under this new agreement, ADGAS immediately constructed a third, LNG processing train at Das Island adding another 3 million tons annually to the plants production and doubling capacity (ADGAS's internal records). ADGAS shareholders also decided to renew and expand the LNG tanker fleet. The new fleet comprises eight of the world's most modern tankers, each with a capacity of about 135,000 cubic meters. In 1997, ADNOC expanded its commitment in ADGAS by increasing its shareholding to 70 per cent (ADGAS's internal records).

6.3.1 Formation process of ADGAS

This section describes and analyses the findings about ISAs formation process within ADNOC taking the formation process of ADGAS as a case study. It also generates propositions from such a description (see Appendix 6). The process by which such a strategy was developed within this particular company falls into five basic phases. The generated phases were: the recognition of the motives for forming the alliance, selection of the alliance's partners, selection of the alliance's form of structure, alliance's management, and the alliance's performance evaluation. The process is found to be affected by two factors: partners' culture and trust between partners. In what follows, each of these generated phases as well as factors affecting the process will be described, and some propositions will be generated with respect to each phase and factor.

6.3.1.1 Phases of the formation process of ADGAS

In this part, five phases of the process of forming strategic alliances within ADNOC are analyzed and discussed. These phases are: i) identifying motives for the formation of ADGAS strategic alliance; ii) selecting alliance's partners; iii) selecting alliance's form of structure; iv) alliance management; v) and alliance performance evaluation. The major factors influencing the process are also discussed.

<u>Phase 1:</u> Motives for forming ADGAS strategic alliance

The major motives for forming ADGAS strategic alliance emerged as a reaction to a presidential decree to stop gas flaring and to utilize gas resources. This phase, therefore, deals with the identification and justification of the reasons behind forming this international strategic alliance. When asked about the motives for forming the strategic alliance of ADGAS, Mr. Mohamed Al Suwaidi, Chief Executive Officer (CEO) of ADNOC explained that the motives appeared with different forms and at different levels, some of which directly fell within ADNOC's internal environment (organizational motives), and other motives were related to the relationship between the ADNOC and its immediate and distant contexts (contextual motives).

<u>The organizational motives for the formation of ADGAS strategic alliance</u>

With regard to the organizational motives for the formation of ADGAS strategic alliance, Mr. Al Suwaidi mentioned that:

> *"At the organizational level the motives for the formation of ADGAS strategic alliance falls within ADNOC's strategy for maintaining business relationships and partnerships with foreign companies as a way to expand into different sectors of oil and gas to best utilize these resources and generate maximum profits. This strategic intention was supported by the availability of partners who possess the technology, which we lack, to process oil and gas and who also have the knowledge and experience in the Gulf region and the UAE. ADNOC also followed this strategy to share cost of growth and expansion with other companies and to reduce risk of expected substantial investments".*

The documentary analysis of ADGAS's internal records support the aforementioned statement of Mr. Al Suwaidi and revealed the fact that the process of gas liquefaction is highly sophisticated and complex and, therefore, requires use of advanced technology and investment of substantial amount of money. The gas liquefaction is a relatively new branch of modern technology, and it is highly sophisticated and complex as well. In order to make it practical and commercially viable to transport gas from one country to another, its volume has to be greatly reduced. To obtain maximum volume reduction, the gas has to be liquefied through the application of proprietary refrigeration technology which makes it possible to cool the gas down to approximately minus 160° C. The unit where LNG is produced is called a train. Liquefying natural gas reduces its volume by a factor of 1:610. The reduction in volume makes the gas practical to transport and store. In international trade, LNG is transported in specially built tanks in double-hulled ships to a receiving terminal where it is stored in heavily insulated tanks. The process of gas liquefaction passes through four stages: production stage which involves compression of natural gas, sweetening (purification), drying (dehydration), fractionation, liquefaction; storage stage; loading stage; and shipping of LNG and other associated products. This process also requires very strict safety measures and precautions during all liquefaction stages, due to the highly vulnerable and inflammable nature of the gas involved.

To conclude, establishing and operating ADGAS entailed the use of advanced technology and investment of tremendous amount of money in gas processing trains, shipping tankers, equipment and machines, utilities, loading facilities, storage facilities, buildings, and so on which result in high investment risk. Therefore, having access to technology and sharing economic risk and cost were important motives for entering this strategic alliance.

The contextual motives for the formation of ADGAS strategic alliance

The strategic alliance of ADGAS was also formed in response to the increasing demand for clean energy in the international market, the pressure from the local community to stop waste of resources, and the pressures from the international community to cease environmental pollution resulting from burning gas in the atmosphere which was a common practice in the gas industry. Quoting Mr. Al Suwaidi's words here in explaining the contextual motives for the formation of ADGAS strategic alliance:

> *"The 1960s witnessed a desire and pressing need by suppliers and customers to find a solution that would help the producing countries stop flaring gas away, utilize it and make it easily available for the importers. Burning gas in the atmosphere leads to, instead of utilizing it, waste of a valuable resource and polluting the environment. At the time, demand for energy in general and for clean, environment-friendly energy in specific was increasing in many industrial countries, including Japan, a situation led to rise in the price of energy worldwide. These factors stimulated ADNOC to plan for a project that utilizes gas resources. This plan was supported by the availability of Western companies which possess the required technology, the willingness to invest in the UAE, and the knowledge and experience of working in the UAE".*

Therefore, three contextual factors motivated ADNOC to form ADGAS strategic alliance. These factors are the international pressures to stop environment pollution resulted from burning associated gases in the atmosphere, increasing demand for and prices of clean and environment-friendly energy, and the availability of Western companies which possess the required know-how to process gas.

Summary

The motives for forming the strategic alliance of ADGAS are multilevel in nature; organizational and contextual. The formation of ADGAS strategic alliance was attributed to a number of reasons; some fall within ADNOC's terrain (organizational motives) and others emanated from its environment (contextual motives). These motives are mutually affected by each other. For instance, motives falling within ADNOC's domain affect and are affected by the ones that fall within ADNOC's context. This point indicates that ADNOC could be considered as an open system that heavily influences and is influenced by its external environment. Obviously, there were three major organizational motives for the formation of ADGAS strategic alliance. The first and probably the most important one was the utilization of abundant gas resources at the disposal of ADNOC which were not utilized until early 1970s because of two reasons. First, until the last decade, demand for gas in the gulf region and the Middle East was low because of the underdeveloped nature of the region's economies. Second, although demand for natural gas was rising in most industrial countries in the Western countries and Japan, a major problem that faced ADNOC was the delivery of gas to these countries. Therefore, ADNOC was looking for an opportunity to utilize its gas resources. In that sense, the second organizational motive for the formation of ADGAS strategic alliance was the desire of ADNOC to access technology and know-how to liquefy and transport natural gas. Since demand for natural gas was mainly rising in industrial countries like some European countries, Japan, and the United States of America, the only option for ADNOC was to liquefy gas before it can be transported using sea tankers, a process that requires adoption of advanced and complex technology. This process also requires very strict safety measures and precautions during all liquefaction stages due to the high vulnerable and inflammable nature of the gas involved. Operating and maintaining this technology requires the use of advanced and sophisticated know-how, competencies, and technical and managerial systems which ADNOC lacked at the time of ADGAS establishment. Therefore, forming a strategic alliance was the only option available for ADNOC to access the technology needed to utilize gas resources. Moreover, such a big project as ADGAS requires huge investments. Based on this finding I maintain that the third organizational motive for forming ADGAS strategic alliance was the desire of ADNOC to share entry cost and economic risk to enter new and potentially profitable markets. The establishment of ADGAS required substantial financial investments which entail high levels of economic risk. The process of gas liquefaction passes through a number of complicated and hazardous stages which requires employment of advanced and sophisticated technology and which must be implemented under high standards of safety, health and environment protection. This process, therefore, entailed huge investments in machines, equipments, buildings, storage facilities, shipping vessels and so on. Thus, the substantial cost of establishing ADGAS and the economic risk associated with such investments have induced ADNOC to look for partners to share cost and risk.

At the contextual level, there were three motives for the formation of ADGAS strategic alliance. The empirical evidence showed that the pressure of the international community on the oil producing countries to stop environmental pollution resulted from gas flaring in the atmosphere induced ADNOC to look for partners to establish a company to better utilize gas resources and cease environmental pollution. The process of extracting and producing oil which began in the UAE in the early 1960s required ADNOC to burn associated gas in the atmosphere which led to waste of substantial amounts of gas and environmental pollution. This state created a pressure by the international community on the UAE and the oil producing countries to stop environmental pollution resulted from burning gas in the atmosphere and from the national community on ADNOC to cease resource waste and utilize it along with other natural gas reserves for the benefit of the UAE nationals. It was also evident that the presence of Western companies investing in the UAE which possess know-how and technology of gas liquefaction and knowledge of the UAE also motivated ADNOC to form ADGAS strategic alliance. A number of leading oil companies including BP, Shell, Total, Exxon and Mobil were operating in the gulf region and the UAE at the time of the formation of ADGAS strategic alliance. These companies were investing in the UAE since early 1960s and were searching new business opportunities in the UAE. The third motive was the rising demand for LNG in the international markets associated with steep price rise. Demand for energy, specifically clean energy, and its associated prices were rising since 1970s due to industrialization and world economic growth. This state eventually encouraged ADNOC to go a further step in the formation of ADGAS strategic alliance.

All in all, the formation of ADGAS strategic alliance was a reaction to organizational factors which can be referred to here as strengths and weaknesses within ADNOC and contextual factors which we refer to as opportunities and threats within ADNOC's external environment. Organizational strengths within ADNOC emanated from the availability of huge reserves of gas at the disposal of ADNOC. Organizational weakness resulted from ADNOC's lack of technology and know-how to properly liquefy and transport gas. The formation of ADGAS strategic alliance was also a reaction to environmental opportunities. These factors were the steep increase in demand for and prices of gas and the availability of some international oil companies operating in the country which possess the experience and willingness to invest in new oil and gas projects. Environmental threats appeared in the form of pressures by the international community on oil producing countries to stop environmental pollution resulted from gas flaring in addition to the entry cost and associated economic risk of the project. Obviously, ADNOC realized that the establishment of its new gas venture should be done with foreign partners who possess resources and knowledge which ADNOC lacks and who have the financial capabilities and willingness to share economic risk. Therefore, the second phase in the process was the selection of the alliance partners.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 6.1a.

The motives for forming ADGAS strategic alliance are multilevel in nature; organizational and contextual.

Prop. 6.1b.

There were three organizational motives for the formation of ADGAS alliance which include: utilization of abundant gas resources; accessing technology and know-how to process liquefied gas; sharing economic risk and entry cost to new and potentially profitable markets.

Prop. 6.1c.

There were three contextual motives for the formation of ADGAS alliance which include: responding to the pressures of the international community to stop environmental pollution resulted from gas flaring; increasing in demand for LNG in the international markets associated with price hikes; and the presence of Western companies investing in the UAE which possess know-how and technology of gas liquefaction and knowledge of the UAE.

<u>Phase 2:</u> Selection of ADGAS alliance partners

The process of selecting partners of ADGAS strategic alliance passed through three stages; i) search for partners, ii) evaluation of partners, and iii) selection of a partner which are closely interrelated, interconnected and overlapping.

i) Search for partners of the alliance

A comprehensive feasibility study carried out by Abu Dhabi government for the purpose of establishing a gas liquefaction plant. This study revealed the fact that the commercial viability of the project is conditioned by the availability of long-term buyers. In this connection, Mr. Hassan Al Marzouqi, Deputy General Manager of ADGAS stated that:

> *"At the first stages of the feasibility study, a major issue that received considerable attention and discussion by the executive directorates of ADNOC was the marketing aspect of the project's products. ADGAS plant was initially designed to produce 2.5 million tons per year of Liquefied Natural Gas (LNG), in addition to 800,000 tons per year of Liquefied Petroleum Gas (LPG). This production capacity necessitated finding markets and guaranteeing long-term buyers to absorb the plant's production and to ensure smooth operations of the plant. This is mainly because storage expenses are very high as the liquefied gases must be stored according to specific technical specifications. Obviously, there was almost all no demand for the project's products in the UAE, the Gulf region and the Middle East at that time at least in the short-run. Meanwhile, demand for clean and environment energy was rising in industrial countries. These reasons induced ADNOC to look for a partner at the international level to join the strategic alliance as a long-term contract buyer".*

In June 1971, ADNOC sent an offer to Tokyo Electric Power Company (TEPCO) to supply it with gas products on a long-term base. The offer presented the new plant's products and offered Japan an opportunity to buy these products to meet its increasing demand for energy. Few weeks later, ADNOC received an initial acceptance of the offer from TEPCO. The documentary analysis further revealed that a team of executive directors was sent to Japan to negotiate and finalize the deal. When the nominated team arrived Tokyo and started negotiations they were surprised that TEPCO accepted the offer not as a buyer but as a partner. TEPCO asked for a 45 per cent shareholding in the project. The team was in continuous contact with the chairman, exchanging information and receiving directions. The chairman in turn was in contact with the Minister of Oil and

Energy. The negotiations between the two parties proceeded quickly towards a momentous outcome. Firstly, TEPCO joined the project (through Mitsui and Co.) with a 35 per cent shareholding (reduced in 1975 to 24.5 per cent and again in 1997 to 15 per cent). Secondly, successfully signing an agreement by which TEPCO purchases the entire LNG production of ADGAS for a period of 20 years (ADGAS official website).

Having secured a long-term buyer, another issue that had received considerable attention was the technical and administrative issues of producing and transporting LNG and the associated gas products. Based on ADNOC's strategy of favouring partnerships and JVs with western companies, another search process began to find partners to provide gas liquefaction technology and expertise. When asked about the criteria used by ADNOC to select its partners, Mr. Al Marzouqi stated that:

> *"The technical and administrative issues of producing and transporting LNG and other associated gas products was another challenge faced the project. ADNOC was searching for partners to provide technology and know-how to process LNG. The major criterion set by ADNOC for the selection of the partners of its new project was the partners' competency and expertise in the area of gas liquefaction. Other criteria set by ADNOC for partners' selection were financial capability of partners, compatibility and trust between ADNOC's management and partners' management teams, partners' willingness to form a strategic alliance and commit resources, and partners' readiness to form a strategic alliance and commit resources".*

ii) Evaluation of partners

At the evaluation step, ADNOC firstly identified a number of potential partners. The identified companies were British Petroleum (BP), Total, Exxon, Mobil and Shell. ADNOC then used a number of partner's selection criteria to evaluate each company. These criteria include: partner's competency and expertise in the area of gas liquefaction; partner's financial capability; compatibility and trust between ADNOC's management and partner's management teams; partner's willingness to form a strategic alliance and commit resources and partner's readiness to form a strategic alliance and commit resources. This was demonstrated by ADGAS's deputy manager's words:

> *"Using a set of selection criteria, ADNOC evaluated some potential partners, such as British Petroleum (BP), Total, Exxon Mobil, and Shell. The evaluation process revealed that very few number of oil and gas companies worldwide can satisfy ADNOC's selection criteria. However, the focus was on two companies; British Petroleum (BP) and the French, Total. Both companies possess the required technology to start this project. They were and still are among the biggest oil and gas companies all over the world. Moreover, the two companies were already operating in the UAE and, therefore, ADNOC had historical ties and good relationships with these companies".*

Documentary analysis of ADNOC's internal records supported the above statement with regard to the historical relationships between BP and TOTAL on the one hand and ADNOC on the other. BP has been in Abu Dhabi, in one form or another, and has supported the government in the exploration for, and subsequent production of, the country's massive oil reserves since the early 1960s. In addition to its equity share in ADGAS, today BP has shareholdings in four other major projects. These equity shares are 14.67 per cent in Abu Dhabi Marine Operating Company (ADMA-OPCO), 9.5 per cent in Abu Dhabi Company for Onshore Oil Operations (ADCO), 10 per cent in National Gas Shipping Company Ltd. (NGSCO), and 33.3 per cent in Bunduq Company Limited (ADNOC Five Year Achievements Report, 2000-2004). TOTAL is one of the leading oil companies in the world. With operations in more than 100 countries, the company's activities span all aspects of the energy industry from upstream-oil and gas exploration and production to downstream refining and marketing of refined products as well as international trading in both crude and refined products. Total has been one of the partners in ADMA-OPCO, ADCO, GASCO, FERTIL, and NGSCO. The company also is involved in several other Abu Dhabi ventures. These historical joint operations of the two potential partners have tightened their relationship and collaboration with ADNOC and hence created trust.

iii) Selection of partners

The evaluation process of the five potential partners - British Petroleum (BP), Shell, TOTAL, Exxon and Mobil, revealed that all of these companies possess the required technology and financial capability to start the new project. However, BP and TOTAL were selected because of an advantage they possessed over the other partners. Quoting Mr. Al Marzouqi's words here in explaining the reasons for selecting BP and Total:

> *"Although all of the potential partners possessed the required technology and know-how to process liquefied gas, BP and TOTAL were selected because of a considerable advantage over the other companies. This advantage is that that BP and TOTAL possess considerable knowledge and experience in the oil and gas operations in the UAE due to their presence in the country. Moreover, these historical investments helped both companies to build strong relationships with the government of Abu Dhabi. In turn, these relationships enhanced trust between the companies and the government".*

Having convinced and satisfied with BP and TOTAL as being its partners in the new gas venture, ADNOC approached the two companies. As the two companies were already having joint operations with ADNOC, discussion of the issues of the new venture was simple and straight forward and held in the premises of ADNOC. BP and Total have immediately shown interest in the new venture. This was mainly due to the fact that they were interested in the field of LNG (ADGAS's internal records).

Summary

The process of partners' selection passed through three stages: search for the partners of the strategic alliance; evaluation of partners; and selection of partners. The evidence revealed that ADNOC confined its search to companies which have, in addition to the know-how and technology to liquefy and transport natural gas, the operational experience in the UAE or the Gulf region. Another important issue appeared in the surface was the marketing aspect of the products of the new project. The empirical evidence also showed that the commercial viability of ADGAS was conditioned by the availability of long-term buyers of the company's products. The plant's initial huge production capacity and the subsequent doubled capacity in 1994 in addition to high storage costs induced ADNOC to firstly secure long-term buyers of LNG and other associated gases to ensure smooth operations of the plant. It was also clear that the underdeveloped nature of the economy of the UAE, Gulf countries and the Middle Eastern countries and the lack of demand for LNG in the region at the time of establishing ADGAS directed the search process for long-term buyers to the international markets. This state pressed ADNOC to find long-term buyers for its new LNG products in the international markets where demand for LNG was rising. At the same time, the fast growing and industrialization nature of the Japanese economy induced the Japanese government to find long-term suppliers who can meet its industries' needs for clean and environment-friendly energy. This state induced Japan's government to search for long-term suppliers to supply its industries' massive demand for clean and environment-friendly gas products. As the trade relationship between UAE and Japan was strengthening, ADNOC offered Japan government, through Tokyo Electric Power Company (TEPCO), the opportunity to supply it with LNG and other types of clean and natural sources energy, in the form of LNG and LPG. TEPCO

accepted to join the new project as a shareholder having 35 per cent equity share and to be the sole buyer of the new project's products for a period of 20 years. Although it was a hard condition, ADNOC accepted the proposal offered by TEPCO because of two reasons. Firstly, ADNOC had no an alternate buyer at that time and secondly, this state comes in accordance with ADNOC's strategy to extend partnerships with foreign companies to invest in new oil and gas projects.

Having secured a long-term buyer for its new project's products, ADNOC turned to searching partners to provide technology and know-how to liquefy, store, and transport gas. A number of potential partners were available for ADNOC such as BP, Shell, Total, Exxon and Mobil. Systematic selection of partners necessitated ADNOC to develop and use criteria for evaluation and selection. The criteria used by ADNOC for partners selection included: partners' technology and knowledge in the area of gas liquefaction, financial capability of partners, compatibility and trust between ADNOC's management and partners' management teams, partners' willingness to form a strategic alliance and commit resources, and partners' readiness to form a strategic alliance and commit resources. Although, these criteria are essential to the success of this ISA, partners' knowledge of the process of gas liquefaction is the essence of developing this strategic alliance. It reflects complementarities of partners' resources since ADNOC possesses gas resources and lacks know-how to process these resources. Partner's financial capability and performance reflect partner's ability to commit resources and stick to the project and hence form the bases for trust and confidence between partners which in turn secure long-term cooperation between partners. Finally, partner's willingness and readiness to form the strategic alliance reflect the actual implementation of the project. Following intensive studies, ADNOC selected two companies namely BP and TOTAL to join the new project. Although all competing companies were highly qualified in terms of technical and financial capabilities, the historical knowledge and experience of BP and TOTAL in the UAE and their close ties and relationships with the government of Abu Dhabi provided them an advantage over the other competing companies. Therefore, the implication of such an argument is that the decision of selecting BP and TOTAL was influenced by their prior experience, trust and relationship with ADNOC.

Therefore, to conclude, the following propositions are generated from the aforementioned analysis.

Prop. 6.2a.

The process of partners' selection passed through three stages: search for partners, evaluation of partners and selection of a partner.

Prop. 6.2b.

The commercial viability of ADGAS was conditioned by the availability of long-term buyers of the company's products. Therefore, securing long-term buyers of the company's products was a major issue in the discussion agenda of ADNOC.

Prop. 6.2c.

The developing nature of the UAE's economy, Gulf countries and the Middle Eastern countries directed the search process for long-term buyers to the international markets. Meanwhile, the fast growing and industrialization nature of the Japanese economy induced the Japanese government to look for long-term suppliers who can satisfy its industries' needs for clean and environment-friendly energy.

Prop. 6.2d.

Having secured a long-term buyer of its new company products, ADNOC began searching for partners to provide technology and know-how to liquefy, store and transport gas.

Prop. 6.2e.

Criteria set by ADNOC for partners selection were: partners' competency and knowledge of developing new technology in the area of gas liquefaction, financial performance of partners, compatibility and trust between ADNOC's management and partners' management teams, partners' willingness to form a strategic alliance and commit resources, and partners' readiness to form a strategic alliance and commit resources.

Prop. 6.3f.

The decision to select BP and TOTAL was influenced by the trust gained from their previous relationship and experience with ADNOC.

<u>Phase 3:</u> Choice of the form of ADGAS alliance structure

Having concluded the project agreement and signed a 20-year contract with TEPCO to sell the company's products, the partners entered a new phase of the alliance formation. This phase entailed the agreement on the form of structure of the new project. All partners favoured the equity joint venture form of structure which requires founding a new independent company. This was obvious in the words of Mr. Saif Ahmed Al Ghafli, General Manager of ADGAS:

> *"All partners with no exception were interested in the equity joint venture form of strategic alliance which requires establishing an independent company to be managed by an independent management. Consequently, ADGAS was founded and registered in Bermuda in 1973 with an initial shareholding of 20 per cent for ADNOC, 35 per cent for Mitsui, 30 per cent for BP and 15 per cent for TOTAL".*

However, when asked about the reasons for selecting this particular form, Mr. Al Ghafli said:

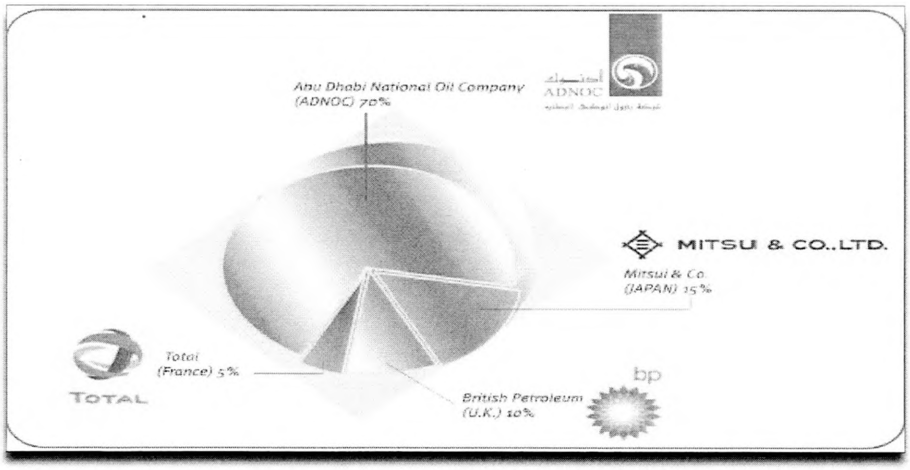
> *"The selection of this particular form of structure was based on several reasons. Firstly, the project is strategic in its nature which requires long-term commitment of huge resources. Therefore, to ensure future cooperation and desirable behaviour, partners were willing to commit and tie each other to the project by having an equity share. Secondly, as the project appeared to be very successful and profitable, each partner was keen not only to have an*

equity share but to maximize its share in the project. Thirdly, from the perspective of ADNOC, the form of equity joint venture aligns with its strategy followed since the 1960s which aims at maintaining collaborative relationships and partnerships with western companies to provide technology that ADNOC lacks".

Documentary analysis also revealed that ADNOC was not satisfied with its 20 per cent shareholding. Accordingly, ADNOC struggled to increase its equity share and establish a controlling stake in the project. ADNOC was successful in increasing its shareholding twice. The negotiations for the first rise started immediately after the construction of ADGAS plant on Das Island in Abu Dhabi progressed. In 1975 ADNOC was successful in increasing its shareholding to 51 per cent. This achievement led ADNOC to decide to incorporate the company in Abu Dhabi in 1977, shortly before the plant became operational. Negotiations for the second rise, from 51 per cent to 70 per cent, started immediately after the company built a third LNG processing train to meet the increasing demand for its products. This U$$1.3 billion train (including the cost of installations and storage tanks) was totally financed by ADNOC. The third train was added to meet the increasing demand for the company's products.

Demand for LNG and other gas products in Japan was steeply increasing due to the industrialization of the economy. This led TEPCO to sign another 25-year agreement in 1990 by which TEPCO will buy a doubled quantity of LNG products. The empirical evidence revealed that the job of ADNOC to convince its partners to reduce their equity share in the venture was very hard and time consuming as it extended for seven years, from 1990 to 1997. This was mainly because ADGAS has been quite profitable, annual income was about US$1.5 billion against total expenditure of US$600 million in 1995. In order to convince its foreign partners to reduce their equity share and consequently increase its own, ADNOC offered the partners two kinds of incentives. First, foreign partners were granted new oil concessions in Abu Dhabi to invest in new oil and gas projects. Second, foreign partners' participation in ADGAS was extended until 2019. After lengthy negotiations an agreement was signed between the partners in July 3, 1997 which raised ADNOC's share to 70 per cent and reduced that of the others. The new (current) equity of partners is shown in Figure 6.1. It is worth noting here that ADNOC has met its promise of providing its partners new oil concessions. Today BP, TOTAL and TEPCO are shareholders or project leaders of a number of ADNOC's oil projects (ADGAS Corporate Brochure).

Figure 6.1: ADGAS' partners shareholding



Source: ADGAS company's records

Summary

From the beginning the partners agreed on equity joint venture as a form of the structure of their new project. The selection of equity joint venture form of structure was based on three reasons. Firstly, the strategic nature of the project requires long-term commitment of huge resources and thus partners were willing to commit and tie each other to the project by having an equity share to ensure long-term commitment and positive behaviour of partners. The decision of joining a project as huge as ADGAS is strategic in nature which is hard to reverse. Such a project may extend over a long period of time, usually more than 20 years in which partners are expected to commit large amounts of resources. Because resources of partners are complementary, failure of any partner to commit resources or to remain inactive will threaten the success of the project. Therefore, each partner strives to ensure long-term commitment of other partners by having equity share in the project. However, despite the fact that ADNOD is the sole owner of gas resources, it was not intending to have full ownership of the new project. Allowing other partners to own equity share in the project will ensure best utilization of its gas resources. Secondly, the promising success and profits of the project encouraged each partner to maximize equity share in the project. The feasibility study conducted by the partners revealed promising success and profits. This state encouraged the partners to work hard not only to form an equity joint venture but also each partner to maximize its own share. Apparently, ADNOC was looking for companies to contribute and commit resources on long-term bases in a relatively new business field. The number of buyers of the new company's products around the world was very low and the number of companies which possessed knowledge and expertise in this new field was also very small. This state weakened the bargaining power of ADNOC which found itself in a situation to accept only 20 per cent equity share in order to have the strategic alliance formed. However, ADNOC prepared itself for future bargaining rounds to increase its share. Thirdly, this form of structure provides a degree of protection to the know-how possessed specifically by BP and TOTAL. Opportunistic behaviour is a relational problem in strategic alliances where one partner may terminate the alliance as soon as they learn that the production processes. To avoid such a situation and in order to commit partners for a long term alliance, BP and TOTAl selected equity joint venture form of structure for the new project.

ADNOC was interested in maximizing its equity share as a means of achieving control over the strategic alliance. ADNOC's powerful position as the sole owner of gas resources provided the company with the bargaining power to negotiate this issue. However, the task of increasing ADNOC's equity share was a hard one for which ADNOC spent about seven years negotiating with its partners to increase its own share. In that sense, I maintain that ADNOC was successful to increase its equity share only after granting some incentives to its partners. These incentives were: first, providing partners concessions to invest in new oil and gas projects in Abu Dhabi and second, extending the foreign partners' participation in ADGAS until 2019. Consequently, BP was granted equity share in, and heading, the ADMA-OPCO consortium in offshore operations, ADCO group in onshore operations as well as 10 per cent in NGSCO. Total becomes one of the partners in ADMA-OPCO, ADCO, GASCO, FERTIL, and NGSCO. TEPCO through Mitsui is granted 14 per cent partnership in the Abu Dhabi Water and Electricity Authority (ADWEA), 10 per cent in NGSCO, and led Independent Water and Power Producing (IWPP) venture which also includes International Power plc of the UK. TEPCO signed another 25-year agreement with ADGAS to buy the majority of the company's production. These incentives and other future promises convinced the partners of ADNOC to accept decreasing their equity share for the benefit of ADNOC. We refer to the use of such incentives by ADNOC to influence its partners as internal politics.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 6.3a.

The selection of the equity joint venture form of structure by the partners was based on two reasons: (1) the strategic nature of the project requires long-term commitment of huge resources and thus partners were willing to share cost and reduce risk and to commit and tie each other to the project by having an equity share to ensure long-term commitment and positive behaviour of partners; (2) the promising success and profits of the project encouraged each partner to have equity share in the project and (3) it provides a degree of protection to the know-how possessed specifically by BP and Total.

Prop. 6.3b.

The allocation of equity share among partners changed twice upon request of ADNOC. It was firstly changed after the construction works of the plant started in Das Island/Abu Dhabi. The distribution of equity share among partners was changed again after constructing a new (third) LNG processing train which was financed by ADNOC.

Prop. 6.3c.

ADNOC was successful to increase its share only after granting incentives to its partners. These incentives were: first, providing partners new concessions to invest in new oil and gas projects in Abu Dhabi and second, extending the foreign partners' participation in ADGAS until 2019

<u>Phase 4:</u> ADGAS alliance management

Following the conclusion of the contract, ADNOC and its partners carried out a number of activities to put the project into effect. However, when asked about the way ADGAS had been managed, Mr. Al Marzouqi said:

> *"From the very beginning, the partners agreed on the management of the project and the role of each partner. The agreement was that the plant management, including the production of LNG and other associated gas as well as the technical aspects such as health and safety and environmental issues are to be handled by BP and TOTAL with BP playing the role of the project manager. Under the leadership of ADNOC, ADNOC and Mitsui perform the administrative work, including sales and marketing; human*

> *resource management; financial management and other support activities. However the overlapping nature of the technical work and the administrative work requires high levels of coordination, cooperation and trust between the alliance partners".*

Mr. Al Marziuqi went further to illustrate the overlapping nature of the technical and administrative work and the importance of coordination and cooperation between partners to ensure smooth functioning and operation of the plant. In this connection, Al Marzouqi said:

> *"To achieve a smooth plant's operation, ADGAS works in cooperation with its sister companies; ADMA-OPCO and the National Gas Shipping Company (NGSCO). ADMA-OPCO supplies ADGAS with the gas resources while NGSCO operates eight LNG ships to transport the LNG products from Das Island to the customer terminals. The management of the relationship with ADMA-OPCO lies within the domain of BP's responsibility while managing the relationship with NGSCO is a responsibility of ADNOC. These kind of overlapping responsibilities require cooperation and coordination between the partners".*

Documentary analysis further revealed that until 1997 ADGAS' general manager was a BP man in charge of the company's daily operations. Immediately after the increase of ADNOC's share and the consequent decrease of the others, the positions of the general manager and the deputy general manager filled by ADNOC whereas the position of the plant manager is filled by BP. The chairman of ADGAS' board of directors, according to the project agreement, must be a top-ranking ADNOC representative. The current chairman is Mr. Yusuf Bin Omeir, ADNOC's chief executive officer and secretary general of the Supreme Petroleum Council of Abu Dhabi (ADGAS's internal records).

Sales and Marketing of ADGAS' Products

To recap, sales and marketing functions are performed by ADNOC and Mitsui, but again in coordination and participation of BP and TOTAL. LNG is sold under long-term contracts, most of which stipulate that the product is to be delivered to the client's terminal and that shipping charges are to be agreed with the National Gas Shipping Company (NGSCO), a subsidiary of ADNOC Group Companies, which operates a modern LNG carrier fleet. The first long-term contract was signed in 1972 with Tokyo Electric Power Company (TEPCO), under which TEPCO would receive approximately two million tons of liquefied natural gas (LNG) and 800,000 tons of liquefied petroleum gas (LPG) each year, over a 20-year period. The second one was signed in 1990 with the same company. Under this agreement, ADGAS agreed to double its production by 1994, and TEPCO agreed to purchase an additional volume of this doubled production for a 25-year period. ADGAS is dedicated to ensuring a continuous and reliable supply of LNG and LPG, which TEPCO transforms to provide Tokyo with electricity. The solid relationship between ADGAS and TEPCO, that dates back to 1972, is duly and continuously inspired, developed and strengthened through the close, friendly cooperation and mutual trust existing between the two companies. The Tokyo Liaison Office (TLO) within ADGAS acts as the company's contact point in Tokyo with the major customer, TEPCO. In 1998, ADGAS signed an LNG sale agreement with Edison Gas of Italy, and made its first LNG shipment to South Korea. Production and sales for a single year broke the 8 million tons barrier for the first time in 1997. Since then production and sales are in the average of 7.5 to 8.00 million tons a year. A fourth long-term agreement was signed in 1999 with the American company "ENRON" under which ADGAS would export 480,000 tons of LNG annually to "Dabhol Power Company" of

India from 2001 to 2021. ADGAS also exports LPG, Pentane plus and Sulphur under contracts with some of the world's major companies. The validity of these contracts ranges from one year to three years (ADGAS Corporate Brochure).

Gas pricing for long-term contracts, especially for TEPCO, is another issue that receives special attention by the alliance partners. As these contracts extend for long period of time, 20 to 25 years, agreement on gas price is not an easy task because of price instability. Again trust, cooperation and understanding play a significant role in concluding price change agreements throughout the contract period. For example, as a compromise, the two parties in April 1994 froze the price at an agreed one on an understanding that a final agreement would involve a higher price, and TEPCO undertook to pay the difference retroactively to April 1994. As oil prices fell steeply in 1998, ADGAS and TEPCO failed to reach an accord but they agreed to another six-month extension of the provisional pricing system. Later, ADGAS and TEPCO agreed on a constant pricing formula (ADGAS's internal records).

ADGAS' workforce

Staff recruitment and training received considerable importance by all partners to ensure quality business standards. This is clear from the words of Mr. Al Marzouqi when he said:

> *"Employing some 1,100 highly trained professionals, ADNOC and its partners have been working hard to provide high standard training and development programs for its workforce. We have a cross-posting agreement that allow our employees to attend necessary training courses in our partners' companies".*

Also ADNOC prepares and provides highly qualified and competent workforce to its group's companies. Towards this end, September 2001 saw the opening of the Petroleum Institute in Abu Dhabi. The Institute is a partnership between ADNOC, BP, TOTAL, Shell and Japan Oil Development Company (JODCO) and under the academic accreditation of Colorado School of Mines. The major aim of the Institute is to bring world class engineering education and applied petroleum research to the UAE. ADNOC Technical Institute (ATI) was also opened in 1978 to provide an alternative route for young UAE Nationals who prefer to follow a less academic educational track. Since its establishment more than 3,000 trainees have graduated in electrical, mechanical, instrumentation or process operations and joined ADNOC's operating companies for further on-the-job training. The ADNOC Scholarship Program was also established in 1974 to offer academically gifted UAE National School graduates the opportunity to follow undergraduate programs in engineering and applied sciences at leading Universities, mainly in the USA and the UK (ADNOC Corporate Brochure).

Summary

ADAGAS strategic alliance has been managed jointly by all partners who work closely and cooperatively to achieve common goals as well as individual goals. However, partners agreed to assign administrative and technical responsibilities according to their areas of expertise. The empirical evidence shows that BP, as project manager, and TOTAL are responsible for the plant management including the production, storage and transportation of the company's products and the technical activities such as health and safety and environment protection. Project management is performed by BP and TOTAL because of their knowledge and expertise in the area of oil and gas. BP had long experience in the oil and gas operations, specifically in the Gulf region. It was BP (D'Arcy's Anglo-Persian) which had first put Abu Dhabi on the world's oil map. That was before World War Two. At the international level, BP is also involved in Australia's North West Shelf (NWS) LNG project and Qatar's Qatargas strategic alliance. TOTAL has become involved in a number of gas ventures around the world. Now it is a major investor in the LNG business, being the leader in Qatargas' upstream element and a key partner in its downstream venture. It is a partner in Oman's LNG venture and leader of Yemen's LNG project. In 2000, TOTAL became the biggest supplier of gas to the Bontang LNG complex in Indonesia, the biggest in the world. By contrast, ADNOC and Mitsui perform the administrative work which includes sales and marketing; human resource management; financial management and other support activities. Since its establishment in 1971, ADNOC gained experience in operating and managing oil and gas companies and in forming ISAs. In addition to its own concession areas and operations, ADNOC has major shareholdings in 9 of its 14 companies constituting its group. In addition, ADNOC owns and operates two refineries and gas pipeline distribution network. ADNOC also expanded overseas. ADNOC, again favouring equity joint venture form of structures, expanded its operations to Pakistan, Qatar and Oman. Mitsui brought in to the strategic alliance of ADGAS by TEPCO as a buyer of the LNG output and most of the associated liquids produced by ADGAS. In addition to being a major investor in Middle East's LNG projects, especially in the UAE; Qatar; and Oman, Mitsui plays a crucial role in Russia's huge LNG project on the Far Eastern island of Sakhalin. Consequently, both companies gained experience in managing oil and gas companies.

Until early 1997, the general manager of ADGAS was appointed by BP to be in charge of the company's daily operations whereas his deputy was appointed by ADNOC. Following changes in the ownership structure and as a result of the controlling stake of ADNOC, the positions of the chairman and the general manager are now filled by a top-ranking ADNOC representative. Therefore, since 1997 the majority shareholding of ADNOC qualified the company to hold the positions of chairman, general manager and deputy general manager. Nevertheless, I maintain that ADNOC does not rely merely on its majority shareholding in ADGAS to have control and influence decisions. It also relies on its bargaining power gained from being the sole owner of oil and gas resources in Abu Dhabi and its power to grant new concessions for oil and gas projects. Although ADNOC enjoys more control over its partners, empirical evidence shows that cooperation, commitment and trust between ADGAS partners is the foundation for the smooth and successful operation of the company. To this end, partners work shoulder to shoulder and constantly meet to keep in contact. Frequent contacts between partners enhance understanding of common goals of the project and goals of individual partners and help in resolving conflicts which may arise among partners immediately as they arise. Therefore, partners' relationship is characterized by good faiths, honesty, and cooperation.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 6.4a.

BP and TOTAL are responsible for the plant management including the production, storage and transportation of LNG and other associated gas products and the technical activities such as health and safety and environment protection. ADNOC and Mitsui perform the administrative work which includes sales and marketing; human resource management; financial management and other support activities.

Prop. 6.4b.

The majority shareholding of ADNOC qualified the company to hold the positions of chairman, general manager and deputy general manager.

Prop. 6.4c.

Staff training and development and gas pricing are core activities that receive especial attention by all partners.

Prop. 6.4d.

Although ADNOC enjoys more control over its partners, cooperation, commitment and trust between partners are the basic themes for the smooth and successful operation of the plant and the company as a whole.

Phase 5: ADGAS alliance performance evaluation

ADGAS partners entered this strategic alliance with pre-established common and private goals. The major goals of ADNOC were: i) to stop gas flaring in the atmosphere which resulted in waste of resources and environmental pollution; and ii) to utilize and turn these resources into a source of income for the nation. While TEPCO, through Mitsui, aims at securing long-term supply of clean energy to support Japan's growing economy and industrialization, BP and TOTAL seek access to new business opportunities overseas. Despite the fact that each partner entered this alliance with its own private goals, it is obvious that attaining individual partner's goals led to the attainment of the common goals of the strategic alliance (ADGAS, From Vision to Reality-the first 25 years, 2003). However, when asked about the criteria used by partners to measure the alliance performance, Mr. Al Suwaidi stated that:

> *"To ensure attainment of their private goals and the common goals of the alliance, partners of ADGAS agreed to measure the performance of the alliance on a regular basis. Partners agreed on common criteria to be used for performance evaluation. These criteria are the project's sales, profitability, growth and longevity. Partners also have another undeclared criterion used for performance evaluation which is transfer of knowledge and organizational learning. The evaluation process takes place on a regular*

> *basis and the results are discussed by partners by the end of each year during the board of directors' meetings".*

The empirical evidence revealed the fact that all partners have attained their goals and are very satisfied with the company's performance. ADNOC stopped gas flaring and technology used by ADNOC today resulted in reducing no environmental pollution by 72 per cent (ADNOC Annual HSE Report, 2007). Between 1977 and 2007, ADGAS successfully delivered over 100 million tons of LNG to TEPCO. This amounts to almost 1,600 round-trips made by tankers between Das Island and the receiving terminals in Tokyo. Over the same period, nearly 15 million tons of LPG, which count for almost 400 tanker consignments, was also supplied to TEPCO (ADGAS, Thirty Years Story of Success, 2007). This is very clear in the words of Mr. Susumu Shirakawa, TEPCO's Executive Vice President:

> *"... over these three decades, ADGAS has exported almost 30 per cent of all the LNG TEPCO has received, which equals to 8 years of electric power, based on the electricity demand of today's Tokyo with a population of 13 million people. It is clear how this project is important to the Japanese government. However, we have had many difficulties and challenges up until today, but every time we have faced a new challenge, the power to overcome these challenges was the cooperation attitude based on the relationship of trust of partners involved in the project" (ADGAS News, March 2007).*

During the last three decades ADGAS experienced many performance difficulties especially when prices of oil and gas collapsed. Nevertheless, these days were passed by having the partners focusing on the long-term goals of the project and building and developing a relationship based on trust and cooperation. This is clear from the words of Mr. Al Marzouqi when he said:

> *"For the smooth operation of the project, in good times and bad times, the spirit of mutual cooperation and trust of the partners as well as of the seller and buyer is substantial since the contract runs on a long term. Because this project was established on a one to one relationship which is unique in LNG transaction, fortunately, strong exhibition of such spirit of mutual cooperation and trust can be seen as a proof of the 30 years until today".*

Obviously, the growth of the LNG market over the last several years and the dramatic increase in the number of players on the production side as well as the consumer side have helped ADGAS reach outstanding performance. In this regard Mr. Shirakawa commented:

> *"I believe the value of the LNG in the world has been recognized. Although this project's contract period is until 2019, I am sure that we will be able to meet the challenges of the era of dramatic change together and to continue to mark the history by enhancing the project and by further strengthening the mutual trust relationship which we have cultivated over a long period of time under the cooperation of the related people of both the seller and buyer" (ADGAS News, March 2007).*

It is interesting to note here that the performance of ADGAS encouraged partners to expand the operations of ADGAS and to look for new opportunities to expand in the region and beyond. For example, the four partners are planning for the addition of a fourth train and storage facilities. However, the short space of Das Island required the project's implementation to be rationalised. Major equipment, new facilities and large portions of the process train will have to be pre-fabricated and brought in on a large barge. Manufacture, assembly and tie-in with the existing plants will be done by utilizing roll-on, roll-off facilities on Das. ADGAS also intends to expand the Das jetty, with Halcrow Group having done the study for this. The project will include dredging and land reclamation. An additional LPG storage tank is to be built in another project (ADGAS Corporate Brochure, 2007).

Summary

Although each partner joined ADGAS strategic alliance with its own goals and expectations, the partners agreed on common criteria to be used for performance measurement. These criteria are the company's sales, profitability, growth and longevity of the alliance. The selection of these criteria may be attributed to the fact that they reflect both short-term and long-term goals of all partners in the project. While sales and profitability reflect the short-term financial interests of partners, growth and longevity reflect partners' long-term interests in the project. Partners are satisfied with their company's performance. The following episode supports my argument about partners' satisfaction with the project's performance. To start with, due to the success of ADGAS in satisfying customer needs, an agreement was signed by partners in 1990 allowing ADGAS to double its production in 1994. As a result, a third LNG train, the largest of its kind in the world, was built adding another 2.5 million tons annually to the plants production and doubling production capacity. The success of the third gas processing train along with the increasing demand for LNG encouraged the partners to plan for the addition of a fourth train along with its storage facilities and shipping vessels. The plan is progressing despite the short space of Das Island which required the project's implementation to be modularized. Major equipment, new facilities and large portions of the process train will have to be pre-fabricated and brought in on a large barge. ADGAS also intends to expand the Das jetty, with Halcrow Group having done the study for this.

Despite the agreement between partners to use common criteria for performance evaluation, each partner implicitly monitors its progress in learning new technology and acquiring knowledge from partners. Transfer of knowledge and organizational learning is another undeclared criterion used by each partner individually to measure performance of the alliance. It was observed that partners have an undeclared criterion for performance measurement which is transfer of knowledge and organizational learning. This criterion is used individually by each partner to gauge the degree to which the strategic alliance helped in acquiring new technology and learning new systems. ADNOC was motivated to form this strategic alliance by having access to new production technology and management systems and by transferring this knowledge to its subsidiary companies. In that sense, ADNOC successfully learned gas processing technology and utilized this technology to independently establish a new gas project; Abu Dhabi Oil Refining Company (TAKREER). BP, Total and Mitsui acquired local market knowledge and learned about gas opportunities in the gulf region and consequently developed new gas projects in Qatar, Oman and Yemen and beyond in Malaysia, Indonesia and Russia. All partners learned from the project and became international players in LNG processing.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 6.5a.

Partners agreed on common criteria to be used for performance measurement. These criteria are the company's sales, profitability, growth and longevity of the alliance.

Prop. 6.5b.

Transfer of knowledge and organizational learning is another undeclared criterion used by partners to measure performance of the alliance.

6.3.1.2 Factors influencing the formation process of ADGAS alliance

This part discusses the two factors that have influenced the formation process and management of ADGAS strategic alliance. These factors are: i) the partners' culture; and ii) trust between alliance partners. Although trust could be considered as one of the cultural values shared in a society, it is discussed in a separate part because of its critical influence on the formation and management of ISAs.

i) Partners' culture

Differences in the partners' cultures are a factor that was found to have influence on the process of ADGAS alliance formation. When asked about the effect of the differences in the national culture of the alliance partners, Mr. Al Suwaidi said:

> *"It is obvious that partners of ADGAS come from four different cultural backgrounds that are UAE, Japanese, British and French cultures. This cultural difference has positive as well as negative effects on the alliance formation process. Positively, it provided the opportunity to tap different skills, attitudes and management styles. This led to partners learn new problem solving and decision making methods. Negatively, cultural differences made communication between partners more difficult especially at the early stages of the alliance. Miscommunication resulted form differences in language, values and beliefs complicated and lengthened the processes of decision making and problem solving. However this negative aspect of cultural differences was found to have no negative effect on the alliance performance".*

Summary

The partners in the strategic alliance have different cultures. Using Hofstede's (1991) cultural dimensions, it appears that the UK and France are more individualistic cultures than Japan and the UAE which are more collectivist. Partners also differ in all other Hofstedes' dimensions of culture namely power distance, uncertainty avoidance, masculinity versus femininity and time orientation. National cultural differences between partners is reflected in organizational cultural differences. Differences in organizational culture influenced partners' management systems such as decision making and problem solving styles. In this connection, I maintain that cultural differences between partners have both positive as well as negative influence on the formation process of the alliance. The negative influence of cultural differences was clear mainly at the first stages of the alliance formation. Preliminary meetings and negotiations were difficult and agreements were not easy to conclude. However, goals and interests commonly shared by partners induced them to work hard and to learn about each other's goals, management systems, future plans, strategies and policies, and to promote an environment of understanding through continuous communication. By contrast, the positive aspects of cultural differences between partners appeared later in managing the alliance. Cultural differences helped in taping different skills, competencies and management systems. Such diversity gives partners the opportunity to learn new management systems from each other and to apply this new knowledge and skills to better manage their alliance. The empirical evidence shows that the reason for this positive outcome of the cultural difference is the existence of long-term common goals and interests and long-lasting and enduring relationship between partners in addition to the desire to get benefits from cultural differences which are positively reflected in the alliance performance.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 6.6a.

Cultural differences between partners have both positive as well as negative effects on the formation process of the alliance.

Prop. 6.6b.

Cultural differences between partners have positive influence and no negative influence on the alliance performance.

ii) Trust between partners

The aforementioned discussion revealed that the relationship between ADGAS partners is based on trust and cooperation. This attitude is stimulated by all partners and has been built and developed throughout several years by ADNOC's strategy of strengthening its relationships with foreign companies since the early 1970s. In this respect, Mr. Al Suwaidi commented that:

> *"In the early 1970s, ADNOC's decision to select TEPCO to be its long-term buyer of LNG and other gas products was based on the ground that ADNOC believed that the capabilities and long-term behaviour of TEPCO will make it a reliable buyer. In a similar way, the historical relationships between ADNOC, BP and TOTAL and the resulting decision of selecting these partners to form the alliance were based on trust and cooperation between the partners. Moreover the early negotiations between the partners to decide the alliance's form of structure and the subsequent changes in the structure that led to increasing the equity share of ADNOC and decreasing that of the other partners were also completed on the basis that foreign partners trusted ADNOC's promises to provide them more business opportunities in the UAE's oil and gas field. It is obvious that trust and cooperation also have a vital role in the successful joint management of the alliance. Depending on trust and cooperation, partners were able to overcome difficulties and challenges faced by the company's operations over three decades".*

Summary

Trust and cooperation between partners play a vital role throughout the different phases of the alliance formation process. Trust and cooperation helped partners to create value of the strategic alliance and to facilitate the process of alliance formation and management. Trust and cooperation also helped in combining partners' capabilities so that the strategic alliance as well as the competitive advantage of all partners is improved in a way that each of the partners alone could not. Moreover, trust and cooperation helped the partners to quickly commit more resources as needed and to cooperate; a situation that led to speeding up decision-making which eventually represents an essential requirement for alliance success especially in today's fast changing environment. To promote trust and cooperation, partners work regularly close to each other to enhance communication and understanding of alliance's goals. They also work hard to show good faith by committing resources to the project as needed and by meeting each one's promises. Obviously, building trust among partners is a process that required hard work from all partners. This point indicates that trust and cooperation is an outcome of a long-lasting positive relationship which is characterized by mutual respect, honesty and share of common interests and goals. The adoption of the equity joint venture form of structure to ADGAS strategic alliance helps in developing a sense of strategic importance of the project and hence promoting trust and cooperation between partners. The implication of this argument is that the adoption of the equity joint venture form enhanced trust between the alliance partners.

Threfore, to conclude, the following propositions are generated from the aforementioned analysis:

Prop. 6.7a.

Trust and cooperation between partners play a vital role throughout the different phases of the alliance formation process.

Prop. 6.7b.

Trust and cooperation is developed over a long lasting relationship which is characterized by mutual respect, honesty and sense of common interests and goals.

Prop. 6.7c.

The adoption of the equity joint venture form of structure enhanced trust and cooperation between the alliance partners.

6.4 Conclusion

This chapter provided a brief review of the history of the oil and gas history in the UAE, the context within which the formation process of ADGAS was developed. This part is followed by a discussion about Abu Dhabi National Oil Company with emphasis on its historic relationships with Western oil companies dated back to the early 1960s in order to shed light on the context within which the formation process of ADGAS alliance was developed. The major part of the chapter described and analyzed the findings and generated propositions from such a description with regard to the aforementioned strategic alliance formation process. ADGAS strategic alliance is formed in a process of five interrelated phases that included recognition of motives for forming a strategic alliance, selection of the strategic alliance's partners, selection of the alliance's form of structure, alliance management, and the alliance's performance evaluation. The formation process is found to be influenced by two major factors which are trust among alliance partners and the partners' national culture. The generated propositions are summarized in appendix 6 and will be discussed in chapter 8.

CHAPTER 7

Description and analysis of findings

Emirates Telecommunications Corporation (Etisalat)

7.1 Introduction

The purpose of this chapter is twofold. First, it is to introduce a background of the context within which the formation process of Etisalat Egypt alliance was developed by Emirates Telecommunication Corporation (Etisalat). To this end a brief background about the telecommunication industry in the UAE and Emirates Telecommunication Corporation (Etisalat) followed by a background about the telecommunication industry in Egypt and Etisalat Egypt Corporationis are given in sections 7.2, 7.2.1, 7.3, and 7.3.1 respectively. Second, it is to describe the formation process of Etisalat Egypt (Etisalat Misr as it is known in Arabic), the case under study, by Etisalat and its partners.

7.2 Telecommunications in the UAE

Since 1976 the majority government-owned telecommunication corporation, Etisalat, has maintained and developed the national and international fixed-line network, mobile telephony, Internet access and cable television services in the UAE. However, in 2005 the government decided to deregulate the telecommunication market, leaving the way open for other operators to offer mobile and fixed line telephony in accordance with the legal framework being implemented by the Telecommunication Regulatory Authority (TRA) (UAE Yearbook 2006). A decree issued in September 2005 by the president of the UAE revised Articles 2, 26 and 80 (Para 5) of the Federal Law No. 3 for 2003 that dealt with deregulation. The new Article establishes a committee to oversee the telecommunications sector, to be called the 'Higher Committee for Supervision of Telecommunications Sector' (UAE Yearbook 2006). The first step in the liberalization of the sector was taken in May 2005 when the TRA granted a license to a new US$1.09 billion telecom provider following a federal government decision to set up a company in which the Pensions and Social Security Authority and other private sector shareholders hold a 40 per cent stake. The remaining stakes were earmarked for public sector shareholders and were put to public offering (UAE Yearbook 2007). Etisalat is meeting the deregulation challenge on three fronts: the first focuses on the corporation's package of services, products and quality of delivery; the second on reshaping the organization to reflect the new market reality; and the third on making the transition to an international corporation through strategic investment abroad, aided by new partnerships and alliances (UAE Yearbook 2007).

7.2.1 Emirates Telecommunications Corporation (Etisalat)

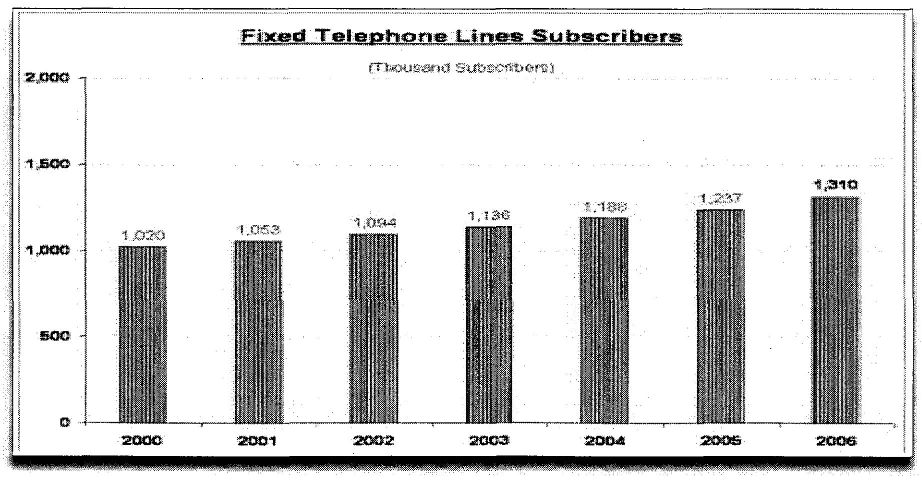
Etisalat, a publicly listed-joint stock company, began operations in 1976 with 33,000 fixed telephone lines and 1,600 telex lines to become an international player operating in 16 countries in a region that extends from Pakistan to West Africa. By 2007, Etisalat had access to a potential market of over 400 million subscribers and served over 32 million subscribers (UAE Yearbook, 2007). Etisalat was the sole telecommunications service provider in the UAE from 1976 until the arrival of its rival, Emirates Integrated Telecoms (du), in February 2007. For three decades, since the birth of the UAE, it has played a key role in driving and supporting the nation's prosperity. Its network has always and continues to be the backbone of the UAE. Penetration of Etisalat's mobile phone service in the UAE was 127 per cent in 2006. At the end of August 2006, fixed line services reached 1.3 million lines and internet dial-up subscribers reached 443,000 and 241,000 broadband internet subscribers (see Table 7.1 and Figures 7.1 to 7.6). Internationally Etisalat has over 510 international roaming partners. It created a world-class communications infrastructure for the UAE, enabling UAE companies to compete on a global stage (UAE Yearbook, 2007).

Table 7.1: UAE's telecom industry benchmarks (2005-2006)

	2005	2006	Change (%)
Number of Fixed-Line Subscribers	1,237,000	1,310,000	5.9
Penetration Rate – Fixed-Line (%)	30.1%	30.3%	N/A
Number of Mobile Subscribers	4,534,000	5,519,000	21.72
Market Share – Mobile	100%	100%	N/A
Penetration Rate – Mobile	110%	127%	N/A
Percentage of Post-paid Subscribers	11.6%	10%	N/A
Post-paid SMS Rate (US$)	0.05	0.05	0.00

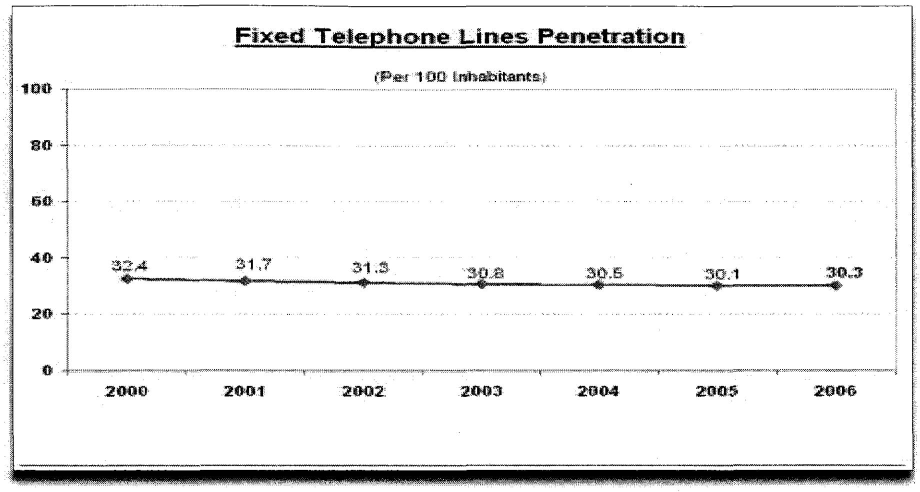
Source: Etisalat's Annual Report (2007)

Figure 7.1: fixed telephone line subscribers



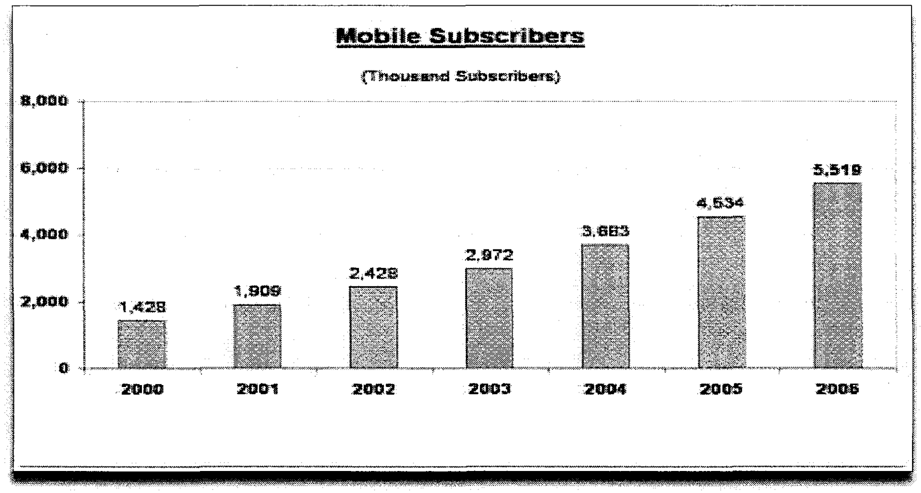
Source: Etisalat's Annual Report (2007)

Figure 7.2: Fixed telephone lines penetration



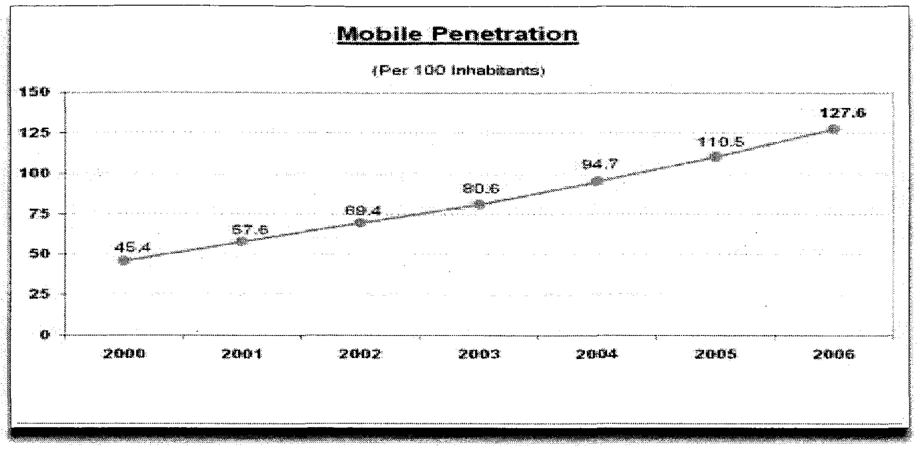
Source: Etisalat's Annual Report (2007)

Figure 7.3: Mobile subscribers



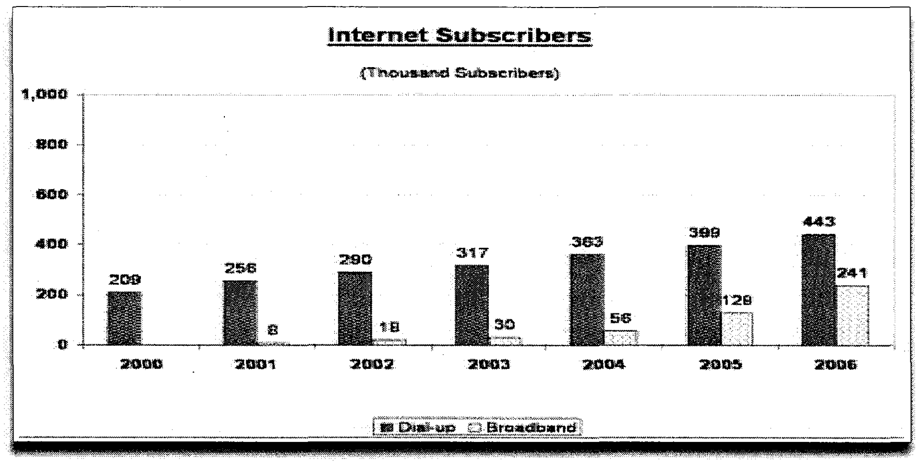
Source: Etisalat's Annual Report (2007)

Figure 7.4: Mobile penetration



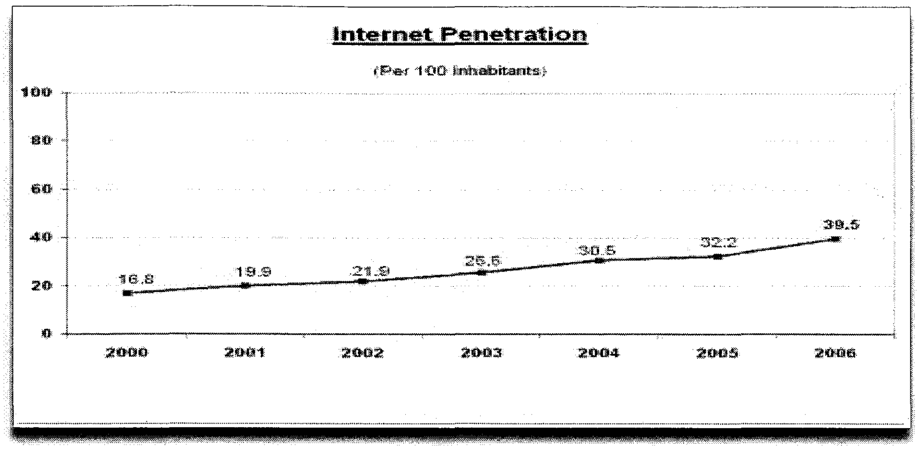
Source: Etisalat's Annual Report (2007)

Figure 7.5: Internet subscribers



Source: Etisalat's Annual Report (2007)

Figure 7.6: Internet penetration



Source: Etisalat's Annual Report (2007)

The Middle East magazine (August, 2007), ranked Etisalat first in the United Arab Emirates and fourth in the Middle East among the top 100 companies, based on its financial performance and capital growth. The corporation was also ranked 140th in the Financial Times Top 500 Corporations in the world in terms of market capitalization. The Arabian Business International magazine (February 2008), reported Etisalat as the most admired telecommunications company in the Gulf in 2007. In this respect, Mr. Ahmed Bin Ali, Vice President of Corporate Communications, said: "*Etisalat's advanced technologies are one of the most important tools that have helped the company achieve its success and improve the UAE's economy*" (Arabian Business International, February 2008). Famous for over 30 years for delivering technological excellence, innovation and reliability, Etisalat is on track to be a top 20 Global Telecom by 2010. By the end of Etisalat's 2007 fiscal year, it had reported consolidated revenues for the period at US$5.8 billion, showing an increase of approximately 31 per cent, over 2006 figures. Net Profits reached US$1.95 billion, a healthy increase of 25 per cent on 2006 (UAE Yearbook, 2007).

7.2.1.1 Services

Apart from enabling the nation with basic telecommunication services, Etisalat offers a range of innovative and modern services that have served to position the UAE as one of the most advanced nations in terms of telecom services. Etisalat has invested more than US$5 billion over the past decade to build the UAE's telecom sector, including mobile phone services, among the most advanced in the world (Etisalat's Official Website). The major services provided by Etisalat today include Mobile phone services where mobile users enjoy the benefits of excellent voice and data applications such as WAP, GPRS, 3G, MMS, Push to Talk, Blackberry and other services; fixed line phone service; internet service; Business One service which is internet service designed to appeal to the small to medium sized business customer; Weyak service which provide features news, finance and infotainment as well as social/community tools such as bloc entries and picture sharing; Network and data services such as SMS, ISDN and ATM services provided to Enterprises; E-Vision service which provides over 200 TV channels in different languages.

7.2.1.2 Business subsidiaries

A number of business subsidiaries and divisions (see Table 7.2) were established within Etisalat to provide support services and complementary businesses. These subsidiaries include E-marine which operates in the field of submarine cable installation, maintenance and repair throughout the region and beyond; Etisalat International which is an independent subsidiary responsible for forming and managing all Etisalat's foreign investments; Etisalat University College which was established as a centre of excellence for training UAE nationals in telecommunications and related technologies; Thuraya, with a network coverage to nearly two thirds of the globe's population, it operates as multiregional mobile satellite services (MSS) provider; UAE Network Information Centre (UAEnic) is the authority that manages domain name registration under .ae TLD (Top Level Domain) as well as IP Address assignment; Ebtikar, is a major card manufacturer and related service provider catering mainly to the needs of telecom operators in the local, regional and international markets; Emirates Data Clearing House (EDCH), which is a service provider to GSM mobile operators handling international roaming data and arranging for settlement amongst their various roaming partners; Etisalat Academy, is a comprehensive technical and business training institution; and UAELAB which provides a test and certification service for telecom products.

Table 7.2: Related subsidiaries/associates

Name	Country	Holding
E-Marine	UAE	100.00%
Emirates Data Clearing House(EDHC)	UAE	100.00%
Emirates Cable TV and Multimedia (e-vision)	UAE	100.00%
Ebtikar	UAE	100.00%
UAELAB	UAE	100.00%
Etisalat International	UAE	100.00%
UAE Network Information Centre (UAEnic)	UAE	100.00%
Etisalat Services Holding	UAE	100.00%
Etisalat University College	UAE	100.00%
Thuraya Satellite Telecommunications Company	UAE	27.43%
UT Technologies (under construction)	UAE	-

Source: Etisalat Annual Report (2007)

7.2.1.3 International growth

The empirical evidence shows that Etisalat is committed to international growth with emphasis on opportunities in the Middle East, Africa, South Asia and Europe. The "2007

Annual Report of Etisalat depicts that the company began its international growth strategy in 2004 by acquiring 35 per cent stake in Etihad Etisalat Company (Mobily), Saudi Arabia's second licensed mobile operator. The report also shows that today Etisalat operates across 15 markets (see Table 7.3) with investments in nine African markets including Nigeria, Zanzibar and West Africa (Benin, Burkina Faso, Togo, Gabon, Ivory Coast, Niger, and Central Africa Republic). In the Middle East, Etisalat subsidiaries can be found in Egypt, Sudan, and Saudi Arabia, whilst in Asia, Etisalat has operations in Afghanistan, India, Sri Lanka, Malaysia, Indonesia and Pakistan with total foreign investment reaching US$10 billion (Etisalat Annual Report, 2007). Etisalat international growth is a deliberate process based on criteria for market selection and market research. This is clear in the words of Mr. Mohamed Al Qamzy, CEO of Etisalat, when he said:

> *"International growth and formation of international strategic alliances are at the heart of Etisalat's corporate strategy. This strategy is followed, in part, as a reaction to the saturation of the local telecommunication market and lack of growth opportunities, the arrival of a new competitor to the telecommunication market in UAE, and as a desire to enter highly competitive global markets to gain the experience and essential know-how to make operations more efficient and effective and to expand the range of opportunities. This strategy is backed by the availability of financial resources accumulated from the previous year's successful performance. Between 2004 and 2006 the region witnessed unprecedented opportunities for new telecommunication licenses. Etisalat's core strategy for new foreign markets selection remains around low penetration rate of telecommunication services and high population of the potential market. This is backed by strong market research on high growth potential, consumer behaviour and opportunities for value creation".*

Therefore, it can be concluded that international growth and the formation of ISAs are followed by Etisalat in response to a number of factors which will be discussed later in this chapter.

Table 7.3: International investments

Name	Country	Holding
Etisalat Software Services Private Limited (ESSPL)-Technologi	Malaysia	100.00%
Millicom Sri Lanka (TIGO)	Sri Lanka	100.00%
Etisalat International Afghanistan*	Afghanistan	100.00%
Canar Telecommunication Company*	Sudan	82.00%
Atlantique Telecom (operating in 7 West African countries)*	Ivory Coast	70.00%
Etisalat Egypt*	Egypt	66.00%
Etisalat DB Telecom India PVT LTD.	India	100.00%
Zanzibar Telecom*	Tanzania	51.00%
Etisalat Nigeria (EMTS)*	Nigeria	40.00%
Etihad Etisalat Company*	Saudi Arabia	35.00%
PTCL, Pakistan*	Pakistan	26.00%
Excelcomindo (XL) Indonesia*	Indonesia	16%
Etisalat Software Solutions	India	6%
Sudan Telecommunications Company	Sudan	4.60%
Emirates-Sudan Bank	Sudan	2.50%
Qatar Telecom	Qatar	1.00%

* Directly operated by Etisalat

Source: Etisalat Annual Report (2007)

7.3 Telecommunications in Egypt

The Egyptian government has made information and communications technologies a developmental priority and has modernized and upgraded the sector's infrastructure, services, regulations and human resource capacity. According to the Egyptian Ministry of Telecommunications and Information Technology, Egypt had an antiquated ICT infrastructure until the early 1990s. People waited sometimes for years to have fixed phone lines installed and the old copper infrastructure made connections unstable. Phone lines outside major cities were failing. However, since 1995 the government extended fibre optic connections throughout Egypt, upgraded the copper lines and data centres, improved the integration of applications and in general provided more fixed-line connections (Egyptian Ministry of Telecommunications and Information Technology's official website). On December 31, 2005 Telecom Egypt's monopoly over international voice and data services ended. Until then, the whole telecommunication market in Egypt was a monopoly market served by the government-owned, Telecom Egypt. The incumbent operator was also the monopoly operator for international connectivity. By December 2006, Egypt's telecommunication regulator, National Telecommunication Regulatory Authority (NTRA) had issued more than 200 telecom licenses. The regulator issued three cellular licenses, two payphone licenses, two prepaid calling card licenses, four VSAT licenses and four international GMPCS operators. The regulator had also issued four carrier internet licenses (Class A) and 8 data service providers licenses (Class B), in addition to more than 200 service-based ISPs' licenses (Class C) (NTRA's official website).

The mobile phone market in Egypt is led by two well-branded operators, Mobinil and the UK-based, Vodafone Egypt. Mobinil was the first operator in Egypt, being operational in May 1998, followed by Vodafone which started providing the mobile service by the end of the same year. Both companies were operating under the second generation (2G)-based network, where Mobinil and Vodafone market shares were 51.6 per cent and 48.4 per cent, respectively in 2006 (NTRA's Official Website). Both Mobinil and Vodafone appear to be hard at work preparing for the new competition resulting from the arrival of a new mobile operator. In fact, the two companies began reducing rates and offering more affordable total ownership packages to subscribers long before the third license was even issued. The new efforts resulted in doubling the number of mobile phone subscribers in Egypt from 7 million in 2004 to 14 million in 2005 and over 16 million by December 2006 (NTRA'S Official Website). The Egyptian telecommunication ministry expects the total number of cellular subscribes in Egypt to reach 40 million users by 2011 out of the country's population of about 78.8 million people according to July 2006 estimates (NTRA'S Official Website).

7.3.1 Etisalat Egypt

This section describes and generates propositions about the formation process of Etisalat Egypt (the case under study) which is a strategic alliance between Emirates Telecommunication Corporation (Etisalat), Egypt Post Authority, National Bank of Egypt, and Commercial International Bank (Egypt).

7.3.2 The formation process of Etisalat Egypt

Taking Etisalat Egypt as a case study, this section describes and analyses strategic alliance formation process within Etisalat and generates propositions from such a description (see Appendix 7). The process by which such a strategy was developed within this particular company falls into five basic phases: i) recognition of the motives for forming a strategic alliance; ii) selection of the alliance's partners; iii) selection of the alliance's form of structure; iv) alliance's management; and v) alliance's performance evaluation. The process is found to be influenced by two factors: partners' culture and trust between partners. In what follows, each of these generated phases as well as factors influencing the process will be described, and some propositions will be generated with respect to each phase and factor.

<u>Phase 1:</u> Motives for forming Etisalat Egypt strategic alliance

In response to a question introduced by the researcher with regard to the reasons for the formation of Etisalat Egypt strategic alliance, Mr. Jamal Al Jarwan; General Manager of Etisalat's International Investments stated that:

> *"Basically, the International Investments Division within Etisalat was directed by the CEO to find the reasons and justifications to form this strategic alliance and thereafter to seek the authorization for the project implementation".*

This phase, therefore, entails two major aspects. The first one deals with the identification and justification of the reasons behind forming this ISA to convince the board of directors of the viability of the project. The second aspect deals with the authorization and taking actions of project implementation.

<u>1. Identification and justification of reasons behind forming Etisalat Egypt</u>

According to Mr. Al Jarwan, the reasons for forming Etisalat Egypt alliance were identified at both organizational and contextual levels. This is clear in the words of Mr. Al Jarwan, when he stated:

> *"There are numerous reasons for the formation of Etisalat Egypt. However, these reasons can be classified at two levels; organizational reasons which include the abundance of cash at the disposal of the company, desire to share cost and risk of the new project and learning and gaining experience in the Egyptian market. Contextual motives include lack of growth opportunities in the UAE market, attractiveness of the Egyptian market, attractiveness of the technical specifications of the license offered by the Egyptian authorities, foreign investments policy of the government of the UAE and the regulations of the Egyptian government".*

The organizational motives for forming Etisalat Egypt

The first reason for forming Etisalat Egypt strategic alliance, according to Mr. Al Jarwan, is the abundance of cash at the disposal of the company. This was made clear by Mr. Al Jarwan when he replied:

> *"Successful operations for more than thirty years resulted in surplus of financial resources available for investment in new projects.*

By the end of 2007, Etisalat had revenues for the period at US$5.8 billion, showing an increase of approximately 31 per cent, over 2006 figures with net profits reaching US$1.95 billion, a healthy increase of 25 per cent on 2006 (Gulf News, February 2008). Without any significant borrowings, Etisalat had plenty of potential partners eager to fund its stated ambition to break into the top 10 international telecoms companies by 2010. An agreement signed in July 2007 with a syndicate of 22 local, regional, and international banks gave the company a US$3 billion to fund international investments (Gulf News, February 2008).

A second reason is that Etisalat was encouraged by its technical competency and knowledge in the area of telecommunications and its experience in establishing and managing foreign subsidiaries. In that sense, Mr. Al Jarwan commented:

> *"Etisalat also was encouraged by getting benefit of its technical and administrative competencies in establishing and operating telecommunication companies in UAE and foreign markets. Over the last thirty years, Etisalat became experienced in delivering high quality telecommunication services with technological excellence, innovation and reliability by utilizing the most advanced and up-to-date telecom technologies. This helped Etisalat in building excellent technical and administrative systems and competent human capital which in turn encouraged the company to expand internationally. Etisalat also gained*

> *knowledge and experience in operating and managing foreign subsidiaries, mainly in the form of JVs with foreign partners".*

A third reason stated by Mr. Al Jarwan was the Etisalat's desire to share cost and risk of this new venture.

> *"Etisalat realized that expansion to new telecommunication markets require substantial investments. With reference to the case of Etisalat Egypt, Etisalat realized that in addition to the price of the license of the new company that must be paid to the Egyptian government there are other costs, including the cost of a new network, towers, buildings and equipment, the total cost was estimated to exceed US$3 billion. Although Etisalat posses the required cash for this investment, sharing economic cost and risk with partners is a strategy followed by the company".*

The fourth reason for the formation of Etisalat Egypt is to learn and acquire knowledge in forming and managing new SAs. This reason was stated by Mr. Al Jarwan as follows:

> *"Exposure to highly competitive global markets will help the company to acquire experience and essential knowledge needed to effectively and efficiently expand to new foreign markets and manage new international projects. In line with the corporate strategy, we also intend to utilize lessons learned and experience gained from previous international projects and to apply them to Etisalat Egypt and to new future projects. For example, Etisalat has effectively utilized its knowledge and experience of setting up new operations in Saudi Arabia and Sudan in the formation of Etisalat Egypt strategic alliance".*

The contextual motives for forming Etisalat Egypt

At the contextual level, Mr. Al Jarwan pointed out that the first reason for forming this strategic alliance was the lack of growth opportunities in the UAE market. Al Jarwan pointed out that:

> *"The penetration rate of Etisalat's mobile phone service in the UAE was 127 per cent in 2006, which was equivalent to over 6.1 million subscribers out of a population of 5 millions. This is in addition to 1.3 million fixed telephone lines and large number of internet subscribers. At the time, the arrival of a*

> *new competitor to the UAE telecommunication market made the situation more complex as competition becomes more severe and growth within the local market becomes a hard task. Because there were no growth opportunities in the local market, the only option available for Etisalat is to seek opportunities at the international market".*

A second reason was the attractiveness of the Egyptian market. Market research conducted by Etisalat revealed that Egypt is considered one of the leading telecommunication markets in the Middle East. With a population of about 79 million, mobile market penetration in Egypt stood just at 19.6 per cent or 15 million subscribers in September 2006 while the Ministry of Telecommunications in Egypt expected the total number of cellular subscribes in Egypt to reach 40 million users by 2011 (Al Jarwan said). These statistics turned the attention of Etisalat to the Egyptian market. This was very clear in the words of Eng. Mohammed Hassan Omran, Chairman of Etisalat:

> *"... the market still has enormous growth potentials, as we estimate the penetration rate to leap as high as 50 per cent, or even more, within three years. With mobile subscription growth of close to 20 per cent a year and a penetration rate of about only 20 per cent there is certainly room for a third operator in the Egyptian market. The Egyptian economy is growing strongly due to recent reforms. So the low penetration and strong economic growth will help us to achieve our aim of winning at least 30 per cent share in three to five years through a combination of new technology, better tariffs and a raft of new services" (Third Quarter Report, Etisalat, 2006).*

A third reason highlighted by Mr. Al Jarwan is the attractiveness of the technical specifications of the operator license offered by the Egyptian authorities. This was also clear in the words of Eng. Mohammed Hassan Omran, Chairman of Etisalat:

> *"Etisalat will purchase not only one but two licenses for its money, second generation (2G) and third generation (3G) services, leaving existing competitors UK-based Vodafone and Mobinil scrambling to apply for 3G licenses of their own" (Third Quarter Report, Etisalat, 2006).*

The 3G technology is not only a high speed data carrier but also it expands the network capacity and improve the quality of the voice and data transfer. In addition, the 3G technology provides new services, such as video calling, internet connectivity and television streaming" (Etisalat's internal records).

The fourth reason for forming this strategic alliance is, according to Mr. Mohamed Al Jarwan, the stimulating foreign investment policy of the UAE government. Mr. Al Jarwan stated that:

> *"The government of the UAE is following a free market economic system and implementing a strategy that encourages local companies to expand internationally. The fact that the government owns 60 per cent of the company's stock allowed the government to influence the decisions of board of directors including those relating to international growth and strategic alliances".*

The fifth reason for the formation of Etisalat Egypt is to conform to the Egyptian government policy in terms of the ownership structure of the new project. This reason was stated by Mr. Al Jarwan as follows:

> *"The regulations of the Egyptian telecommunication authority clearly stated that the new mobile phone company is to be formed in a joint venture between local Egyptian companies and foreign investors. Therefore, Etisalat could not enter the Egyptian market without forming this strategic alliance".*

2. Authorization

Having the motives for forming Etisalat Egypt alliance identified and justified by the company's executive directorates, the executive team proceeded to the authorization level of the project which involves two steps. The first step is to convince the board of directors of the viability of the project and to get the approval to start it. The second step is to get the approval of the UAE's government. Before the authorization process started, Etisalat was waiting for the formal announcement of the new mobile phone license by the Egyptian authorities (Mr. Al Jarwan said). In what follows the process of announcing the third mobile phone license is discussed.

The announcement of a new mobile phone license

On the Egyptian side, in February 2006 the National Telecom Regulatory Authority (NTRA) invited investors to submit proposals for the international auction for the third mobile license in the Arab Republic of Egypt. Alliances of international and national companies were requested to submit their proposals to the NTRA. Terms and conditions of the auction are available in Third Mobile Network Specifications Handbook against payment of US$ 25,000. The announcement of the third mobile operator made it clear that the introduction of a third mobile operator in Egypt is an important catalyst to enhance competition as 2G and 3G services will be introduced in the market for the benefit of the consumer. The NTRA released Egypt Communications Projections Report to the Arab Advisors Group's Telecoms Strategic Research Service subscribers on December 20, 2005. The 105-page report, which has 91 detailed exhibits, provides a detailed analysis of the Egyptian fixed and cellular markets and profiles the major players in the country. The report includes 5-year historical data and 5-year projections on fixed and cellular uptake and revenues. Moreover, the report provides a detailed and comprehensive picture on the fixed and cellular markets' strategies and regulations (National Telecom Regulatory Authority's official website).

Seeking authorization to implement the new project

Being formally aware of the new opportunity, Etisalat began the authorization process. The aim of the authorization process was to get the official approval of the board of directors and the regulatory bodies of the UAE government. The process of authorization is explained by Mr. Al Jarwan as follows:

> *"The decision to enter to the Egyptian market through strategic alliance with Egyptian partners was debated with three authorities for its authorization. One of them fell within the formal hierarchy of Etisalat; explicitly, the board of directors. The other two fell outside the formal hierarchy, namely the Ministry of Foreign Trade and the Telecommunication Regulation Authority. As long as Etisalat's strategy emphasizes international growth, the board of directors authorized the venture by general consensus. The process of getting final approvals of the outside authorities was also smooth and straightforward as long as the project aligns with the UAE's government strategy of economy diversification and expansion to international markets".*

<u>Summary</u>

The motives for forming the strategic alliance of Etisalat Egypt are multilevel in nature; organizational and contextual. The formation of Etisalat Egypt strategic alliance was attributed to a number of reasons; some fall within Etisalat's terrain (organizational motives) and others emanated from its environment (contextual motives). These motives are mutually affected by each other. For instance, motives falling within Etisalat's domain affect and are affected by the ones that fall within Etisalat's context. This point indicates that Etisalat could be considered as an open system that heavily influences and is influenced by its external environment.

Apparently, there were four major organizational motives for the formation of Etisalat Egypt strategic alliance. The first and perhaps the most important organizational motive was the availability of abundant financial resources at the disposal of the company. Surplus of substantial financial resources accompanied by lack of growth opportunities in the UAE market induced the company to adopt an internationalization strategy, which actually began in 2006. Despite the financial capabilities of the company, Etisalat was keen to expand internationally through ISAs. Strategic alliances helped the company share the economic cost of the new projects and allow the company to invest in other projects instead of limiting investments to one project. Etisalat was also motivated to capitalize on its accumulated know-how and expertise of operating and managing telecommunication companies in the UAE and foreign markets. Etisalat has accumulated knowledge and experience in forming and managing ISAs. To capitalize on these strengths, Etisalat decided to search for new opportunities to expand internationally. Etisalat was also motivated to form Etisalat Egypt strategic alliance by the desire to learn and acquire knowledge of the local Egyptian market. This could be done through local partners who provide knowledge of the local market, an important factor that usually foreign investors need and lack. This finding also implies that the third reason for the formation of Etisalat Egypt was the desire of the company to share cost and risk of the new project with partners. Therefore, I maintain that, Etisalat's international business strategy is to expand into foreign markets through partnerships. By contrast, there were five contextual motives for the formation of Etisalat Egypt strategic alliance which include. Firstly, lack of growth opportunities in the UAE market has induced Etisalat to look for growth opportunities in foreign markets. Lack of growth opportunities in the UAE market was mainly because of high penetration rates of Etisalat's services. This situation left few opportunities for future growth of the company's operations in the UAE's local market. Needless to say, the arrival of a new competitor, Emirates Integrated

Telecoms (du), in February 2007 has complicated the situation. All these factors together left few opportunities for future growth. At that time Egypt announced a bid for its third mobile phone license which represents a good business opportunity for Etisalat. Generally speaking, Egypt is witnessing fast economic growth leading to an increase in the level of income and purchasing power of people. Egypt has been in the top five countries with highest growth in Africa. Market conditions are indeed attractive because the country boasts the second largest population on the continent, a strong economy due to recent reforms, and a regulatory framework that has encouraged competition in the telecommunications sector. Market penetration is still, 19.6 per cent which represents 15 million subscribers out of population of 79 million as in September 2006. In addition, a study performed by the Ministry of Telecommunications in Egypt expects the total number of cellular subscribes in Egypt to reach 40 million users by 2011. Therefore, I maintain that the second factor which motivated Etisalat to invest in Egypt and form this strategic alliance was the attractiveness of the Egyptian market. Thirdly, Etisalat was also attracted by the technical specifications of the license. The NTRA also issued the Third Mobile Network Specifications Handbook. The Handbook is issued according to international technological standards and specifications. It includes second generation (2G) service and third generation (3G) services, provided for the first time in Egypt. These new services were expected to put the new company in a competitive advantage relative to its competitors. This is in addition to the fact that existing competitors would have to pay a substantial amount of money to buy 3G license. Fourthly, the UAE's government adopts a policy that encourages local companies to invest in foreign markets. Etisalat has formed this strategic alliance to comply with the home government's policy which directs local companies to expand their operations and invest in foreign markets.

This is especially true for Etisalat in which the government owns 60 per cent of the equity ownership and hence is expected to influence the decisions of the board of directors. Finally, the regulations of the Egyptian telecommunication authorities require that the new project be jointly owned and managed by local and foreign investors. This implies that Etisalat has formed this strategic alliance to comply with the policies of the host governments.

On the whole, the formation of Etisalat Egypt strategic alliance was a reaction to organizational factors which can be referred to, here, as strengths and weaknesses within Etisalat and contextual factors which we refer to as opportunities and threat within Etisalat's external environment. Organizational strengths within Etisalat emanated from the abundance of financial resources at the disposal of Etisalat and the accumulated know-how and expertise of operating and managing telecommunication companies in the UAE and foreign markets. Organizational weaknesses resulted from Etisalat's lack of knowledge of the Egyptian market and the associated risk of the project. The formation of Etisalat Egypt strategic alliance was also a reaction to environmental threats and opportunities. On the one hand, a major threat is the lack of business growth opportunities within the UAE's market. On the other hand, environmental business opportunities include the attractiveness of the Egyptian market, attractiveness of the technical specifications of the license offered by the Egyptian authorities, the foreign investments policy of UAE's government and the Egyptian authority's regulations which require forming a joint venture with local Egyptian partners. Hence, the second phase in the process was the selection of the alliance partners.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 7.1a.

The motives for forming the strategic alliance of Etisalat Egypt are multilevel in nature; organizational and contextual.

Prop. 7.1b.

There were four organizational motives for the formation of Etisalat Egypt alliance which include: abundance of financial resources at the disposal of the company, desire to capitalize on its knowledge and expertise on the areas of telecommunication and foreign investments, desire to share cost and risk of the new project; and learning and acquiring knowledge of the local Egyptian market.

Prop. 7.1c.

There were five contextual motives for the formation of Etisalat Egypt alliance which include: lack of growth opportunities in the UAE market, the attractiveness of the Egyptian market, attractiveness of the technical specifications of the license offered by the Egyptian authorities, foreign investments policy of UAE's government and the regulations of the Egyptian government.

Phase 2: Selection of the partners of Etisalat Egypt alliance

When asked about the process that Etisalat followed to select its partners to form the new strategic alliance, Mr. Ali Al Saeygh, the Transaction Manager, International Investments pointed out that:

> *"Etisalat was very selective in the process of partner selection, not only because the partner mix affects future performance but also because qualified partners help in meeting technical evaluation criteria set by the Egyptian regulators and ultimately help in negotiating and wining the license. The process of partners' selection passed through three stages; i) search for partners,ii) evaluation of partners and iii) selection of partners".*

i) Search for partners

Mr. Al Saeygh went further to explain, that:

> *"The partner selection process began when the National Telecom Regulatory Authority (NTRA) called investors to submit proposals. The NTRA played the role of the linking point between the Egyptian and foreign investors. It aimed*

> *to link partners together in order to limit the number of bidders and facilitate the search process. Later, the NTRA announced the names of the local companies and the foreign companies to help these companies know about each other and select their potential partners".*

On the one hand, local bidding companies included Egypt Post, National Bank of Egypt, Commercial International Bank, Egyptian Financial Group (EFG-Hermes), Bahgat Group, TeleTech, Banque Misr of Egypt, National Telecom Company of Egypt, National Bank for Development of Egypt, Aman Trading, Naaem Group, Telecom Egypt, Raya Holding of Egypt, Sharbatly Group, Pico Telecom and Electronic Media, Arts, and Communication (EMAC) of the USA. On the other hand, foreign companies included Etisalat of UAE, MTC of Kuwait, MTS of Russia, TurkCell of Turkey, Gulf Finance Company of the UAE, TeleNor of Norway, Wataneyia International of Kuwait, Qtel of Qatar, Singapore Tech Telemedia, Telecom Italia, Saudi Telecom Company, MTN of South Africa, Telecom Malaysia and Reliance of India (Etisalat's internal records).

Mr. Al Saeygh went further to complete:

> *"... the Egyptian bidders classified foreign bidding companies into three groups according to their reputation, financial capabilities and technical competencies. Group 1, includes companies which rank high in these criteria. Group 2 includes companies which are lower. While group 3 includes companies which least match criteria. Companies in group 1 were targeted by all local companies. This situation in turn gave foreign companies in group 1 a good chance to choose the best local partners. Etisalat was a major company in Group 1 which means it has been targeted by almost all local companies. This situation gave us the chance to select from a large pool of local partners".*

To recap, the search process was straight forward as the NTRA worked at the mid point between 15 Egyptian and 14 foreign companies to limit the number of bidders and facilitate the search process.

ii) Evaluation of partners

The evaluation process began when Etisalat was approached by 13 Egyptian public and private companies. The evaluation process was carried out by the International Investment Department which is responsible for managing and overseeing all Etisalat's foreign investments. That was clear in the words of Mr. Al Saeygh:

> *"The General Manager of International Investments formed a committee of experts consists of engineers, accountants and administrators. The committee was then assigned the task of designing the technical specifications and other criteria used for evaluating partners and completing the selection process. After the evaluation criteria were set, the committee worked on a process of evaluation which consists of two successive steps. Firstly, a preliminary screening of the general features of the local partners was carried out by the committee. The second stage entailed in-depth evaluation of the technical, financial and administrative capabilities of the potential partners".*

Preliminary screening

The aim of this stage was to reduce the number of potential partners by excluding some of them according to certain criteria. In this respect Mr. Al Saeygh stated that:

> *"During the preliminary screening, privately owned companies were excluded. This was mainly because the policy of Etisalat for selecting foreign partners gives priority to government companies. Etisalat believes that government companies are more reliable, trustable and committed to their business than privately owned companies. Etisalat was keen to this decision by the availability of a number of good potential government companies that approached Etisalat. With regard to the remaining companies, the committee enumerated the strengths and weaknesses of each company and its features. Consequently, more companies were also excluded".*

However, when asked about the main sources of data used for partner's evaluation, Mr. Al Saeygh pointed out that the main sources were partner's internal records, government annual reports, consultants, accounting firms, and stock markets.

In-depth evaluation

In this step, Etisalat performed intensive study for each of the remaining partners. The in-depth evaluation process is based on two major factors; namely recognition of the motives for forming the alliance and the selection of the alliance's form of structure. This is made clear in the words of Mr. Al Saeygh by saying that:

> *"Etisalat has performed in-depth evaluation of potential partners which is based on two factors. The first factor is the recognition of the motives for the alliance formation. As long as the project is long-term and strategic in its nature, Etisalat was looking for a dependable partner who has long-term business orientation and who can effectively work in a long-term basis toward meeting the project's goals. The in-depth evaluation process was also influenced by the form of structure. The equity joint venture form of structure utilized in this project requires long-term commitment of huge resources and therefore, entails high economic risk. This situation has stimulated Etisalat to look for partners whom it can trust as being committed to long-term operations. Based on these requirements, the major criteria used for partner evaluation were: (1) financial capability and administrative competencies, (2) complementarities of resources, (3) partner's readiness to start the project and (4) partner's ability to negotiate with the Egyptian authorities".*

Based on the partners' evaluation criteria, preliminary contacts and negotiations were made with the potential partners. The chairman of the board of directors nominated and sent an investigative team, whose members were selected from the evaluation committee, to visit all potential partners at their home country and to collect field information necessary for the evaluation process. In this connection Mr. Al Saeygh maintains that:

> *".... upon its return from the field trip, the investigative team provided comprehensive reports about each potential partner which are used along*

> *with the evaluation criteria by the evaluation committee to make a final selection decision. Taking in consideration all technical, financial and administrative requirements, the committee designed an evaluation form. Based on this form, the committee compared the potential partners item by item. Every item was evaluated with regard to several dimensions relating to the technical, financial and administrative aspects. In addition, the committee collected some information about each of the potential partners' history, reputation, strengths and weaknesses and included them into the evaluation process. Based on the results of the in-depth evaluation, further rounds of in-depth contacts and negotiations were carried out with potential partners before arriving at the final decision. In-depth negotiations were mainly made with respect to the financial issues, equity share of each partner in the alliance, control and decision making methods, staff management as well as other technical issues".*

On the whole, the evaluation process was performed by a specialized committee developed by the International Investments Department within Etisalat and that the formation of the committee was based on expertise and specialization in the required fields for evaluation. The process of evaluating the alliance partners consists of two successive stages, namely preliminary screening and in-depth evaluation. Based on Etisalat's policy of giving priority to government owned companies, privately owned companies were excluded at the preliminary screening step. The in-depth evaluation step is supervised by the chairman of the board of directors and executed by the evaluation committee and entailed three stages: preliminary contacts and negotiations, sending an investigative team to the potential partners at their home countries, and rounds of in-depth negotiations with the potential partners.

iii) Selection of alliance partners

In light of the results of partners' evaluation, the board of directors and some invited members from the evaluation committee held a meeting to discuss the final views and make the final partner selection decision. The discussion was materialized in the approval of a decision of selecting three partners. The selected partners are Egypt Post, National Bank of Egypt, and Commercial International Bank of Egypt. Quoting the words of Mr. Jamal Al Jarwan, General Manager of Etisalt's International Investments here in explaining the reasons for selecting these particular partners:

> *"... the three partners were selected because they were believed to be the best among the other partners and are expected to bring exceptional contributions which, when added to those of Etisalat, will add value and increase the likelihood of success of the strategic alliance".*

Having selected its partners, Etisalat and its partners began intensive meetings to discuss the bidding issues. The four partners agreed on the technical, financial and administrative issues of the project as well as the issues relating to the bidding and, thereafter, submitted their proposal to the NTRA. On the Egyptian side, eleven ISAs bought the Third Mobile Network Specifications Handbook to enter in the most talked-about public auction. These alliances were:

- Etisalat of UAE, Egypt Post, National Bank of Egypt (NBE) and Commercial International Bank (CIB);
- MTC Group Operations of Kuwait and Egyptian Financial Group (EFG-Hermes), Bahgat Group
- Mobile TeleSystems-OJSC (MTS) of Russia and TeleTech of Egypt;
- TurkCell of Turkey, Banque Misr of Egypt and Gulf Finance Company;
- TeleNor of Norway and National Telecom Company (NTC) of Egypt;
- Wataneyia International of Kuwait, Univest, National Bank for Development of Egypt, and Aman Trading;

- Qtel of Qatar, and Naaem Group, and Singapore Tech Telemedia;
- Telecom Egypt and Telecom Italia;
- MTN of South Africa, Raya Holding of Egypt and the Sharbatly Group.

Two alliances were disqualified from the technical evaluation process which are:

- Saudi Telecom Company, Telecom Malaysia and Pico Telecom;
- Reliance of India and Electronic Media, Arts, and Communication (EMAC) of the United States (Etisalat's internal records).

Documentary analysis revealed that on 4 July 2006 the international auction started with US$ 435 million. With US$2.9 billion Etisalat was way head of the competition, compared to a US$2.47 billion bid by MTC of Kuwait with Egyptian investment bank EFG-Hermes and Bahgat Group. The third-highest bid, at US$2.12 billion, was from an alliance led by Qatar Telecom (Qtel). The fourth offer worth US$1.93 billion in a joint bid from majority state-owned Telecom Egypt and Telecom Italia. Brokers had said they expected the license to go for at least US$1.10 billion, maybe as much as US$ 1.80 billion (NTRA's official website). After weeks of lengthy negotiations on the details of the third mobile license between the National Telecom Regulatory Authority (NTRA) and the winning alliance, the Third Mobile Operator License was signed. On top of the initial license fee, Etisalat alliance agreed to pay the government 6 per cent of revenues, as against the 3 per cent minimum which the government had stipulated (National Telecom Regulatory Authority's official website).

Summary

The process of partners' selection passed through three stages namely; the search for the alliance partners, evaluation of partners and selection of partners. The process of partners' search was organized and facilitated by the Egyptian authorities which prepared a list of potential Egyptian investors along with foreign investors and worked as a mid point between the two parties. In order to precisely determine the local and foreign investors interested in buying the third mobile phone license, NTRA formally announced the license and requested investors to submit proposals. This step helped the NTRA in limiting the number of potential companies. Because of its reputation in the region, Etisalat was a major foreign company that was approached by the majority of local companies to join them as a major partner. This in turn, provided Etisalat a competitive advantage relative to its rivals because it helped it to choose from a large number of local companies.

Having completed preliminary screening of potential partners, Etisalat developed and used a number of criteria for partners' evaluation. To start with, the first and probably the most important criterion was complementarity of partners' resources. Obviously, Etisalat was not looking for partners who possess and can provide know-how and technology for operating telecommunication projects. That is mainly because it possesses and can provide such technology. Rather, Etisalat was looking for partners who can provide resources it lacks. Most notably it was lacking knowledge of the Egyptian market. Being for the first time in Egypt, Etisalat lacks knowledge of many features of the Egyptian market. For example, Etisalat needs to learn about consumer behaviour, competitors' strategies and behaviour and market condition. Etisalat also needs to learn about the economic, political, social and legislative systems of the country. Learning and acquiring this knowledge independently may require investment in resources such as time and money. Time factor was very crucial for Etisalat as long as there was a deadline for the license bidding. Etisalat was also looking for partners who possess and can provide financial resources because it was keen to share cost of project to reduce economic risks. Etisalat was also looking for partners who possess and can provide administrative competencies because from the beginning it has realized that the new company would be jointly managed by all partners which necessitated finding local partners who possess administrative competencies. In so doing, Etisalat was successful in selecting partners with complementing resources. For instance, Egypt Post has a century worth of experience and knowledge in operating its nationwide distribution network and is committed to continuously modernizing and enhancing its services. Egypt Post, with its special trust and reputation within the Egyptian community as a large percentage of population depends on it for both mailing and money deposits and saving accounts, is expected to provide access to database and addresses of large number of potential subscribers. Egypt Post also owns more than 3400 sites/locations in the major cities of Egypt which can be used as sales points and sites to fix telecommunication towers. The National Bank of Egypt is the nation's first and largest bank with an extensive country wide presence and knowledge of the local market. This is in addition to the similar resources provided by Commercial International Bank (Egypt). Both banks helped in billing generation and quick distribution of service by using their databases and branches. The second criterion used by Etisalat to evaluate its partners was the partner's readiness to start the project. Etisalat was also looking for partners who are ready to start implementing the project as soon as they win the license. This criterion is important because the license contract determined a starting date for launching the new mobile phone service in the market. Failure to meet the contract conditions may result in penalties for the contractor. The third criterion was the partner's influence on the Egyptian authorities. Etisalat was facing three major challenges in this project which were winning the license, launching the service before the deadline set by the NTRA, and effectively managing the new company. To meet these challenges, Etisalat, based on its previous experience, was looking for partners who have extended relationships with the Egyptian government. Such social networks would help the new company overcome expected problems and benefit form opportunities. This argument is supported by the fact that Mr. Jamal Anwar Al Sadat (Son of the former President of Egypt) is appointed as the Chairman of the company. Mr. Al Sadat is well known for his good contacts with the government officials and his influence in Egypt.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 7.2a.

The process of partners' selection passed through three stages: search for partners, evaluation of partners and selection of partners to ensure that its selected partners are trustable and committed to the new venture.

Prop. 7.2b.

The process of partners' search was organized and facilitated by the Egyptian authorities who prepared a list of potential Egyptian investors and foreign investors and worked as a mid point between the two parties.

Prop. 7.2c.

Good reputation of Etisalat led to almost all Egyptian investors to approach the company to become a partner.

Prop. 7.2d.

The policy of Etisalat for selecting foreign partners favours government companies over privately owned companies.

Prop. 7.2e.

The major criteria used by Etisalat for partners evaluation and selection were: (1) complementarities of resources, (2) partner's readiness to start the project, and (3) partner's influence on the Egyptian authorities.

<u>Phase 3:</u> Choice of the form of Etisalat Egypt alliance structure

Having won the license, partners of Etisalat Egypt alliance began their intensive meetings to discuss the new project's implementation plan in line with the regulations of the NTRA. However, an important issue that received considerable attention in the discussions was the decision of the alliance form of structure.

It was made clear in the NTRA's announcement of the new mobile phone license (see section 7.3.1.1, phase 1) that the form of alliance structure was predetermined by the Egyptian authorities to be equity joint venture which requires the partners to establish an independent company managed by an independent management. However, when asked about the factors that led to the selection of the equity joint venture form of structure, Mr. Al Jarwan stated three factors. These factors were the Egyptian government's regulations, the economic risk of the project resulted from huge investments and resources committed by partners, and Etisalat's strategy and previous experience with this form of structure. In this respect, Mr. Al Jarwan said:

> *"Although this form of structure was predetermined by the Egyptian authorities, this form conforms to Etisalat's preferred form of structure because it aligns with the alliance's long term goals, motives and operations. This form of structure will tie all partners to the alliance because every partner is obliged to commit financial and other resources for long-term use*

> *in the project. This is very essential for Etisalat because in order to protect our reputation as the project leader and to protect our investments as a major shareholder (66 per cent) we need to have all our partners commit long-term resources to the alliance in order to ensure their future cooperation and positive behaviour. This is in addition to our experience with this form of structure".*

The form of equity joint venture required the four partners to agree on the equity shareholding of each partner in the new venture. The partners agreed on 66 per cent shareholding for Etisalat, 20 per cent for Egypt Post, 10 per cent for National Bank of Egypt, and 4 per cent for Commercial International Bank. The shareholding of each partner reflects its financial contributions and control in the venture. This was made clear in the words Mr. Al Jarwn:

> *"The majority shareholding of Etisalat reflects not only our financial contribution in the alliance's capital but also our key role in the project as the sole provider of telecommunication technical and administrative expertise and the controlling stake resulting from this situation ".*

Summary

The equity joint venture's form of structure was selected because of three reasons. Firstly, this form conforms to the regulations of the host government. Obviously, the NTRA determined the form of alliance structure to be equity joint venture which requires partners to establish an independently managed company. The selection of this form by the Egyptian authorities could be attributed to a number of reasons. Firstly, the Egyptian government believes that bringing foreign investors into the strategic alliance will increase competition which will result in better services and lower prices to consumers. It was also convinced that opening the bid to foreign investors wiould increase competition between bidding companies and eventually would generate a better price for the license.

The government was also willing to provide an opportunity to local companies to form strategic partnerships with foreign investors to help generate profits and learn new production technologies and management systems. Secondly, equity joint venture form of structure reduces the cost and economic risk of entering the alliance because it requires all partners to share cost and commit long-term resources. Such a project is strategic in nature because it entails long-term investment of huge resources that can not be easily reversed. This is especially true for Etisalat, which contributed 66 per cent of the project's capital and used its brand name for the project.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 7.3a.

The equity joint venture form of structure was selected because of two reasons: (1) this form conforms to host government regulations; and (2) it ties partners to the project and reduces the cost and economic risk of entering this alliance because it requires all partners to share cost and commit long-term resources.

Prop. 7.3b.

The majority shareholding of Etisalat reflects its financial contribution and its key technical role as the provider of the telecommunication know-how.

Phase 4: Etisalat Egypt alliance management

Having completed the procedures for establishing the new company, Etisalat and its partners started their administrative work along side the technical work of establishing their network. As per the contract terms and conditions, Etisalat Egypt had to launch its services in two phases. The first phase of the coverage plan which had to be completed by May 21, 2006 included six Egyptian major cities in addition to other governorates. The second phase was to provide service coverage to the whole country within five years

(Etisalat's internal records). Therefore, the task of building and operating a network station was a priority task. In relation to this development, Mr. Al Saeygh stated:

> *"Etisalat's top priority was to form a rigorous plan to build its network and meet the NTRA's requirements. In October 2006, following strict evaluation of technical and commercial bids, Etisalat announced selection of Huawei (a China-based network company) to be its partner in the construction of the telecommunication network. Etisalat sought Huawei's support with regard to building a network and forming a business plan. Huawei responded to Etisalat's request by preparing a highly competitive network construction scheme and business solutions and was also able to ensure the resultant network's speedy deployment".*

For the construction of the Etisalat's network, the selection of a proven equipment supplier was merely a first step. Considerable effort had to be done to launch the service and that was clear in the words of Mr. Al Saeygh when he said:

> *"Great efforts and expertise were also required in site acquisition, engineering implementation, equipment installation, network optimization and maintenance and customer service and retention. Ultimately, customer-oriented service consciousness became a cornerstone of Huawei's efforts in building a core team for the turnkey project".*

However, as a non-local operator which was totally new to a highly competitive market, Etisalat Egypt faced many implementation challenges. These challenges were described by Mr. Al Saeygh as follows:

> *"We faced two major challenges: First, the existing competitors, Mobinil and Vodafone, appeared to be hard at work preparing for the new competition. In fact, the two companies began reducing rates and offering more affordable total ownership packages to subscribers long before the third license was even issued. In 2006 Mobinil launched several campaigns with new products to attract low-income customers. The company has also cancelled administrative fees on pre-paid cards. Mobinil and Vodafone were also negotiating with the NTRA on the economic feasibility of acquiring a 3G license. Second, with the two existing competitors attracting a total of around 300,000 new subscribers each month, Etisalat Egypt was naturally eager to*

> *commercialize its brand as quickly as possible because every day we are delayed there is a relevant opportunity cost".*

However, one important factor for the project management was the exchange of knowledge and information between the alliance partners. When asked what kind of knowledge and information did Etisalat need to exchange with its partners and why this issue is important for the success of the alliance, Mr. Al Saeygh said:

> *"Because we were new to the Egyptian market, we need to learn many features of the Egyptian business environment. Specifically, we need to learn about the legal system of the country so as to avoid falling in legal disputes. Also we need to understand the behaviour of the local consumer which helps in identifying new opportunities in terms of new products, services and markets. It is also important to know about our new competitors and suppliers. For this purpose, we found that our partners are the most reliable source of information".*

Another important factor for the success of the project is the staff recruitment and training. Mr. Omran pointed out that:

> *"With regard to recruitment of key positions (especially technical ones), Etisalat intended to capitalize on its current skills and competencies. Etisalat fills these key positions mainly from the incumbent company in UAE and from its subsidiaries in Saudi Arabia, Sudan and other countries where Etisalat has operations. We follow this strategy because we possess competent staffs who are experienced in the field of telecommunication. However, Egypt has an abundance of skilled labour and professionals; therefore it is not unlikely to recruit from the local market. By the end of 2006, Etisalat has successfully recruited 850 staff to service its customers of which 95 per cent are Egyptian nationals".*

Having reviewed some documents provided by a manger, the researcher found that staff training was also performed by Etisalat. Etisalat Academy (UAE-based subsidiary of Etisalat) delivered training programs for the first batch of 250 administration, technical and operations personnel in June 2006. These training programs are part of Etisalat Academy's training programs delivered to Etisalat staff in the Middle East and North Africa (MENA) region and adds to the recent training programs of staff from Saudi Arabia's Mobily, Sudan's Canar, Pakistan's PTCL, Etisalat Afghanistan and Etisalat International Nigeria. These training programs support Etisalat's efforts to successfully implement its ambitious plan and reach the maximum customer service standards across all advanced telecommunication services. That was obviously demonstrated by Mr. Omran's words:

> *"... in order to implement our plan to the highest international standards, we are involved in a number of training and development programs which aim at preparing a talented team of employees".*

Another training program was launched in October 2006 to train and prepare 800 personnel. The program consists of an integrated system for developing the required professional skills in the areas of management, marketing and sales, customer service, customer profiling and segmentation, fault reduction control, call centre upgrades, broadband applications, information technology security as well as accounting and human resources. The training programs were implemented over a period of 12 months and prepareed the personnel for entering a competitive market. By so doing, Etisalat aimed to prepare an ideal work environment so staff who can respond effectively according to the requirements of competition in the Egyptian telecommunications market. Fresh Egyptian graduates are trained to support their practical needs and manage effectively at work which is consistent with the general vision of the company in capturing 30 per cent market share by 2010 (Etisalat's internal records).

Trust, cooperation and commitment of partners were factors that led to the successful management of the new alliance. Etisalat and its partners worked hard to promote trust and cooperation and to commit resources. This is done by holding regular meetings between partners in the premises of the new company to develop future plans and review and correct the current ones. Partners worked shoulder-to-shoulder under the leadership of Etisalat and this was obviously testified by Mr. Al Jarwan when he said:

> *"The partners worked very professionally in reaching this great success". Partners made their resources at the disposal of the new alliance which provided the new company with a source of strength. For example Egypt post made all its branch offices in the country (about 3400 office) available for the use of Etisalat Egypt. Etisalat Egypt capitalized on these resources whenever suitable and has deployed over 700 base stations across the country, providing 3.5G, high-speed data connectivity in over 40 cities. The availability of well established branches, sales points and service centres of Etisalat's partners across Egypt helped in quick market penetration. Partners' resources were also used for accounting purposes as well as for recharge of SIM cards. With the cooperation of these partners, Etisalat Egypt is extremely well placed to deploy its services quickly in strategic areas and in the most efficient and cost effective manner".*

Summary

Etisalat Egypt was challenged by meeting the deadline set by the NTRA to launch its services in the market. Time factor was very crucial not only to meet the NTRA's deadlines for launching the new services but also because there was an opportunity cost resulting from every day delay. Competitors were working hard to attract more subscribers before Etisalat Egypt launches its services. Etisalat's joint venture with Huawei saved the company's time and effort and helped in focusing the company's attention on other technical and administrative issues. These technical and administrative issues required more cooperation and exchange of information between partners which ultimately helped in commercializing the new services on time. Therefore, Etisalat had to conduct many studies and had to collect and share information with partners. For example, market research had to be conducted to understand the behaviour, needs and preferences of the Egyptian consumer, market prices, distribution channels and product features. Also the new company needs to learn about the government laws, rules and regulations governing the telecommunication sector. Intensive studies also had to be conducted to know more about competitors and local suppliers. The implication of such an argument is that exchange of knowledge and information between partners was very crucial especially at the first stages of the project implementation.

Technical positions were filled by Etisalat's staff brought from the incumbent company in the UAE and other subsidiaries in the region. The rationale behind this agreement was that Etisalat would be the sole provider of the know-how and expertise of establishing and operating the project. This agreement also could be attributed to the fact that Etisalat had been responsible for the technical and production aspects of the project. By contrast, partners agreed that middle and lower level administrative positions to be filled by local staff from the Egyptian labour market. This agreement aligns with the goals and policies of the Egyptian government with regard to aiming at creating new jobs. All these efforts helped in successfully launching the new company's services as planned and was successful in attracting over 1 million subscribers within its first fifty days of operations. However, this success would have not been materialized without mutual understanding and cooperation between the partners. Therefore, I maintain that the spirit of trust, cooperation and commitment promoted by partners helped in the successful and quick implementation of the company's plan and achievement of operation's goals in a short period of time.

Therefore, to conclude, the following propositions are generated from the aforementioned analysis:

Prop. 7.4a.

Etisalat Egypt developed a rigorous plan to ensure launching the service of the new mobile phone according to deadline set by the government authorities.

Prop. 7.4b.

Exchange of knowledge and information between partners was very crucial especially at the first stages of the project implementation.

Prop. 7.4c.

While technical positions are filled by Etisalat's staff brought from the incumbent company in the UAE and the other subsidiaries in the region, middle and lower level administrative positions are filled by local staff from the Egyptian labour market.

Prop. 7.4d.

Etisalat Egypt, in cooperation with Etisalat Academy (subsidiary of Etisalat), developed and delivered intensive training programs to its administrative and technical staff.

Prop. 7.4e.

The spirit of trust, cooperation and commitment promoted by partners helped in the successful and quick implementation of the company's plan and achievement of operation's goals in a short period of time.

<u>Phase 5:</u> Etisalat Egypt alliance performance evaluation

In this phase of the formation process two issues will be discussed. The first one is the evaluation of the offer made by Etisalat to buy the third mobile license, and the second is the performance of the alliance. In what follows, each aspect is discussed and propositions are generated.

Evaluation of the offer made by Etisalat

The issue of the viability and the price paid by Etisalat alliance to buy the third mobile phone license in Egypt has received considerable attention and debate by the media both in the UAE and Egypt. For example, according the Gulf News:

> *"... the third mobile license had been long delayed due to fears within Egypt's National Telecommunications Regulatory Authority (NTRA) that a third operator would not be economically viable. Hence, the entrance of a third operator is not a guarantee for success and analysts have been taking their calculators to the US$2.9 billion paid for the third mobile license" (Gulf News, issue, date?).*

In the light of such a huge investment made by Etisalat to acquire the mobile operator license, a group within the board of directors questioned the viability of the project. However, documentary analysis revealed an interesting statement made by Etisalat's CEO who maintains that Etisalat paid the right price to enter a competitive market. After intensive feasibility studies, using different scientific techniques such as Key Performance Indicator (KPI) which is used for pre-evaluation of projects, Etisalat concluded that this license is viable (Etisalat's internal records). Also Mr. Mohamed Al Qamzy, CEO of Etisalat justified the price paid by Etisalat, which came about US$500,000 more than the second highest bid by saying that:

> *"We had a maximum price limit to offer, however the offer made was less than the maximum. We believe that the license worth what we paid because we consider Egypt to be a strategic long-term investment, and one of the most important telecom markets in the region, having remarkable growth potentials".*

Moreover, Etisalat believed that the acquisition of this license would result in creating a competitive advantage for Etisalat over its rivals. This was clear from the internal records of Etisalat where it was state that:

> *"Etisalat paid the right amount and now it is in a competitive advantage for two reasons. Firstly, the license duration extends for fifteen years, whilst the existing licenses expire within five years or so. Secondly, the acquired license includes third generation (3G) services, whereas the two current operators have to apply for 3G license of their own" (Etisalat's internal records).*

Performance evaluation of Etisalat Egypt

When asked about the criteria used by partners to measure the alliance performance, Mr. Jamal Al Jarwan, General Manager of Etisalat's International Investments stated that:

> *"The criteria used by the partners to measure the performance of the alliance are related to the goals of the partners from entering this alliance. The partners formed this alliance with some pre-established goals for each. The major goals for Etisalat were to expand internationally and access new markets, to share economic cost and risk of the project and to maximize profitability. Each of the Egyptian partners also has its own private goals. Egypt Post aimed at business diversification by entering new business sectors and gaining profits. The goals of the two banks also are to diversify their investment portfolios and generate profits. Despite the fact that each partner entered this alliance with its own private goals, achieving individual partner's goals led to the achievement of the common goals of the alliance. However, effective performance evaluation requires an agreement between partners on the criteria that will be used for the measurement. Towards this end, partners agreed on common criteria to be used for performance evaluation. These criteria are sales and market share (measured by the number of subscribers), return on investments and profitability".*

After a year of operation, the NTRA generated some statistics showing the number of subscribers and market share of Etisalat Egypt. The number of subscribers exceeded 300,000 within just 20 days of its May 2007 commercial launch. After fifty days of operation, the new network succeeded in attracting a staggering 1 million subscribers which is equivalent to 6.6 per cent market share. The company is on track to achieve its target of three million subscribers by May 1, 2008 and has set a target of reaching 30 per cent market share by 2010 which is equivalent to 10 million subscribers (Etisalat's internal records). Moreover, additional investments of US$ 1.2 billion to US$ 1.6 billion will be made in the next three years. In this respect, Jamal Al Sadat, the company's chairman commented:

> *"... these investments will be allocated to all aspects of our business including new base stations, enhancing the network, customer service centres, and so forth. Although, we feared the introduction of the 3G services by the existing competitors would affect its original plans and forecasts, this did not happen, and we are on track to achieve our number of subscribers' projections. Our outstanding performance is attributed to the partners' expertise in the telecommunication industry and international business investments and their commitment and cooperation".*

Summary

The criteria used for performance evaluation include market share (measured by the number of subscribers), return on investment, and profitability. The selection of these criteria may be attributed to the fact that they reflect both short-term and long-term goals of all partners of the strategic alliance. While all partners, with no exception, joined this strategic alliance for financial profits, they were also interested in reducing economic risk of the project through sharing cost and minimizing the pay back period of the invested capital. Achieving short-term goals of the individual partners will eventually lead to the achievement of the ultimate long-term goal which is the survival and longevity of the project. Etisalat Egypt has shown strong performance which could be attributed to Etisalat's knowledge of operating and managing telecommunication projects, its experience in operating foreign investments, and the positive relationship between the alliance's partners which is characterized by trust, commitment and cooperation.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 7.5a.

Partners agreed on common criteria to be used for performance evaluation. These criteria are related to the alliance goals and they include: market share (measured by the number of subscribers), return on investments and profitability.

Prop. 7.5b.

The alliance outstanding performance is attributed to the Etisalat's expertise in the telecommunication industry and international business investments and to the trust, commitment and cooperation promoted by partners.

7.3.2.2 Factors affecting the formation process of Etisalat Egypt alliance

In this part, the two factors affecting the formation process of Etisalat Egypt strategic alliance are analysed. These factors are the partners' culture and trust between partners. Although trust could be considered as one of the cultural values shared in a society, its special importance led to discussing it in a separate part.

1) Partners' national culture

When asked about the effect of the national culture of the alliance partners on the formation process of Etisalat Egypt alliance Mr. Al Jarwan said:

> *"Cultural similarity between the partners of Etisalat Egypt strategic alliance helped in smoothly concluding negotiations between partners at the early stages. Cultural similarity also facilitated joint management and the joint evaluation of the alliance performance. However, the experience of Etisalat in international investments helped in reducing the negative impact of minor differences in partners' culture. Currently, Etisalat successfully operates across 16 markets most of them are in the African and Asian markets with partners from different culture backgrounds. Minor cultural differences between alliance partners may lengthen the formation process and complicate alliance management; however they do not represent a major factor in the alliance success or failure. It has been noticed that unlike other strategic alliances formed by Etisalat, partners and government officials dealt more formally in Etisalt Egypt. For example, it has been noticed that in most of the meetings held with the Egyptian authorities, teams of large*

> *number of people along with ministers and top governmental officials attended these meetings. Moreover, the ceremony of signing the license's contract was attended by the Egyptian prime minister and some other ministers".*

Summary

Cultural similarities between Etisalat and its partners facilitated the process of preliminary negotiations, alliance management and alliance performance evaluation. These similarities made the initial agreements between partners on the one hand and between partners and the government on the other quite simple and straight forward. This feature of the alliance partners also resulted in smooth management of the new company. Partners' decision making and problem solving styles are similar which helped in bringing thoughts, attitudes and goals of partners closer. Moreover, the partners easily agreed on the criteria to be used for the alliance's performance evaluation. These factors are reflected in a strong performance of the company. Therefore, I maintain that cultural similarities between partners have positively influenced the performance of the alliance.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 7.6a.

Cultural similarities between Etisalat and its partners facilitated the process of preliminary negotiations, alliance management and alliance performance evaluation.

Prop. 7.6b.

Cultural similarities between partners have positive influence and no negative influence on the alliance performance.

Prop. 7.6c.

Etisalat's experience in cross-border investments lessens the negative impact of minor differences in partners' culture.

2) *Trust between partners*

The ensuing discussion shows that trust among partners of Etisalat Egypt strategic alliance is an important factor in the formation process of this strategic alliance. Therefore, when asked why trust is considered an important factor, Mr. Al Jarwan mentioned that:

> *"From the beginning, trust among partners influenced the decision of the alliance partners' selection. This is clear when we did intensive investigations and studies prior to the decision of selecting any partner not only to ensure their financial and administrative capabilities, but also to ensure their future desirable behaviour and long-term commitment to the venture. Only those who are trusted by Etisalat for their future behaviour and believed are capable to be committed to the venture were selected. The alliance management also entailed enhancing trust and cooperation between partners. Partners worked together to improve trust and cooperation which has successfully led to more commitment and quick transfer of resource between partners; reducing the extent and cost of legal contracts; smooth exchange of knowledge and information, avoidance of routine and bureaucracy and enhancement of decision making process".*

Mr. Al Jarwan went further to explain:

> *"The form of equity joint venture enhanced trust between partners because this form requires long-term investments and resource commitment. Therefore, having each partner committed considerable resources to the alliance, all partners worked professionally to show desirable behaviour and commitment and to enhance trust in a way leading to achieving common strategic goals, given that each partner has joint benefit in the venture".*

Summary

The foregoing analysis shows that trust among partners has direct positive influence on the formation process of the strategic alliance of Etisalat Egypt. The phases of the partners' selection, selection of the alliance form of structure and alliance management were directly influenced by trust and cooperation between the partners. Trust and commitment were the basis for partners' selection. Etisalat was looking for partners whom it can trust to show long-term commitment to the project and who are expected to show positive behaviour. Similarly, Etisalat's partners were looking for partners who possessed the technical know-how and whom they could trust to have long-term commitment to the project and who were expected to show positive behaviour. A major reason for selecting equity joint venture form of structure is the trust and commitment promoted by this form. Promoting trust between partners also facilitated the process of alliance management. For instance, improving trust between partners led to increasing the amount of resources contributed by partners; increasing the amount and speed of information and knowledge exchanged between partners. Therefore, I maintain that the adoption of the equity joint venture form enhanced trust between the alliance partners.

Therefore, to conclude, the following propositions are generated from the above analysis:

Prop. 7.7a.

Trust among partners directly affected the decision of partner selection and the process of alliance management. With regard to alliance management, improving trust between partners led to more and quick resource commitment by partners; reducing the extent and cost of legal contracts; smooth exchange of knowledge and information and avoidance of routine and bureaucracy and enhancement of decision making process

Prop. 7.7b.

The form of equity joint venture enhanced trust between the alliance partners.

7.4 Conclusion

This chapter started with a brief overview of telecommunications' history in the UAE, Emirates Telecommunications Corporation with emphasis on its international growth, and the telecommunication market in Egypt in order to shed light on the context within which the formation process of Etisalat Egypt alliance was developed. The major part of the chapter described and analyzed the findings and generated propositions from such a description with regard to the aforementioned strategic alliance formation process. The strategic alliance of Etisalat Egypt is formed in a process of five interrelated phases that included recognition of the motives for forming the alliance, selection of the alliance's partners, selection of the alliance's form of structure, alliance's management, and the alliance's performance evaluation. The formation process is influenced by two major factors which are trust among alliance partners and partners' national culture. The generated propositions are summarized in appendix 7 and will be discussed in next chapter 8.

CHAPTER 8
Discussion

8.1. Introduction

The main objective of this chapter is to discuss the characteristics of the formation process of international strategic alliances (ISAs) in the UAE. These characteristics are the main findings that have been developed from the propositions generated in chapters 6 and 7 from the analysis of the data collected. The discussion will answer the question of "why" each of the two alliances studied was formed in such process and to compare and contrast between them. Also, the discussion will relate the findings of this study to similar studies from the literature reviewed in chapters 2 and 3, and within the context of the UAE and other Arab countries. The chapter ends with a conclusion summarizing the main issues discussed and presents a theoretical framework for the formation of ISAs in the UAE and other developing countries with similar business environment.

8.2. Emergent characteristics of ISAs' formation process in the UAE

This section develops the main characteristics on the formation process of ISAs across UAE's enterprises that have been studied. In developing these common characteristics, the researcher draws on the similarities across the two cases with regard to the generated propositions from chapters 6 and 7 (summarized in appendixes 6 and 7). The common characteristics, which are the main findings of the study, are:

1. Phases of identifying and justifying motives for the formation of a strategic alliance, and selecting alliance partners, the alliance form of structure, alliance management and alliance performance evaluation are basic steps of the formation process of ISAs within the UAE's enterprises studied.

2. ISAs within the UAE's enterprises are formed in reaction to organizational and environmental factors and become a part of corporate strategy.

3. The process of partners' selection in ISAs within the UAE's enterprises passes through three stages: search for partners, evaluation of partners and selection of partners, and is carried out by employing evaluation and selection criteria.

4. Strategic alliance processes within the UAE's enterprises is extensively influenced by trust and confidence based on previous relationships between partners.

5. The formation of ISAs within the UAE's enterprises is widely influenced by partners' culture.

6. The performance of ISAs within the UAE's enterprises is evaluated by all partners.

8.2.1. Phases of identifying and justifying motives for the formation of a strategic alliance, and selecting alliance partners, the alliance form of structure, alliance management and alliance performance evaluation are basic steps of the formation process of ISAs within the UAE's enterprises

The first phase in the process is identifying and justifying motives for the formation of ISAs. Despite the fact that ISAs lie at the heart of both companies' strategies, Etisalat and ADNOC were motivated by specific factors to form ISAs. These factors emanated from both inside the company (organizational factors) and outside the company (contextual factors). Organizational factors involve companies' strengths such as availability of abundant idle resources and companies' weaknesses such as the lack of complementary resources to capitalize on the strengths. Contextual factors appeared in the form of opportunities and threats. Opportunities appeared in the form of new attractive markets and products while threats appeared in the form of lack of growth opportunities in the local market and changes in the policies of host government. Each of these factors has presented a problematic situation which in turn required actions by these companies to find ways to capitalize on their strengths, correct weaknesses, capture opportunities and avoid threats.

Having identified motives, companies had to justify the decision of forming a strategic alliance. Both cases of alliances studied were neither willing nor able to have an action to deal with its problematic situation. This finding is supported by Brouthers *et al.* (1995) who argue that firms lack the internal resources (e.g., skills, technology, market access, capital) required to achieve a sustainable competitive advantage on their own. Lack of complementary resources in terms of technological know-how, lack of knowledge of foreign markets, and the substantial cost and risk of starting a new project were found to be the major reasons for forming and entering ISAs. Compared to ADGAS, the phase of identifying and justifying motives was simple, straight forward and systematic and took shorter time in the case of Etisalat Egypt. This could be attributed to a couple of organizational and contextual factors. The organizational factor was that at the time of Etisalat Egypt formation, Etisalat had a clearly stated internationalization strategy supported by a well established structure. Such a strategy worked as a guideline that directs and coordinates efforts of decision makers towards the progress of this project. The contextual factor mainly centres on the government policy to encourage local enterprises to invest in foreign markets included the declared government policy to encourage local companies to investment in foreign markets. By contrast, at the time of ADGAS formation, ADNOC had no clearly defined strategy for foreign investments; instead decisions were made by personal judgment. This is supported by the finding that the identification of motives within ADGAS was made by personal judgment of the former President; Shiekh Zayed Bin Sultan Al Nahian, who during a field visit to the oil fields issued a presidential decree to establish a new company to utilize gas flared in the atmosphere.

The appearance of motives and the realization that dealing with the problematic situation can not be dealt with independently pushed the companies to the second phase to find qualified partners who could provide complementary resources and share cost and risk of the new project. Motives for the alliance formation were also checked against the problematic situation because they were usually thought of as the alliance goals which were expected to handle the problematic situation. Partners' selection entailed going through three stages namely search for partners, evaluation of potential partners and selection of partners. The partners' selection phase recycles the process back to the motives identification and justification phase. For instance, the identification of evaluation criteria recycles the process back to the motives phase to match criteria with the motives. Complexity and duration of partners' selection phase varies from one case to another. In the particular case of ADGAS, despite failure of ADNOC to find qualified partners in the Middle East, a situation that was expected to complicate and prolong the search process, the limited number of such partners around the world and the previous relationships between ADNOC, BP and TOTAL made the selection process simple and straight forward than was expected. By contrast, in the case of Etisalat Egypt, the stage of partner selection was organized by the Egyptian authorities. The Egyptian authorities limited the number of potential foreign and Egyptian companies, prepared and distributed a list of potential partners.

Having selected their partners, enterprises studied moved to the third phase in the process which is the selection of a form of structure. This phase has a couple of recycles, one to the motives phase and the other to the partners' selection phase. The decision of form of structure selection was recycled to the motives phase in a way that the decision of selecting equity joint venture form of structure was based on the motives for alliance formation. The decision of selecting a form of structure is also recycled to the partners selection phase in a sense that form of structure had to be decided by all partners. The fourth phase is alliance management, which involved three recycles towards the phases of motives, partners' selection, and the form of structure selection. The alliance management phase recycles towards motives phase in a sense that enterprises' mission, vision, goals and strategies are all based on the motives for alliance formation. The alliance management phase also recycles towards partners' selection phase in a way that during partners' selection phase, partners should agree on jointly managing the strategic alliance, defining and setting management policies, strategies, and systems and should develop trust and cooperation necessary for smooth functioning of the alliance. The alliance management phase also recycles towards the form of structure phase because selection of equity joint venture form of structure requires establishing an independent company to be managed jointly by all partners. The last phase is alliance performance evaluation. Evaluating alliance performance requires recycling back towards all previous phases. For instance, evaluating alliance performance requires developing measurement criteria which are related to and derived from the motives for the alliance formation (recycle towards motives phase. Evaluation of alliance performance also requires a consensus among partners regarding common goals of the strategic alliance and private goals of each partner and regarding the evaluation criteria (recycle towards partner selection phase. Equity joint venture form of structure necessitates the use of specific performance measurement criteria which may differ from those used in other forms of structure (recycle towards form of structure selection phase. Finally, the results of the performance evaluation may necessitate changes in the alliance's goals, style of management and strategies (recycle towards alliance management phase). It is obvious that the four phases of selection of alliance partners, selection of the alliance form of structure, alliance management and alliance performance evaluation are directly influenced by partners' cultures and trust among partners.

When analysing the above phases in relation to the literature reviewed in chapters 3 and 4 it appears that a significant gap exists in the literature between the necessity of alliances and the understanding of how to successfully operationalise the development process. According to Whipple and Frankel (1998), few researchers question that successful alliances are beneficial, yet little research exists that provides an understanding of how to develop a successful alliance. Thus, high rates of failure in SAs could be attributed, in part, to the lack of proper and comprehensive strategic alliance formation models. For example, Brouthers *et al.* (1995) attribute failure of strategic alliances to the fact that most companies adopt a 'seat of the pants' style in their approach to joint management, and learn lessons the hard way. Although numerous researchers have offered assorted types of frameworks for developing joint ventures (Datta, 1988) and inter-organizational cooperation (Hagedoorn, 1993; Inkpen and Beamish, 1997), none of these approaches necessarily captures the overall process of strategic alliance formation given the greater impetus being placed on globalization (Bartlett and Ghoshal, 1991). Also a recent research has provided evidence of this haphazard approach, showing that in the U.S. only one in five companies has guidelines for creating and maintaining alliances (Schmitz *et al.* 1995). Furthermore, other researchers argue that in spite of availability of several strategic alliance models in the literature there is a historic problem with using these stage models. For example, Whipple and Frankel (1998) argue that one historic problem with using stage models is the inability to determine where one stage ends and another begins. Moreover, stage models have the tendency to ignore, at an individual level the strategies, mechanisms, and behaviours employed in actually bringing about movement from one stage to the next (Weitz and Jap, 1995). This study attempts to capture the overall formation process of SAs. However, despite the paucity of strategic alliance formation models, this study's finding is consistent with Whipple and Frankle's (1998) study of the alliance formation process. Whipple and Frankle (1998) identified four development levels of SAs. The first is the alliance conceptualization which begins when a firm determines an alliance has appeal and provides an alternative to traditional relationships. The second is alliance pursuance which finalizes the decision to form an alliance and establishes the strategic and operational considerations that will be used to select the alliance partner. The third level is confirmation which focuses on partner selection and confirmation. At this level strategic and operational expectations for the arrangement are jointly determined by partners and the relationship is solidified. The fourth is alliance implementation/continuity which occurs over time during which the alliance is continually administered and assessed through a feedback mechanism to determine whether the alliance is sustained, modified or terminated.

Moreover, Whipple and Frankle's (1998) argue that it is critical to understand not only the process of alliance formation, but also the strategic and operational considerations associated with each stage. The strategic component refers to the strategic considerations that correspond to each stage to provide an understanding of how alliance success is evaluated. While the operational component includes the operational considerations that correspond to each stage to provide an understanding of how alliance success is achieved on a daily basis. Whipple and Frankle (1998) also clearly examined the influence of culture and trust on the alliance formation process. Similarly this study's finding is in line with Brouthers *et al.* (1997) who proposed a five-stage strategy process for cooperative ventures. The stages include (1) entry mode: selection or deciding whether cooperative ventures are the best way to service a market, (2) partners, selection: identifying potential partners, (3) negotiation of a cooperative agreement with potential partners, (4) managing the ventures: dealing with the daily issues of making the venture a viable business, and (5) venture evaluation: deciding if the venture is a success or not. Although they examined the effect of differences in management systems and communication methods between partners, Brouthers *et al.* (1997) ignored the influence of culture and trust on the alliance strategy process.

In a similar vein, Das and Teng (1997) provided options and guidelines for sustaining SAs. To a substantial extent, Das and Teng's (1997) study is in line with this study's findings. They suggest seven stages for the process strategic alliance management. The first stage is considering strategic alliance which deals with evaluating alliance as a strategic option, along with other alternatives such as vertical and horizontal integration and market-based transactions. The second is selecting alliance partners. This stage aims at selecting the appropriate partners who can help in achieving competitive advantage. The third is negotiating the alliance agreement, which deals with specifying the governance structure of the alliance, as well as other contractual clauses that bind partners. The fourth stage is setting up the alliance, which aims to select a form of structure and agree on control system and staffing issues. The fifth stage is operating the alliance. This stage deals with implementing the alliance to carry out the project goals. A major concern at this stage is promoting trust and cooperation between partners. The sixth is to evaluate the alliance performance to provide feedback on the status of the alliance. The last stage is modifying the alliance. Das and Teng (1997) clearly examined the influence of partners' culture and trust on the alliance process.

The findings of this study are also in line with Reid *et al.*'s (2001) study of alliance formation issues for knowledge-based enterprises. Reid *et al.* (2001) suggest three stages for knowledge-based alliance formation. The first stage is pre-formation which deals with identifying motives for knowledge-based alliances. The second is formation stage which includes three steps namely examining partners' characteristics, agreeing on operating structures and norms, and selecting forms of structure. The third stage is performance evaluation which concerns with measuring alliance performance. However, Reid *et al.* (2001) ignored the influence of partners' culture and trust on alliance formation process. The findings of this study also support Pett and Debrel (2001) research findings in this respect. In their study of a process model of international strategic alliance formation, Pett and Debrel (2001) suggest a four-sage model. The first stage is exploration which involves scanning the environment, studying organizational factors and industry factors and examining national culture. This stage also involves tentative discussions with potential partners to establish tentative agreements. The second stage is recurrent contract which involves discussion of each organization's motives, the risks associated with the alliance, the structure needed for the alliance, and evaluation of trust of partners. The third is relational contract, which aims at ensuring that opportunistic behaviours are, or nearly are, extinct from the partners in order for the alliance to move forward. The last is outcome stage, which involves measuring the potential of the alliance to gain some competitive advantage. Pett and Debrel (2001) also examined the effect of partners' culture, trust and risk, which they referred to as relational contracts.

This study has found that the relationship between phases is non-sequential and non-linear and involves several recycles from different phases to others, as well as delays. This finding is in line with Lindblom's (1959) early work in the American public sector which found that decision processes in public institutions were 'incremental' and involved periods of recycling, iteration and reformulation. This finding is also in line with Mintzberg *et al.* (1976) who found clear evidence for decision recycling and recycling from different phases to another. Moreover, this finding is also supported by Fahy's (1981) work on energy management, which was based on a case of eleven large multidivisional firms. Fahy (1981) arrived at a similar conclusion about the non-sequential nature of strategy formulation process.

8.2.2. ISAs within the UAE's enterprises are formed in reaction to organizational and environmental factors and become a part of corporate strategy

Despite the fact that SAs are formed in reaction to environmental changes and organizational circumstances, they become a part of strategies of the UAE's enterprises studied. In the UAE's enterprises studied, ISAs are formed as a reaction to a problematic situation. This problematic situation is attributed to one or more of four reasons namely; availability of abundant idle resources (strength), lack of valuable resources (weakness), positive environmental factors (opportunity), and negative environmental factors (threat). Therefore, any change initiative begins with awareness of a problem or need (Bennis, 1987). In that sense, Whipple and Frankel (1998) also argue that alliance conceptualization begins when a firm determines a change in business strategy and practice is justified. Similarly, Vyas *et al.* (1995) argue that scanning the environment for opportunities is the first step in developing strategic alliances. Environmental scanning involves searching and analyzing firm's strengths, weaknesses, opportunities and threats (SWOT). The problematic situation resulted from the appearance of one or more of these factors that induced the firms to form SAs to capitalize on strength, correct a weakness, exploit an opportunity or avoid a threat which they can not perform independently. In what follows each factor is explained in more detail.

Strengths: Abundance of idle resources

In both cases studied, the enterprises enjoy the availability of plenty of idle resources. These resources, if well utilized, can be turned into a competitive advantage. ADNOC has huge reserves of natural gas and Etisalat possess excess financial resources and valuable technology and experience in establishing and managing telecommunication projects. However, these resources were not utilized because of a lack of other complementary resources. A basic assumption of resource-based theory is that resource portfolios are heterogeneous across firms (Wernerfelt, 1984, Barney, 1991). Based on a 1980-1989's study of 166 corporations operating in three sectors worldwide (US, Japanese and European), Gulati (1995) found that strategically interdependent firms, for example companies operating in complementary market niches, formed alliances more often than did firms possessing similar resources and capabilities. Similarly, Tsang (1998) found that the greater the degree of heterogeneity among firms in the market, the higher is the chance of forming alliances. Previously allied firms were more likely to engage in subsequent partnerships, suggesting that over time, each firm acquired more information and built greater confidence in its partner. Therefore, one of the motives for strategic alliance formation in UAE's enterprises studied is to maximize profits in the long-term through utilizing and developing their resources. One immediate opportunity of such strategic alliance is to put idle resources into use. In turn, the ability of companies to best utilize idle resources at their disposal could be a source of competitive advantage. This argument is supported by Dussauge *et al.* (2000) who concluded that competitive advantage may be a product of the firm's preferential access to its idiosyncratic resources, especially those that are tacit and knowledge-based. The resource-based argument for SAs formation suggests that companies use alliances to locate the optimal resource configuration in which the value of their resources is maximized relative to other possible combinations (Das and Teng, 2000a). As such, alliances have been examined as a means for developing and exploiting the firm's resource base (Tsang, 1998).

Weaknesses: Lack of valuable resources

The lack of particular valuable resources within the cases studied was another factor that induced them to form SAs. While ADNOC suffered lack of technological know-how to utilize gas resources and add a new product line, Etisalat lacks knowledge of the Egyptian business environment. Therefore, in both cases enterprises need knowledge and competencies that neither company possess. This implies that firms search for partners with resources they lack (Gulati *et al.*, 2000). Thus, a firm's resource profile plays an important role in alliance formation (Stuart, 2000). In particular, firms search for partners having specialized resources that are not readily available from others (Doh, 2000). Specialized resources can involve management teams with significant and specialized experience (McGee *et al*, 1995) or unique technological know-how (Nagarajan and Mitchell, 1998). Hence, one of the primary benefits of alliances is the access to previously unavailable resources and the joint development of new resources through the alliance. Alliances provide access to information, resources, technology and markets (Hitt *et al*, 2001d; Ireland *et al*, 2001a). Stuart (2000), for example, found that large firms with leading technologies were considered highly valuable partners, particularly for younger and smaller firms often without the resources that could allow them access such technology. Hitt *et al.* (2000a) also argue that firms from emerging markets with lower access to technology use technological capabilities as a primary partner selection criterion. Thus, alliances are used to develop a collection of value-creating resources that a firm cannot create independently (Ireland *et al*, 2002). This is in contrast with transaction cost theory's assumption that "firms transact by the mode which minimizes the sum of production and transaction costs" (Kogut, 1988:322).

Opportunities: Positive environmental factors

Enterprises studied in the UAE were motivated not only by their resource characteristics to form SAs but also by some positive factors within their environment. These factors are related to market conditions, regulatory laws. This finding supports the work of Todeva and Knoke (2005) who argue that alliance formation is broadly shaped by general economic conditions and the institutional frameworks in countries of operation, including legal requirements, macro-economic policies, price controls, financial capital markets, distribution channels, and methods of contract enforcement. In both cases studied, market conditions encouraged the enterprises to form SAs. For instance, ADNOC was motivated by the increase in demand prices of LNG and Etisalat was encouraged by the steady economic growth of the Egyptian economy and the large market size which is characterized by low rate of mobile phone penetration service. Both enterprises also were motivated by the positive foreign investment policies and regulations of the UAE which encourage local enterprises to diversify their business and to expand to foreign markets. This is also in line with the work of Todeva and Knoke (2005) when they argue that government intervention provides the major constraints and opportunities for strategic alliance formation.

Threats: Negative environmental factors

Substantial entry cost and economic risk associated with expansions to new and potentially profitable markets and lack of growth opportunities in the UAE market are the major threats that motivated UAE's enterprises studied to form SAs. This finding is consistent with the findings of Gyenes (1991) which claim that many structural changes in manufacturing industries have become the driving forces for strategic alliances; for as growth slows, as markets shrink or become crowded, and as technological change accelerates to speeds where individual companies cannot recover initial investments, strategic alliances are used to share costs and risks, and to penetrate new markets. To illustrate, Gyenes (1991) states that Japanese pharmaceutical companies want to expand overseas since the Japanese market was not large enough to recover the heavy expenditures in research and development. In this study, the projects of both alliances studied are characterized by their substantial cost and risk. ADNOC's gas liquefaction project and Etisalat's new mobile phone project entail investments of substantial financial resources which, in turn involve high degrees of risk. This finding is also consistent with Stanek's (2004) finding that the costs of developing and marketing a new product can be expensive and failure rates can be as high as 50 per cent, suggesting that sharing the burden with another firm has the advantage of spreading the potential risk over more organizations. Therefore, it makes more sense to involve one or two other companies in the project to share the risk even though the company itself may have all the required resources to do it alone. Resources released from such collaboration can be used for developing other new projects resulting in risk reduction (Tsang, 1998).

The enterprises studied were also encouraged by the lack of growth opportunities within the UAE's market to form their SAs. Much of the recent growth in global alliances is due to both the shrinking of the world markets and increased competition (Pett, and Dibrell, 2001). The more turbulent the environment, the more willing the organizations to enter some sort of alliances (Hamel, 1991; Parkhe, 1993b). As rapid changes occur within either the internal or external industry, a firm will seek to reduce its exposure to risk. Similarly, a study by Coopers and Lybrand rates growth strategies and entering new markets among the top reasons for forming strategic alliances (Coopers and Lybrand, 1997). Partnering with an international company can make the expansion into unfamiliar territory a lot easier and less stressful for a company (Ohmae, 1992). Also it is found, in the particular case of Etisalat, that conforming to the Egyptian government policy of foreign investment is a motivating factor to form Etisalat Egypt strategic alliance. One of the rationales for the formation of ISAs is building links with local enterprises in order to accommodate host government policy. Many governments in developing countries and the former Soviet block insist that access to the local market can occur only if the foreign company works in cooperation with a local partner (Beamish, 1988). Pressures by host government to form SAs also apply in particular industries. For example, companies in the defence industry, telecommunication and parts of the financial services industry are often obliged by host government requirements, concerned to safeguard particular sectors of the economy, to establish links with local firms (Glaister and Buckley, 1996).

Formation of ISAs within the UAE's enterprises studied began as a reaction to factors emanated from within the firm and/or from within the firm's environment. This finding is consistent with Heide and Minor's (1992) finding, which states that strategic alliances are a response to an environmental uncertainty and market imperfections rather than a strategic response aimed to manipulate and influence the environment. This, in turn, implies that scanning the environment for opportunities is the first step in developing strategic alliances (Vyas *et al*, 1995) and it involves analyzing companies strengths, weaknesses, opportunities and threats (SWOT analysis). Therefore, ISAs within enterprises studied in the UAE are formed in response to environmental change and organizational strategic needs. However, ISAs become an integral part of corporate strategy of both enterprises. This finding is consistent with that of Schifrin (2001b) who contends that top executives should consider alliances as a key part of the firm's strategies. It has also been found that ADGAS and Etisalat Egypt meet all the five criteria developed by Wakema (2003) that differentiate strategic alliances from conventional ones. Therefore, ISAs lie at the heart of the corporate strategy in both enterprises. To implement their international growth strategies, both enterprises were restructured in a way that new departments were found which are responsible for foreign investments.

8.2.3. The process of partners' selection in ISAs within the UAE's enterprises passes through three stages: search for partners, evaluation of partners and selection of partners and is carried out by employing evaluation and selection criteria

Selection of partners of ISAs within UAE's enterprises studied passes through a systematic process that involves three phases namely search for partners; evaluation of partners and selection of partners. This finding is consistent with that of Lorange and Roos (1991) who suggest that a systematic process for partners' selection includes five steps namely: i) statement of the firm's strategy; ii) development of a partnership benchmark; iii) elimination of undesirable business sectors; iv) selection of promising business sectors; and v) selection from potential candidates. The aim of the partner selection process is to find and select the right partners with the right mix of resources that will contribute to the alliance long-term success. However, towards this end, both enterprises developed a set of criteria used for partners' evaluation and selection. On the one hand criteria used by ADNOC include partners' competency and knowledge of developing new technology in the area of gas liquefaction; financial performance of partners; compatibility and trust between ADNOC's management and partners' management teams; partners' willingness to form a strategic alliance and commit resources; and partners' readiness to form a strategic alliance and commit resources. On the other hand, criteria used by Etisalat were: i) complementarity of partners' resources; ii) partner's readiness to start the project; and iii) partner's influence on and ability to negotiate with the Egyptian authorities. These criteria are consistent with those proposed by Geringer (1988, 1991), who classified partner selection criteria according to their relatedness to operational skills and resources which a venture requires for its competitive success, which is referred to as task-related criteria, and the efficiency and effectiveness of the partner, which is referred to as partner-related criteria. To recap, typical examples of task-related criteria are technical know-how, financial resources, experienced managerial personnel and access to marketing and distribution channels. Examples of partner-related criteria are the national and corporate culture of a partner, compatibility or trust between the partners' management teams, the degree of favourable past association between the partners, and the size of corporate structure of the partner.

ADNOC and Etisalat were searching for partners with *resources they lack* (Gulati *et al.*, 2000) and who possess specialized resources that are not readily available from others (Doh, 2000). Specialized resources they were seeking involves management teams with significant and specialized experience (McGee et al., 1995), unique technological know-how (Nagarajan and Mitchell, 1998), distribution channels (Lorange et al., 1992), or access to local market knowledge (Geringer, 1991). ADGAS was searching for partners who possess technological know-how required for liquefying natural gas. Stuart (2000) found that large companies with leading technologies were considered highly valuable partners, particularly for younger and smaller companies often without the resources that could allow them access to such technology. By contrast, companies from emerging markets with lower access to technology use technological capabilities as a primary partner selection criterion (Hitt *et al.*, 2000a). In this study, Etisalat Egypt was looking for partners with knowledge of the local market and distribution channels that will speed up its entry to the Egyptian market. Another criterion used by both enterprises to select their partners was the readiness of partners to enter a strategic alliance and commit resources. This criterion was found to have a paramount importance in the case of Etisalat Egypt because the time factor was crucial as long as the agreement contract determined a starting date for the launching of the new mobile phone service in the market. Consequently, the strategic alliance had to be structured in a way that it is the intent of all parties that it will actually succeed – through the need for speed adaptation and facilitated evolution (Lorange *et al.*, 1992). Therefore, it is obvious that enterprises in both cases studied were looking for partners who possess complementary resources which they lack. Proper partner selection led to creating value for both enterprises. This is achieved by utilizing their resources through combining them with resources from other enterprises. This finding is supported by Doz and Hamel (1998) who argue that when considering the value creation aspect of alliance formation, perhaps the most critical determination of value creation is the degree to which the partners' contributions are complementary. Similarly, Madhok and Tallman (1998) argue that alliances, where partners have the potential to create synergy by integrating complementary resources, have the highest probability of producing value. Different but complementary resources make it possible to gain economies of scope, create synergies and develop new resources and subsequent skills (Hitt *et al.*, 2001d) and to develop new competitive advantages (Ireland *et al.*, 2001b; March, 1991).

Also it has been found that the decision of partner selection is influenced by other factors such as partner's global alliance experience and reputation, and previous experience and relationships between partners. The former factor was observed in the case of Etisalat Egypt, whereas the later was observed in the case of ADGAS. It was found that the global alliance experience and reputation of Etisalat was an important factor in being selected by its partners. Partners of Etisalat Egypt were searching for a partner who possesses technological know-how of telecommunication and managerial experience in managing ISAs. This is attributed to the fact that Etisalat partners lack technological know-how and experience in ISAs. This is consistent with Nielsen's (2003) finding that firms which have no experience from previous ISAs may favour a partner with global experience, favourable reputation and ability to negotiate with foreign governments. Nielsen (2003) also argues that firms with experience in ISA activities may place more value on a partner with potential for development of new technology/knowledge and learning. This argument supports the finding that due to the technology it possesses Etisalat was not looking for partners possessing technology rather it was looking for partners who possess knowledge of the Egyptian local market. In the particular case of ADGAS, previous experience and relationships between ADNOC and its partners positively influenced the decision of partner selection. Gulati (1995) finds that previous alliances create ties that directly and indirectly influence the choice of partners. Similarly, in his early study of the selection procedure undertaken by related to the strategic alliance process in Pakistan and India, Tomlinson (1970) found that "favourable past association" was the most important selection criteria, while not being enough in itself to ensure sound strategic alliance's performance. Gulati and Gargiulo (1999) also found that the probability of a new alliance between two specific firms increases with their interdependence, their previous ties, common third parties and their centrality in the alliance network.

8.2.4. Strategic alliance processes within the UAE's enterprises are extensively influenced by trust and confidence based on previous relationships between partners

In the UAE, trust is considered a major factor in business deals. To recap, in an alliance context, trust suggests that a partner's actions will meet expectations, including the absence of opportunistic behaviour (Ireland *et al.*, 2002). Scholars such as Smith *et al.* (1995); Gulati (1995); Jones and George (1998) and Kanter (1994) agree on the importance of trust in achieving successful cooperation between firms. For example, in a study by Kanter (1994) of 37 companies from 11 countries, she found trust to be a key element of alliance success. This is because trust has the ability to reduce transaction costs by deterring opportunistic behaviour thus making partners take a long-term perspective to the relationship (Beamish and Banks, 1987). Accordingly, it has been found within the enterprises studied in the UAE that different phases of the formation process of ISAs were greatly influenced by trust between partners. There are several occurrences within enterprises studied in the UAE which show the exceptional importance of trust throughout the phases of strategic alliance formation process. Next, the importance of trust in each phase of the formation process within UAE's enterprises studied will be elaborated:

Role of trust in strategic alliance's partners selection

In both cases studied, enterprises followed a systematic process for searching, evaluating and selecting partners whom they can trust in their future behaviour and actions. Trust appears explicitly or implicitly in all criteria used for partners' selection in both cases studied. This finding is supported by Glaister and Buckley (1997) who in their study of partnerships between UK companies and companies from Western Europe, the US or Japan found that task-related partner selection criteria associated with market access and partner-related criteria associated with trust and reputation to be most important. ADNOC and Etisalat believe that the existence of trust will facilitate and reduce cost of partner search and selection and hence will reduce transaction cost. This finding is also consistent with that of Gulati (1995) who argued that "trust substitutes for more formal control mechanisms, such as written contracts". Nevertheless, the lack of trust and suspicion are common in business world. In that sense, Ahmed (1993) found that even though the Arabs may trust Western technology, they express often doubts about their sincerity and motives. In the particular case of ADGAS, where access to technology was the major motive for ADNOC to form this strategic alliance, it is obvious that the existence of previous relationships and experience between the alliance partners and between foreign partners and government of UAE enhanced their relational quality which is defined as the extent to which the partners felt comfortable with each other and were willing to rely on trust in dealing with one another and helped in developing trust (see also Arino *et al.*, 2001).

The term micro-level familiarity between partners is used here to denote the existence of previous relationships and common interests between partners. Knowledge and trust resulted from past business relationships between foreign partners of ADGAS and the government of Abu Dhabi was the major reason for selecting these particular partners. Similarly, in their study, Gulati *et al.* (1994) argued that familiarity between partners enhanced trust, which in turn replaced legal relationships like equity sharing as a governance system for managing the cooperation. Moreover, evidence suggests that alliance success is a function of the quality of relationships between partners (Glaister and Buckley, 1999). BP and TOTAL have been present in the UAE since the early 1960s and are involved in direct contacts with the government business relationships with ADNOC. This also implies that the positive relationship between partners of ADGAS strategic alliance is a product of a long-lasting cooperative relationship. This finding is supported by Ireland *et al.* (2002) who maintain that effective social capital is a product of relationships that have developed through long-term interactions between companies as partner firm representatives interact with each other. Also it is found in the particular case of Etisalat Egypt that Etisalat was looking for partners who have good connections and relationships with government agencies and officers which is a form of social capital. Etisalat believes that such connections and relationships will help in successfully and smoothly entering a new foreign market. In a similar vein, research has found that Chinese companies seek partners that have social capital largely because those companies' broad experiences were seen as indicators that they were likely to be effective, trustworthy partners (Hitt *et al.*, 2001a).

Role of trust in the selection of alliance's form of structure

Selection of alliance form of structure is extremely influenced by trust between alliance partners. In both cases, partners selected equity joint venture as the form of structure for their projects. Empirically, Gulati and Singh (1998) found some evidence that cross-region alliances (three regions including USA, Japan, and Europe) are likely to have more equity-based alliances than domestic (or within-region) ones. The selection of equity joint venture form of structure by UAE's enterprises studied is attributed, in part, to two reasons. Firstly, desire of partners to promote a sense of trust and confidence. Secondly, desire of partners to bind each other to the project which requires long-term investments of substantial financial resources. Partners of ADGAS and Etisalat Egypt come from different cultural backgrounds and business environments and were relatively new to each other having no or little previous experience and relationships and follow different norms of business operations (Kostova, 1999). This situation led to suspicion and lack of trust at the early stages of the interactions. This finding is supported by Hitt *et al.* (2001d) who argue that cultural, economic, and institutional differences across countries increase the difficulty of developing trust between partners with home bases in separate countries. This situation justifies the employment of equity joint venture form of structure by partners in both cases studied when they lacked knowledge and experience of each other at the early stages of the alliance formation. This is consistent with the findings of Teng and Das (2008) who observed that since equity arrangements deter opportunistic behaviour, they are preferred when inter-firm trust is insufficient.

It is also found that trust facilitates negotiations and agreements with regard to changes in partners' equity share in SAs. It is found in the particular case of ADGAS that the acceptance of foreign partners reduced their equity share for the benefit of ADNOC was based on their trust and confidence that ADNOC will meet its promises of granting them new oil and gas concessions and not on contractual agreements. This is supported by Dyer's (1996) findings of a comparative study of inter-firm collaboration in the auto industry between the USA and Japan which also supported an inverse relationship between trust and transaction cost where Japanese auto companies tended to trust their suppliers and made the investments based on oral promises of the automaker and without a written agreement. This is also supported by Sharma (1998) who found that as promises are kept, cooperation evolves and high risk behaviour is undertaken. Therefore, where levels of relational capital are high, partners may be willing to behave fairly (Gulati, 1995) and may be willing to do more than is formally expected or may take care of the interest of the other (Sako, 1992).

Role of trust in the management of strategic alliances

Alliance management is extensively influenced by trust and cooperation between partners. In both cases it is found that trust and cooperation between partners facilitated alliance management which is performed jointly by all partners. More specifically, trust and understanding between partners helped in staffing and assigning management responsibilities. Partners also collaborate in staff learning and training to ensure implementation of plans, improve alliance performance and attain operational goals. Trust and confidence also enhanced exchange of knowledge and information between partners which in turn helped in the operations' smooth functioning and attainment of goals of alliance. Generally speaking, trust is an important aspect of day-to-day operations of SAs within the enterprises studied in the UAE. This finding is consistent with Colemen's (1990) observation that mutual trust and commitment are central to the success of the ISAs because no contract or other agreement, no matter how complete or detailed, can account for every issue or every contingency that might arise. Formal contracts can never anticipate and identify all the events and changes that occur over the lifetime of the strategic alliance. Likewise, it is not feasible that partner enterprises rewrite an agreement every time a new issue or situation arises. Necessarily, much of what happens between partners in alliances develops informally in the alliance relationship.

Learning and knowledge transfer are also one of the motives behind the formation of SAs in the UAE's enterprises studied. Partners of ADGAS and Etisalat Egypt were motivated to enter their SAs, partly because of their willingness to learn from partners and to transfer knowledge to their parent companies. This finding is consistent with Inkpen and Crossan (1995) who defined learning as the primary objective of SAs and state that the survival of alliances is dependent upon the ability of partners to extract knowledge and skills from each other. This finding is also supported by Morrison and Mezentseff (1997) who argue that without cooperative learning the success of SAs will be limited in the long term. In this respect, it was found that leaders of both enterprises studied, work hard to promote trust and to provide an environment in which people can easily share their knowledge and information with each other (as in Parast and Digman, 2007). Open and prompt communication and free flow of information through frequent meetings between partners' top management are listed as a priority in the SAs in the UAE to ascertain proper functioning and to further mutual understanding (as in Gulati *et al.*, 1994).

However, not all characteristics of alliance learning are positive. Hamel (1991) noted that alliances yield opportunities for learning races between partners. The partner who first learns the desired capabilities can then dissolve the alliance even if the other partner has not completed learning the desired know-how. Nevertheless, Hamel's (1991) argument is not observed in our two cases studied in the UAE. Also it has been found that the equity joint venture form of structure employed by partners in the enterprises studied encouraged partners to share knowledge and technology because such a form of structure will not be complete and successful without valuable resource contributions and commitment by all partners. Equity arrangement implies more commitment of partners to the alliance which is central to relationship development and governance (Beamish, 1988; Morgan and Hunt, 1994).

Therefore, I maintain that despite cultural differences between partners of cases studied, there is a high level of trust and cooperation. This finding could be attributed to a number of reasons which I believe compensate for differences in culture. Firstly, all partners share closer strategic goals which induced them to work collaboratively to learn each other's culture and management style and to remove obstacles resulted from cultural differences. Partners involved in both cases studied share the same motivation for becoming long-term partners and successfully created a win-win situation for all firms. This finding supports Arino *et al.*'s (2001) observation that building trust within ISAs is influenced by strategic intent (the motivation for formation of the alliances). Secondly, the alliances' strategic goals shared by alliance partners encourage them to share and commit resources which in turn requires partners to communicate and work closely to each other on a daily bases, a situation that improved understanding through interaction. Thirdly, accumulated experience and increased familiarity of partners with different national cultures are conducive to overcoming mistrust, attenuating opportunism, and facilitating cooperation. Partners' extensive involvement in foreign investments in both cases studied resulted in accumulating experience and knowledge cross-border business. In this respect, Gulati (1995) observed that firms with greater collaborative know-how are more likely to develop trust and reputation through repeated ties with other firms. Powell *et al.* (1996) also argue that previous experience in cooperating is essential to the management of a diverse portfolio of collaborative ties as well as to accumulate the capability to benefit from the resulting interdependencies.

Role of trust in the strategic alliance's performance evaluation

The exceptional performance of the enterprises studied within the UAE is attributed, in part, to the trust and cooperation between partners. Kanter (1994) reported trust to be a key element of alliance success for 37 companies competing in 11 countries while Sherman (1994) cited a lack of trust to be a major cause of alliance failure. In both cases studied, trust reduced transaction cost, and more specifically negotiating costs during alliance formation. In addition to lowering negotiation costs, trust also enhanced coordination, which led to lower administration costs. This is consistent with the works of McAlister (1995) and Zaheer *et al.*, (1998). Trust can increase cooperation, improve relationship flexibility, shorten cycle time, increase quality and lower the costs of coordination activities (Smith *et al.*, 1995). Moreover, researchers have also argued that trust can improve strategic alliance productivity and efficiency (Ring and Van de Van, 1992; Sitkin and Roth, 1993). Also it is found in both cases studied that partners jointly develop criteria for alliance performance evaluation and are satisfied with their alliance performance. Alliance satisfaction is defined as one of the outcomes of strategic alliances (Zollo *et al.*, 2002) and provides an assessment of the overall satisfaction of individuals (companies) in the alliances (Parast and Digman, 2007). Building trust among alliance members improves their overall satisfaction with the alliance. Therefore, trust positively affects alliance satisfaction.

8.2.5. The formation of ISAs within the UAE's enterprises is widely influenced by partners' culture

It is found that culture (both national and corporate) has strong influence on different phases of the formation process of strategic alliance within the enterprises studied in the UAE. To recap, while national culture is defined by Hofstede as "the programming of the mind acquired by growing up in a particular country" (1991:5) and by Tihanyi *et al.* (2005) as the homogeneity of characteristics that separates one human group from another and which characterizes the norms, values, and institutions of a society. Organizational culture can be defined as the shared, basic assumptions that an organization learnt while coping with the environment and solving problems of external adaptation and internal integration that are taught to new members as the correct way to solve those problems (Park *et al.*, 2004). Organizational culture has been defined as one of the firm-level variables in studying alliance performance (Zollo *et al.*, 2002). On the one hand, partners of ADGAS ISAs come from four different countries, namely UAE, UK, France and Japan, which have extremely different cultural backgrounds. On the other hand, partners of Etisalat Egypt come from two different Arab countries, namely UAE and Egypt, and consequently share similar culture, which is referred to by Hofstede (1980) as Arab culture. Before embarking into explaining and discussing the effects of culture on the formation process of ISAs within UAE's enterprises studied, the notion of Arab culture is elaborated below.

Arab culture

Hofstede's (1980) study of cultural values did include a category titled "Arab" countries which included Saudi Arabia, Kuwait, Egypt, Lebanon, Libya, Iraq, and the United Arab Emirates. Along Hofstede's four dimensions and as opposed to Western cultures, this Arab group scored high in power distance, uncertainty avoidance, collectivism, and masculinity. In business, Rice (2003) described the culture of Gulf Arabs as being high-context which relies considerably on complex nonverbal communication and that businesspeople are expected to arrive late at meetings and take a considerable amount of time arriving at a decision before signing the contract. Also, Grant *et al.*, (2007) noted that if Arabs commit themselves to a date in the future and fail to show up, there is no guilt or concern on their part, because they have no control over time in the first place. Comparatively, Western practice is governed by the punctuality of appointment times (Grant *et al.*, 2007). This is explained by Rice (2003), who states that Gulf Arabs tend to use circular patterns of reasoning rather than the linear approaches common in Anglo-Saxon cultures, and they live according to polychronic time where time is flexible. In this context long-term plans seem to play a far less prominent role in Arab countries than in the West, because it is the will of God that determines the future anyway (Ferraro, 1990).

Arabs also attach a great deal of importance to status and rank. However, the status of people in the UAE is largely determined by family position and social contacts and connections, not necessarily by their own accomplishment. Connections are extremely important in conducting business. This could be attributed to the collectivist and high power distance of social and business culture in the UAE (Grant *et al.*, 2007). This means that business negotiations and dealings are typically made with family relationships, social contacts, and social status in mind. Well-connected business people can get things done much faster than their counterparts who do not know the ins and outs of the system.

The system of power and relationship in Arab culture is extended to business life and has been termed "sheikocracy" (Ali, 1995), whereby the rulers consider the wealth of the nation their personal property and use such wealth to maintain the people's submission. The characteristics of sheikocracy include hierarchical authority, rules and regulations contingent on the personality and power of the individuals that make them, subordination of efficiency to human relations and personal connections, indecisiveness in decision making, informality among lower level managers, and a generally patriarchy approach (Ali 1995). Muna (1980) also shows that fundamental changes in strategy (for instance new investments, new products, and new markets) are settled without much participation from middle management other than consultation. Arab culture is non-confrontational, which seeks the least conflict possible. Also, the concept of "Saving face" involves compromise, patience, and sometimes looks for the other way to allow things to get back to normal (Lu *et al.*, 2005).

As already explained in chapter 3, the impact of culture on ISAs received substantial importance in the literature, and scholars divided between those who observed negative effects of cultural differences and those who found no empirical support for positive associations between cultural distance and alliance performance. However, the majority of the literature agrees on the potentially negative effects of national cultural differences. Hence, national cultural distance has often been linked to alliance conflict (Lane and Beamish, 1990), misunderstandings (e.g. Lyles and Salk, 1996), collaborative problems (e.g. Mowery *et al.*, 1996), knowledge transfer problems (e.g. Hamel, 1991), and poor performance or even failure (e.g. Meschi, 1997). Nevertheless Park and Ungson (1997) found no empirical support for positive associations between cultural distance and alliance termination, leading some experts to believe that cultural problems may be overstated. The declining influence of cultural difference on ISAs is attributed to the impact of globalization which led to more convergence among global business segments (Preet and Madhok, 2002). The following part will shed light on the influence of culture on the phases of strategic alliance formation within UAE's enterprises studied.

Effect of culture on the selection of alliance's form of structure

The selection of equity joint venture as a form of structure for ADGAS international strategic alliance can be attributed to two factors. Firstly, the desire of foreign partners to use this form and secondly, this form aligns with ADNOC's strategy of foreign investments. Therefore, all partners, local as well as foreign, were interested in using this form of structure mainly because by having an equity share in the project each partner is required to commit resources and therefore will be attached to the project which in turn will ensure long-term commitment and positive behaviour of partners. This is especially important because of the strategic nature of the project which requires long-term investment of huge resources and because of the nature of the partners' cultures which are characterized by high level of dissimilarities. This finding is supported by empirical evidence from both manufacturing and service sectors which suggest that companies favour collaborative modes such as JVs when investing in culturally distant markets (Erramilli, *et al.*, 2002). In doing so, these studies associate international operations with high uncertainty and submit that higher cultural distance leads to higher transaction costs not only by increasing information costs, but also hindering the transfer of know-how (Buckley and Casson, 1976). This justifies the use of equity joint venture form of structure by Etisalat Egypt too. It is also suggested that the entry modes which provide the investor firm with higher levels of control (i.e., "hierarchy") is a better solution to deal with such inconveniences (Contractor and Kundu 1998; Madhok, 1998).

<u>Effect of culture on the selection of strategic alliance's partners</u>

As mentioned above partners of ADGAS are different in their culture while the partners of Etisalat Egypt share similar culture. Hallen and Wiedersheim-Paul (1979) introduced the notion of 'psychic distance', through which partners who are closer on this measure presumably have fewer cultural differences and therefore lower transaction costs to overcome in setting up and managing the alliance. ADNOC's selection of partners different to its culture is attributed to several factors. Firstly, unavailability of qualified partners from the Middle East directed the search for partners to distant environment which in turn resulted in selection of partners from different cultures. Secondly, Arab companies' trust in the Western technology, directed ADNOC's search for partners in the Western market. However, the negative impact of dissimilarities between national cultures of ADGAS' partners is reduced by the existence of previous business relationships and experience which enabled partners to anticipate and avoid possible negative impact of differences in their national and corporate culture. This finding is consistent with Swierczek and Hirsch's (1994) conclusion that it is important for future partners to understand the impact of differences in culture before they begin a joint venture. Therefore, the negative impact of cultural differences between alliance's partners could be offset by having partners involved in contacts and collaborative relationships prior to the alliance formation. This is because, as also found by Mohr and Spekman (1994), increased familiarity of partners with different national cultures is conducive to overcoming mistrust, attenuating opportunism, and facilitating cooperation. However, with regard to Etisalat Egypt alliance, it is found that cultural similarities between partners, who were new to each other and having no previous business relationship or experience, contributed to improving the level of trust and cooperation and helped in commencing their project immediately. This finding supports the work of Arino *et al.* (2001) who indicated that familiarity and shared experience were sources of trust, where differences in cultures and institutions had significant impact on trust. They argue that trustworthiness in SAs was rooted in the cultural context of the companies within the alliance. Therefore I maintain that cultural similarities and previous relationships between partners are means of developing trust and cooperation.

Effect of culture on the management of strategic alliances

In both cases, alliances are jointly managed by all partners. It has been found that cultural dissimilarities between the alliance's partners have both positive and negative impact on alliance management whereas cultural similarities were found to have only positive impact. While ADGAS partners have different cultures, partners of Etisalat Egypt share similar culture. Cultural dissimilarities between partners of ADGAS strategic alliance have insignificant negative effect mainly at the early stages of alliance formation. Communication and negotiation between partners was to some extent complicated and lengthened. Although language barriers were another source of delays and frustrations, the use of English as a common language of communication between partners enhanced communication and understanding. This is in line with Browning *et al.* (1995) who in their study of semiconductor firms, point out that cultural difference between firms hindered productive communication and hence trust among individuals in the alliance. However, once the alliance is formed and partners began to interact through collaborative activities and communication, partners began to know and understand each other's values, goals, and management styles. This condition is supported and explained by Browning *et al.*'s (1995) study of strategic alliances which concluded that firms forming strategic alliances encountered an early phase of chaos and complexity. Such a chaotic environment was due to the mixed conceptions of culture of firms within the alliance which created ambiguity about individual identity and status. However, Browning *et al.* (1995) also observed that as the degree of understanding among individual firms increased (as more cultural practices were experienced), the alliance formed a base for common values and social networks. Through the formation of trust and morale among members, a new order (sets of practices) developed in the alliance, which served as the norm and standard for fostering cooperation. Therefore, negative impact of cultural dissimilarities between ADGAS' alliance partners is offset by enhancing familiarity among partners through collaborative interaction. Knowledge gained thorough collaborative work between partners helped them to develop a refined understanding of each other's culture, management style, capabilities, and weaknesses (Zollo *et al.*, 2002). This finding is also consistent with Arino *et al.*'s (2001) conclusion which indicates that the success of strategic alliances depends on their level of relational quality which is the extent to which the partners felt comfortable with each other and were willing to rely on trust in dealing with one another.

Cultural similarity between partners of ADGAS strategic alliance is found to have positive consequences on the operations of the alliances. Cultural differences enabled partners to tap diverse competencies management systems to the alliance which led to better management of the alliance and improved organizational performance. This finding supported the work of Tsang (1998) who states that despite the difficulties that arise from companies' cooperation in research and development projects due to differences in both national and corporate cultures and work procedures of companies involved as well as more complicated decision-making processes leading to higher administrative cost, staff assigned to work in the project benefit from the fresh perspectives provided by their co-workers who come from different companies. They get to know more about other companies' research approach, methods, procedures, and so on. Moreover, there may be intensive exchange of information and knowledge within the project team. In that sense Park and Ungson (1997) highlighted that cultural complementarity rather than similarity leads to success of ISAs. However, in the particular case of Etisalat Egypt, it was found that despite the unique nature of partners' strategies, management systems and decision styles, national cultural similarities between partners played a vital role in having smooth negotiations and concluding agreements at the early stages of the alliance formation. However, some researchers argue that it is better to have similar corporate cultures for the purposes of long-term cooperation and trust (Saxton, 1997). This reflects the importance of not only national culture but also corporate/organizational culture in the formation and management of SAs. In that sense Dacin *et al.* (1997) contend that differences in organizational culture, a micro level concept, between partners of strategic alliances is related to differences in national culture and result in the formation of differing managerial ideologies which, in turn, have the potential to affect strategic decision processes in firms. However, in order to resolve organizational problems resulting from dissimilarities in organizational cultures, partners in both cases work closely to promote a business environment characterized by mutual understanding and respect. Use of work teams and training programs and workshops in addition to maintaining regular contacts between top managers and lower levels of management helped in sharing and transmitting knowledge and information which ultimately resulted in creating and strengthening common organizational culture. Other human resource practices such as the use of incentives, promotion, and recruitment and selection systems are also employed to resolve cultural problems related to the inability or rejection of collaboration.

Effect of culture on performance evaluation

Despite differences in partners' national and organizational cultures within UAE's enterprises studied, the partners were successful in agreeing on a set of criteria for evaluating alliance's performance. Partners in both cases studied were successful in agreeing on the use of a set of performance evaluation criteria which reflect their goals and interests in the strategic alliance. This finding is contrary to the finding of Yan and Zeng (1999) which claims that evaluating international alliances is especially obscured because firms from different countries and cultures generally apply divergent success criteria. However, mutual goals and interests and similarities in strategic orientations of partners played a vital role in bringing different styles and norms of partners in both cases studied closer. Therefore, both cases proved exceptional performance and partners' satisfaction despite cultural differences. Cultural dissimilarities were found to have no negative impact on the performance of both cases studied. This finding is in contrast with the findings of Simonin (1999) who argues that IJVs are purportedly more vulnerable to misunderstandings arising from incompatible national and corporate cultures, resulting in high managerial conflicts and early terminations. However, this finding is consistent with the results of Zineldin and Dodourova's (2005) study which shows little support for the hypotheses that cultural differences act as a hindrance and a reason for alliance or business relationship failure. Cultural and language barriers, often cited as important failure factors in the literature, seemed to be unimportant to both cases studied. Park and Ungson (1997) also found that, contrary to expectations, JVs between US and Japanese electronic firms lasted longer and were less likely to dissolve than domestic alliances between American firms.

8.2.6. The performance of ISAs within the UAE's enterprises is evaluated by all partners

It has been found that, in both cases of UAE's enterprises studied, in order to ensure proper functioning and success of their ISAs, the partners agreed to continually assess and evaluate performance against the short- and long-term goals and objectives. Strong performance and partners' satisfaction in both cases studied contribute to stability and growth of these alliances. This finding is supported by Das and Teng (2002) who argue that if the alliance has met the expectations of its partners it will be stable and may even expand. Success of ISAs within UAE's enterprises studied could be attributed to a number of factors including partner homogeneity, ownership structure, management control, partner selection, and market entry timing. These factors are discussed as follows:

Firstly, the characteristics of the partners of ISAs within UAE's enterprises studied and the mix of skills and resources these partners bring to the collaboration were found to have paramount influence on the performance and success of ISAs. Partners bring valuable, rare, and imperfectly imitable complementary resources. Abundant gas resources owned by ADNOC and technological know-how of processing gas resources possessed by BP and TOTAL are considered rare and imperfectly imitable resources that complement each other. Likewise, abundant financial resources and technological know-how to establish and operate telecommunication projects possessed by Etisalat and knowledge of the local market and distribution channels possessed by its Egyptian partners are considered rare and imperfectly imitable resources that complement each other. Valuable, rare, and imperfectly imitable resources form the basis for competitive advantages, which lead to positive abnormal returns.

Secondly, equity joint venture form of structure adopted by partners in both cases studied has a critical influence on the alliance performance. The reason is that structural decisions impact almost all aspects of the alliance, including operational process, control mechanisms, and even exit possibilities. The form of equity joint venture adopted by the partners in both cases resulted in the contribution of substantial amount of funds and other resources by each partner. This finding is supported by Gulati (1995) who argues that equity joint venture form of structure helps in aligning the partners' interests especially when the risk of opportunism is significant. This condition promoted an environment of long-term trust and confidence among partners which resulted in better cooperation and eventually successful alliances. Inter-firm trust has been found to be a critical factor in partner satisfaction and alliance success (Inkpen and Currall, 1997; Kanter, 1994). Promotion of trust and cooperation among partners of strategic alliance also improved effectiveness and efficiency of managing these alliances. Management functions such as planning, leading, staffing, training and orientation, and career development are given special consideration and importance by partners of ISAs within UAE's enterprises studied. This in turn helped, as Parast and Digman (2007) also found, in coordinating and integrating business activities, processes, procedures and techniques of all partners (companies) involved in the alliance through continuous improvement of processes to enhance performance and achieve customer satisfaction. This finding is also consistent with those of Das and Teng (1998, 2001), Gulati and Singh (1998) and Oxley (1997) who contend that equity joint venture form of structure helps in promoting cooperative behaviour rather than opportunistic behaviour and reducing transaction costs.

Finally, the external environment has also played a vital role in the success of ISAs within UAE's enterprises studied. Changing environmental factors such as technology and industry structure has also been examined in the literature by researchers such as Killing (1988), Kogut (1989) and Das and Teng (2002). Of particular interest here is how changing environmental characteristics affect the dynamics and outcomes of alliances.

Steep increase in international demand and prices of liquefied natural gas due to the increased awareness by the international community of the green and environmentally-friendly energy created an opportunity for ADGAS not only to succeed but also to achieve outstanding performance. It has also been found that the increase in demand for mobile phone services in Egypt and the development in telecommunication technology, which resulted in reducing operation costs and introducing new services, are all environmental factors that contributed to the success of Etisalat Egypt strategic alliance.

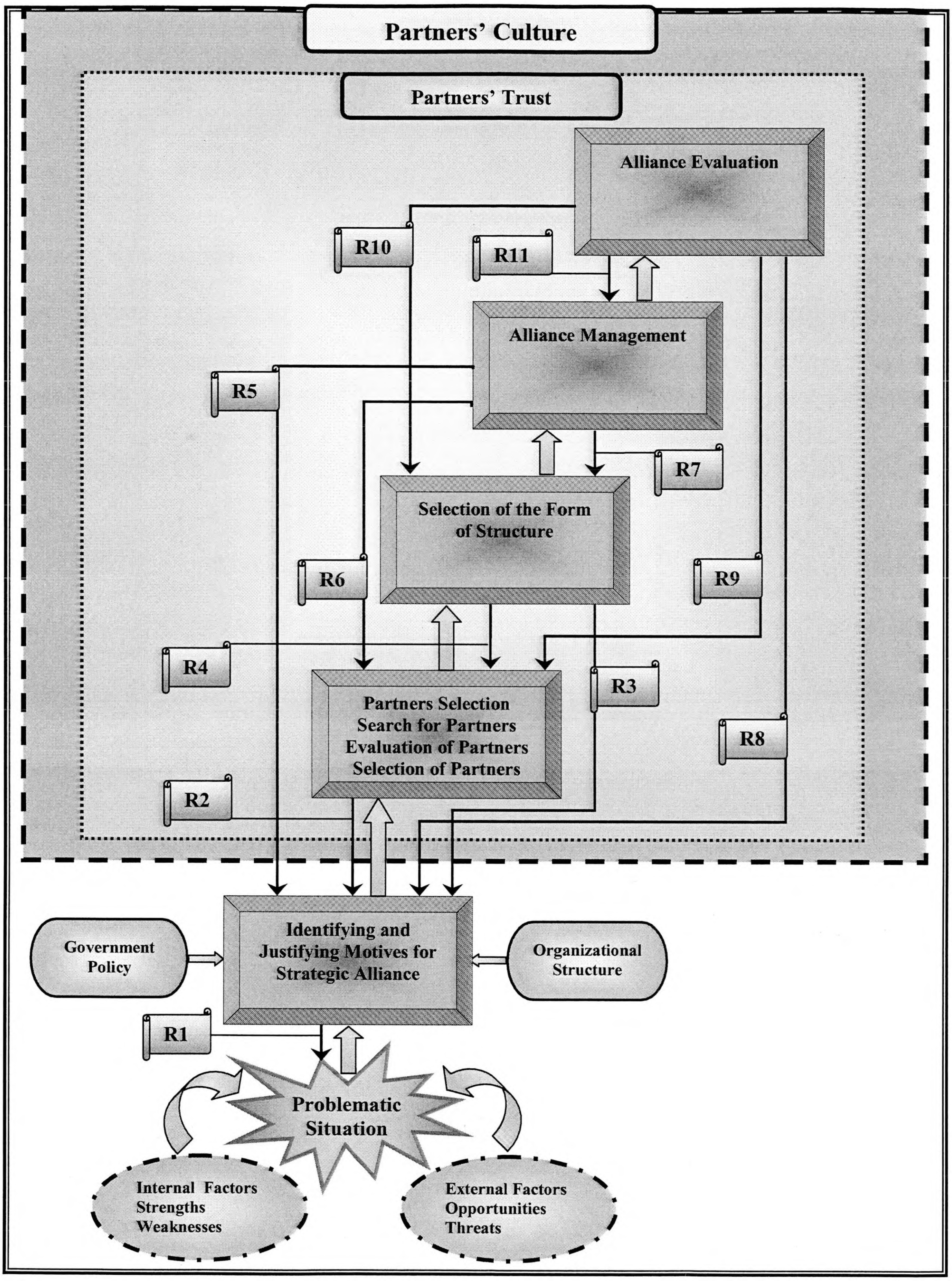
Criteria used for measuring alliance performance

In both cases studied, criteria used by partners to measure their alliance's performance were derived form the long-term and short-term goals of both the strategic alliance and partners. Partners in both cases adopted two kinds of criteria. These criteria are objective/tangible returns, as in Hyder (1999), Mohr and Spekman (1994), and Contractor and Lorange (1988) and subjective/intangible returns, as in Hyder (1999), Mjoen and Tallman (1997), and Parkhe (1993b). Tangible returns indicators employed by partners in both cases are financial criteria where performance is evaluated on the basis of profitability and sales. Luo (2002a) maintains that these indicators constitute the dominant model of empirical strategy-performance research. Partners also use intangible returns indicators which involve partners' satisfaction and relationship measured by the longevity of the alliance.

8.3. Development of a theoretical framework for the formation process of ISAs

The process of forming ISAs within the UAE's enterprises studied could be viewed as including five phases; identifying and justifying motives for the formation of a strategic alliance, selection of alliance partners, selection of the alliance form of structure, alliance management and alliance performance evaluation. The process is also influenced by two major factors; culture of partners and trust between partners. The process and phases of forming ISAs, as well as the outcome of the process are presented in Figure 8.1. The following part will provide explanation of the process; however each phase as well as the factors influencing the process were fully explained and reflected upon from the perspectives of existing theories of SAs in part 8.2.

Figure 8.1: Phases of strategic alliance formation process



The thicker arrows moving to the right represent the decisions to move from one phase to another in the process. The thinner arrows moving backward from right to left stand for the feedback of information and indicate that, in reality, no evidence for sequence between these phases is found. Recycling is a feature in this process where decision makers may recycle from one phase to a previous one to verify a decision or to clarify a point. The process involves 11 recycles which take the decision makers backward to from one stage to another. The first recycle is when the decision makers check the motives for the alliance formation against the problematic situation (R1) their enterprise is facing. The motives were usually thought of as the alliance goals which were expected to handle the problematic situation. The partners' selection phase recycles the process back to the motives identification and justification phase. The identification of the evaluation criteria recycles the process back to the motives phase (R2) to match criteria with the motives. The selection of a form of structure phase has a couple of recycles, one to the motives phase and the other to the partners' selection phase. The decision of form of structure selection was recycled to the motives phase (R3) in a way that the decision of selecting equity joint venture form of structure was based on the motives for alliance formation. The decision of selecting a form of structure is also recycled to the partners selection phase (R4) in a sense that form of structure had to be decided by all partners. The fourth phase, alliance management, involves three recycles towards the phases of motives, partners' selection, and the form of structure selection. The alliance management phase recycles towards motives phase (R5) in a sense that enterprises' mission, vision, goals and strategies are all based on the motives for alliance formation. The alliance management phase also recycles towards partners' selection phase (R6) in a way that during partners' selection phase, partners should agree on jointly managing the strategic alliance, defining and setting management policies, strategies, and systems and should develop trust and cooperation necessary for smooth functioning of the alliance. The alliance management phase also recycles towards the form of structure phase (R7) because selection of equity joint venture form of structure requires establishing an independent company to be managed jointly by all partners. Evaluating alliance performance requires recycling back towards all previous phases. For instance, evaluating alliance performance requires developing measurement criteria which are related to and derived from the motives for the alliance formation (recycle towards motives phase; R8). Evaluation of alliance performance also requires a consensus among partners regarding common goals of the strategic alliance and private goals of each partner and regarding the evaluation criteria (recycle towards partner selection phase; R9). Equity joint venture form of structure necessitates the use of specific performance measurement criteria which may differ from those used in other forms of structure (recycle towards form of structure selection phase; R10). Finally, the results of the performance evaluation may necessitate changes in the alliance's goals, style of management and strategies (recycle towards alliance management phase; R11).

The outer thick-dashed box represents the effect of partners' culture on the process of forming ISAs within the UAE's enterprises studied. While the inner dotted box stands for the influence of trust on the process. Dashed lines and dotted lines are used to denote that other factors might influence the process. However culture and trust were found to be the paramount factors. The trust's box is located inside the culture box to imply that trust could be viewed as one of the values of UAE's national and corporate culture. However, it is separated from culture because of the important influence it has on the process. The double-line box represents the motives for the alliance formation. It is located outside the culture's box and trust's box and separated from the other four phases for two reasons. First, to imply that partner culture and trust have no direct influence on partners' motives for the formation of a strategic alliance. Second, to imply that identifying the motives for forming ISAs represent the foundation for this process. These motives emerge from organizational and contextual factors and are presented in the two dashed boxes located above and below the motives' box. Again, dashed lines are used to denote that the list of motives is not an exhaustive one and that other factors might be present.

8.4 Summary and conclusion

To sum up, six emergent characteristics were found to characterize the ISAs formation process in the UAE. These characteristics include: Firstly, phases of identifying and justifying motives for the formation of a strategic alliance, selecting alliance partners, selecting the alliance form of structure, alliance management, and alliance performance evaluation were basic steps of the formation process of ISAs within the UAE's enterprises studied. Enterprises in the UAE were motivated by both organizational factors that emanated from inside the enterprises and contextual factors which arise from outside the enterprises to form ISAs. Organizational factors involve companies' strengths such as availability of abundant idle resources and companies' weaknesses such as the lack of complementary resources to capitalize on the strengths. Contextual factors appeared in the form of opportunities and threats. Opportunities appeared in the form of new attractive markets and products while threats appeared in the form of lack of growth opportunities in the local market and changes in the policies of host government. Each of these factors has presented a problematic situation which in turn required actions by these companies to find ways to capitalize on their strengths, correct weaknesses, capture opportunities and avoid threats. The appearance of motives and the realization that dealing with the problematic situation can not be dealt with independently pushed the companies to the second phase to find qualified partners who could provide complementary resources and share cost and risk of the new project. Having selected their partners, enterprises moved to the third phase in the process which is the selection of a form of structure. Equity joint venture is a common form of structure used by enterprises studied in the UAE. The fourth phase is alliance management. The last phase is alliance performance evaluation. It is obvious that the four phases of selection of alliance partners, selection of the alliance form of structure, alliance management and alliance performance evaluation are directly influenced by partners' cultures and trust among partners.

Secondly, ISAs within the UAE's enterprises are formed in reaction to organizational and environmental factors and become a part of corporate strategy. SAs in the UAE's enterprises studied were initially formed in reaction to environmental changes and organizational circumstances. However, they became an integral part of competitive strategies of the UAE's enterprises studied. In the UAE's enterprises studied, ISAs are formed as a reaction to a problematic situation. This problematic situation is attributed to one or more of four reasons namely; availability of abundant idle resources (strength), lack of valuable resources (weakness), positive environmental factors (opportunity), and negative environmental factors (threat).

Thirdly, the process of partners' selection in ISAs within the UAE's enterprises passes through three stages: search for partners, evaluation of partners and selection of partners, and is carried out by employing evaluation and selection criteria. The aim of the partner selection process is to find and select the right partners with the right mix of resources that will contribute to the alliance long-term success. However, towards this end, both enterprises developed a set of criteria used for partners' evaluation and selection.

Fourthly, strategic alliance processes within the UAE's enterprises is extensively influenced by trust and confidence based on previous relationships between partners. Trust has a profound influence on the various phases of SA formation process within enterprises in the UAE. It is found to directly influence partners' selection phase, selection of alliance's form of structure, management of strategic alliances, and alliances' performance evaluation.

Fifthly, the formation of ISAs within the UAE's enterprises is widely influenced by partners' culture. Similarities and differences of national and corporate cultures between partners of ISAs in the UAE were found to have a profound influence on the various phases of SA formation process. It is found to directly influence partners' selection phase, selection of alliance's form of structure, management of strategic alliances, and alliances' performance evaluation.

Finally, the performance of ISAs within the UAE's enterprises is evaluated by all partners. Partners of SAs in the enterprises studied in the UAE agreed to assess and evaluate performance on a regular basis. Criteria used by partners to measure their alliance's performance were derived from the long-term and short-term goals of both the strategic alliance and partners.

These research findings were derived from the analysis of the propositions that were generated from the analysis of the data collected through the use of interviews with the managers involved in the formation process of strategic alliances and from the interpretation of documentary data. The implications of these research findings and the contribution of this research study to knowledge are discussed in the next chapter which is a conclusion to the thesis.

CHAPTER 9
Conclusion

9.1 Introduction

The purpose of this chapter is to pull together the conclusions of the study by summarizing the main findings of the research, considering research objectives, highlighting the contribution of the study, presenting recommendations, enumerating study limitations, and finally making proposals for further research.

9.2 Review of the thesis

This thesis is about the formation process of ISAs in the UAE. The main themes that have been explored throughout this study were how ISAs are developed and why they were developed in that way. This study confined itself to two UAE's major enterprises, by emphasizing one strategic alliance within each of them. The intention is to understand the process by which ISAs are developed within enterprises in the UAE, and to develop a guiding framework that could help to guide decision makers within enterprises which are subject to similar circumstances. In this respect this research made a theoretical breakthrough in two major grounds; description and explanation of ISAs. Six characteristics of the formation process of ISAs in the UAE were generated. The first characteristic describes the formation process and the other five explain it.

In describing the formation process of ISAs, the study developed a descriptive framework (Figure 8.1) based on the discussion of this study research findings. This consisted of five phases which are recognition of motives for strategic alliance; selecting alliance partner(s), selecting alliance form of structure; operating and managing the alliance; and evaluating alliance performance. These phases are influenced by two major factors, namely trust among partners and partners' national and corporate cultures. The framework is discussed in relation to relevant literature on strategic alliances. The discussion has revealed that there is some common ground, as well as some controversial areas. The common grounds include: firstly, all five phases that were developed within this study have been supported by almost all the studies reviewed. Secondly, the finding that the relationship between phases in non-sequential and non-linear and involves delays and several recycles from different phases to others is found to be supported by several studies.

Conversely, the controversial areas include: firstly, this study's findings contradict the studies that omitted the influence of culture and trust on the formation process of ISAs. The common agreement on all five phases, as well as the non-linearity of phases of the process, indicates the commonality of such situations both in the developed contexts and in UAE as a developing country. The controversy about the consideration of the influence of partners' culture and existence of trust among partners is due to the fact that most of the studies on the formation process of ISAs were conducted in developed countries which share similar cultures and depend on the contractual agreements rather than trust and confidence in their business dealings. However, this finding is supported by few studies which are mainly conducted between companies in developed countries and companies in developing countries.

In explaining the formation process of ISAs in the UAE, five characteristics have been developed:

First, formation of ISAs in the enterprises studied in the UAE began as a reaction to problematic situation; however, they became an integral part of the enterprises' corporate strategies. This reflects the developing nature of ISAs from being a reactive decision to becoming a strategic one. Viewing strategic alliance development from such a lens, however, reveals that this finding contradicts and is supported by the existing Western literature. Authors in the Western literature are divided between the reactive view and strategic view of ISAs. No evidence is found in the literature suggesting the development nature of ISAs from being reactive to becoming strategic.

Second, the process of partners' selection in ISAs within the UAE's enterprises studied passes through three stages: search for partners, evaluation of partners and selection of a partner and is carried out by employing evaluation and selection criteria. This finding is consistent with some evidence from existing Western theory of ISAs. However, criteria employed for evaluating and selecting partners differ from one context to another and from one firm to another. Use of different criteria could be attributed to differences in partners' cultures, goals and interests as well as differences in resource endowments between partners, national contexts between partners' countries and levels of economic and technological development of partners. For example, partner's know-how to liquefy, store and transport gas was a selection criteria used by ADNOC which reflects its goals, technological development and resource deficiency.

Third, strategic alliance processes within the UAE's enterprises studied is extensively influenced by trust and confidence based on previous relationships between partners. The existence of trust as an imperative factor for the formation of ISAs within enterprises studied in the UAE is part of the overall importance of trust and social capital in business dealings throughout Arab context. Despite different sources of trust, enterprises in the UAE were found to value previous business relationships and experience as a major source of trust. Unlike in Arab contexts, companies in Western contexts were found to rely on contractual agreements rather than trust and previous relations. The study also uncovered that macro-level familiarity between partners (cultural similarities) is less significant than the micro-level familiarity between partners (previous relationships and common interests) in developing trust between partners. Micro-level familiarity between partners can also be used to alleviate negative impact of cultural differences between partners by having partners work and collaborate with each other prior to the alliance formation. Contrary to the Western literature, also it has been found that opportunistic behaviour is not a characteristic of enterprises in the UAE. Enterprises in the UAE do not tend to quickly learn and imitate foreign partners' technology and or achieve their goals before partners do and then end the strategic alliance. This trend is attributed to two reasons. Firstly, enterprises in the UAE lack the absorptive capacity and skills to operate and maintain these technologies independently and secondly because of the conception of the superiority of the Western technology among companies in the UAE and Middle East.

Fourth, formation of ISAs within the UAE's enterprises studied is widely influenced by partners' culture. Cultural similarity and dissimilarity between partners were found to have influence on the formation process of ISAs within the enterprises studied in the

UAE. Culture dissimilarity between partners, as was found in the case of ADGAS, has negatively influenced the formation process only at the early stages as it complicated negations between partners and lengthened the formation process. However, it has no negative impact on the alliance performance and success. This finding is supported by several researchers from the literature reviewed. Conversely, cultural similarities, as in the case of Etisalat Egypt, were found to have positive influence on the formation and performance of ISAs. This is mainly because cultural similarities help to bring different views of partners closer to each other and to enhance communication, coordination and cooperation between partners.

Fifth, performance of ISAs within the UAE's enterprises studied is evaluated by all partners who employed common evaluation criteria. Using common evaluation criteria, partners in both cases studied regularly evaluate performance of their alliances. This finding is consistent with findings of several studies from the literature reviewed. However, there are differences and similarities in the criteria employed by enterprises in each context. Differences in performance evaluation criteria are mainly attributed to differences in partners' motives to join the alliance.

9.3. Reconsideration of the research objectives

The general aim of this research is to explore a central managerial process namely "the formation process of ISAs" within the UAE's enterprises. With respect to this aim, the specific objectives of this research were as follows:

Firstly, to describe and explain the formation process of international strategic alliances within the two identified enterprises in the UAE.

This objective has been met as the study has explored different phases of the formation process of ISAs in two enterprises in the UAE. Factors that influence the process were also explored and analyzed.

Secondly, to develop a guiding framework of strategic alliance formation that could help academics and practitioners understand and form successful alliances in a developing context.

This objective is also met as the study, based on the literature reviewed and the findings of the study, has successfully developed a framework for the formation of ISAs in a developing country context.

9.4 Overview of research contributions

This research has contributed to a better understanding of the formation process of ISAs in the UAE. The findings of the study have wider theoretical and practical implications not just for the UAE but also for other developing countries. In relation to the aim and objectives of this research, the following specific theoretical and practical contributions are claimed by this research:

Firstly, to the best of this author's knowledge, this research is the first exploratory study of its kind that offers a description and explanation to generate an awareness of the existing phenomenon of ISAs in the UAE and the Middle East. The study was carried out by in-depth interviewing and taking into consideration the views of those involved in forming ISAs in the UAE and the views of some policy makers in the Ministry of Economy and Planning. So far, no study is found that describes and explains ISAs in the UAE. Therefore, it is claimed that this research contributed to filling the theoretical gap in the field of ISAs identified within the developing and particularly UAE context.

Secondly, in methodological terms, this research demonstrates the potency of a realist approach. Realism claims having a mid way between positivist and phenomenological approaches and calls for qualitative research based on case studies, in-depth interviews and documentary analysis as methods for undertaking research, especially when the issue is being explored for the first time. Also the personal experience of this researcher regarding access to and collection of data in the UAE context revealed the importance of understanding the cultural and social set up of the UAE's society. It shows that access to data in the UAE relied mainly on personal connections and social networks. Understanding the influence of tribalistic nature of the UAE society, extended family, proxemics (use of space), and the orientation towards time would be very helpful for a researcher who wanted to conduct study in this context, as well as other contexts that share similar characteristics.

Thirdly, this is one of the first academic studies to be written in English language on the subject of strategic alliances in the UAE. The information, discussions, and analysis provided are contributions to the English literature on the subject. The English reader will find the two alliance cases useful and interesting case studies that can be analyzed further or compared with other studies. Hence, this study could be seen as a comprehensive source of reference on information about the UAE history, political system, economic structure in general and global business environment in particular, for the English speaker at an international level. Therefore, the study is expected to add to the current literature on the ISAs and educational philosophies that researchers, academics and practitioners find interesting and useful to their work.

Fourthly, this research offers practical implications for both policy makers and managers of organizations in the UAE when they deal with a sensitive issue such as forming an ISA. The findings of this study show how describing and explaining the formation process of ISAs could represent a sound ground for both policy makers and managers to gain a genuine understanding of the reality of this important phenomenon. In that sense, the findings of this research could be considered as a guiding framework to be used by both managers in the UAE and foreign managers for understanding and forming ISAs in the UAE or in contexts which are subject to similar circumstances as in the context studied.

9.5. Limitations of the research

Being the first of its kind in the UAE, studying the formation process of ISAs is a useful and interesting attempt yet it is a very complex and demanding task. In short, it is not an easy topic and therefore one has to recognize that there have been a number of limitations in trying to cover so many issues that are related to such a topic. Despite the importance and originality of the study, several limitations were inevitable:

Firstly, the lack of relevant strategic alliance literature on developing countries in general, and the Middle East region in particular, is an inevitable difficulty. This researcher had to rely on Western-based publications on the subject, which have been criticized for overlooking strategic alliances in developing countries.

Secondly, the study focuses on a critical and sensitive strategic issue within the UAE enterprises and therefore most of the data is dealt with confidentiality. Due to this sensitivity, the issue of both obtaining and maintaining access to data was a real obstacle. On the one hand this researcher had to spend a considerable time negotiating access and building trust with respondents. On the other hand, some interviewees were not giving the full answers in spite of the insistence and persistence of the researcher. Adding to this is the negative attitude towards research and researchers in the UAE. Reluctance and missing and changing appointments were notorious phenomena amongst this researcher's respondents. The value of research within the UAE context is gravely underestimated. These difficulties disturbed the researcher's resources and time schedule and thereafter, limited the study to only two case studies.

Thirdly, cases studied within each firm were identified and selected by general managers of these enterprises. Being identified and selected by the respondents, there is the possibility that the identified alliances were only the successful ones.

Fourthly, this study focused on publicly owned and government types of organizations in the UAE. However, there is another type of organizations, which was not covered – namely private undertakings.

Fifthly, the lack of proper documentation records and the difficulty of accessing available ones made the tracing of issues regarding the formation process of ISAs very difficult.

Sixthly, limited time and resources available to this researcher and the access difficulties made conducting simultaneous full analysis of the interviews with data collection a difficult task. This researcher had to make quick scanning of the interview contents to determine which candidate could e interviewed next, and which questions should be emphasized in the next interview. This inevitable difficulty limits the findings of study.

9.6. Suggestions for further research

This study was about the formation process of ISAs which involves a number of phases. Therefore, based on this research further studies can focus on each phase. The following areas for future research can be put forward:

Firstly, this study developed a descriptive framework for the formation of ISAs based on two leading enterprises in the UAE. In this respect, this study suggests two streams for further research. The first one is needed to explore the process in privately owned organizations. The second stream is needed to test the significance of this framework by considering large samples of enterprises in the UAE.

Secondly, having identified that ISAs become an integral part of the corporate strategies of the two enterprises studied, this could also be an interesting stream of further research. This situation needs to be further explored within a large sample, including all types of organizations in the UAE. Both the contextual and organizational factors underlining such a situation need to be investigated and examined in relations to processes and outcomes of ISAs.

Thirdly, future research is also needed to further explore the influence of cultural and social factors on the formation of ISAs.

Fourthly, the above proposed areas are just a few of the many suggestions that need to be researched in the UAE. The author hopes that this study would stimulate other scholars to conduct research on interesting and yet challenging subject.

References

Abdou, K. and Kliche, S. (2004) "The strategic alliances between the American and German companies: A cultural perspective", *European Business Review*, 16(1): 8-27.

Abu Dhabi Onshore Petroleum Operations (1989) "Oil is a dream that has come true, a special issue marketing the 50th anniversary of signing the first agreement for oil concessions in 1993", Abu Dhabi.

Acedo, F.J., Barroso, C., and Galan, J.L. (2006) "The resource-based theory: Dissemination and main trends", *Strategic Management Journal*, 27: 621-636.

Adam, K. (2003) "Women's Empowerment and leadership in Education: A Key Factor for Emiratization in the United Arab Emirates", Unpublished Masters Dissertation, University of South Africa.

Agarwal, S. and Ramaswami, S. N. (1992) "Choice of foreign market entry mode: Impact of ownership, location and internalisation factors", *Journal of International Business Studies*, 23(1): 1-27.

Ahmed, M. M. (1993) "International marketing and purchasing of projects: Interactions and paradoxes", A Study of Finnish Project Exports to the Arab Countries, Swedish School of Economics and Business Administration, Helsingfors.

Akio, T. (2004) "The logic of strategic alliances", *Ritsumeikan International Affairs*, 2: 79-95.

Al Khalifa, A. K. and Peterson, S. E. (2004) "On the relationship between initial motivation, and satisfaction and performance in joint ventures", *European Journal of Marketing*, 38(1/2): 150-174.

Al Marri, S. (2006) "An investigation of the relationship between higher education and the labour market in kuwait", A PhD Thesis, University of Abertay Dundee.

Al Tamimi (2005) "Taxation Law in the UAE" at www.tamimi.com.

Al-Fahim, M. (1995) "From rags to riches: A story of Abu Dhabi", London: The London Center of Arabic Studies.

Ali, A. J. (1995) "Cultural discontinuity and Arab management thought", *International Studies of Management and Organization*, 25(3): 7-21.

Al-Khalifa, A. K. and Peterson, E. (1999) "The partner selection process in international joint ventures", *European Journal of Marketing*, 33(11-12): 1064–1081.

Allio R. and Pekar P. (1994) "Making alliances work: Guidance for success", *Long Range Planning*, 27: 54-65.

Allison, G. T. (1971) "Essence of decision: Explaining the Cuban missile crisis", Boston, MA, Little, Brown and Company.

Al-Qasimi, S. (1986) "The myth of Arab piracy in the Gulf", London; Dover, N.H.: Croom Helm.

Amaratunga, D., Baldry D., Sarshar, M. and Newton R. (2002) "Quantitative and qualitative research in the built environment: Application of "Mixed" research approach", *Work Study*, 51(1): 17-31.

Anderson, E. and Weitz, B. (1992) "The use of pledges to build and sustain commitments in distribution channels", *Journal of Marketing Research*, 29: 18-34.

Archer, S. (1988) "Qualitative research and the epistemological problems of the management disciplines", in A. Pettigrew, eds., "Competitiveness and the management process", 265-302, Basil Blackwell, Oxford.

Arino, A., De La Torre, J. and Ring, P. S. (2001), "Relational quality: management trust in corporate alliances", *California Management Review*, 44(1): 109-31.

Babbie, E. and Mouton, J. (2001) "The practice of social research", South African Edition, Oxford University Press, Cape Town.

Badaracco, J. L. (1991) "The Knowledoe Link", Boston, MA, Harvard Business School Press.

Baranson, J. (1990) "Transnational strategic alliances: Why, what, where and how" *Multinational Business,* 2: 54-61.

Barney, J. (1986) "Organizational culture: Can it be a source of sustained competitive advantage?", *Academy of Management Review*, 11: 656-65.

Barney, J. (1991) "Firm resources and sustainable competitive advantage", *Journal of Management*, 17(1): 99-120.

Barney, J. B. (2001) "Is the resource-based "view" a useful perspective for strategic management research? Yes", *Academy of Management Review*, 26(1): 41–56.

Bartlett, C. and Ghoshal S. (1991) "Global strategic management: Impact on the new frontiers of strategy research", *Strategic Management Journal*, 12(S): 5-16.

Bartlett, C., and Ghoshal, S. (1987) "Managing across borders: New strategic requirements" *Sloan Management Review*, 29: 7-17.

Bartlett, C., and Ghoshal, S. (1989) "Managing across borders", Boston, Harvard Business School Press.

Beamish, P. W. (1985) "The characteristics of joint ventures in developed and developing countries", *Columbia Journal of World Business*, 20(3): 13-19.

Beamish, P. W. (1988) "Multinational Joint Ventures in Developing Countries", Routledge.

Beamish, P. W. (1994) "Joint ventures in LDCs: Partner selection and performance", *Management International Review*, 34(special issue): 60-74.

Beamish, P. W. and Delios, A. (1997) "Incidence and propensity of alliance formation", in "Co-operate strategies: Asian pacific perspectives", eds. P. W. Beamish and J. P. Killing, New Lexington Press, San Francisco.

Beamish, P. W., and Banks, J. C. (1987) "Equity joint ventures and the theory of the multinational enterprise", *Journal of International Business Studies*, 18: 1-16.

Beamish, P .W. (1985) "The characteristics of joint ventures in developed and developing countries", *Columbia Journal of World Business*, 20: 13-19.

Beamish, P.W., and Killing, J.P. (1996) "Global strategic alliances", in R. Tung (ed.) "International encyclopaedia of business and management", 1613-1631. London: Thompson Business Press.

Bennis, W. (1987) "Using our knowledge of organizational behavior: The improbable task", in Handbook of Organiz.atiorud Behavior, J. W. Lorsch, ed. Englewood Cliffs, NJ, Prentice-Hall, Inc.

Bernard, H. (2000) "Social research methods: Qualitative and quantitative approaches", Thousand Oaks, CA, Sage Publications.

Birkinshaw, J. (2001) "Making sense of knowledge management", *Ivey Business Journal*, 65(4): 32-36.

Bleeke, J. and Ernst, D., (1995) "Is your strategic alliance really a sale?", *Harvard Business Review*, 97-105.

Bleeke, J., and Ernst, D. (1991) "The way to win in cross-border alliances", *Harvard Business Review*, 69: 127–135.

Boateng, A., and Glaister, K.W. (2002) "Performance of international joint ventures: evidence from West Africa", *International Business Review,* 11: 523–541.

Bogdan, R. and Taylor, S. (1975) "Introduction to qualitative research methods: A phenomenological approach to social science", New York, Willey.

Booth, P. (*1995*) "Two grandmasters at the extremes", *The Alliance Analyst* at: http://www.alliance.analyst.com.

Borys, N. H. and Jemison, D. B. (1989) "Hybrid arrangement as strategic alliances: Theoretical issues in organizational combinations", *Academy of Management Review*, 14: 234-49.

Bourgeois, K. and Eisenhardt, L. (1988) "Politics for strategic decision making in high-velocity environments: towards a mid-range theory", *Academy of Management Journal*, 31(4): 543-57.

Bourgeois, L.J., and Eisenhardt, K.M. (1988) "Strategic decision processes in high velocity environments: Four cases in the microcomputer industry", *Management Science*, 34: 816-835.

Bronder, C. and Pritzel, R. (1992) "Developing strategic alliances: A successful framework for co-operation", *European Management Journal*, 10(4): 412-20.

Brousseau, E. and Quelin, B. (1996) "Asset specificity and organizational arrangements: The case of the new telecommunications services market", *Industrial and Corporate Change*, 5: 1205-30.

Brouthers, K. D., Brouthers, L. E. and Harris P. C. (1997) "The Five stages of cooperative venture strategy process", *Journal of General Management*, 23(1): 39-53.

Brouthers, K. D., Brouthers, L. E. and Wilkinson, T. J. (1995) "Strategic alliances: Choose your partners", *Long Range Planning*, 28(3): 18-25.

Browning E. S. (1994) "Side by side: computer chip project brings rivals together, but the cultures clash", *The Wall Street Journal*, May 3: A1.

Browning, L. D., Beyer, J. M. and Shetlerr, J. C. (1995) "Building cooperation in a competitive industry: SEAMTECH and the semiconductor industry", *Academy of Management Journal*, 38(1): 113-51.

Bryman, A. (2001) "Social research methods", Oxford University Press.

Buckley, P. J. and Casson, M. (1987) "The future of the multinational enterprise", Macmillan, London and Basingstoke.

Buckley, P. J. and Casson, M. (1988), "A theory of cooperation in international business", in Contractor, F. J. and Lorange, P. (Eds) (1988), "Co-operative strategies in international business", Lexington Books, Lexington, MA, 31-53.

Buckley, P. J., and Casson, M. C. (1976) "The future of the multinational enterprise". London, McMillan.

Buckley, P. J., and Casson, M. C. (1998) "Analyzing foreign market entry strategies: Extending the internalization approach", *Journal of Iinternational Business Studies*, 29(3): 539-561.

Buckley, P., and Casson, M. (1996) "An economic model of international joint venture strategy", *Journal of International Business Studies*, 27: 849-876.

Burgers, W. P., Hill, C.W.L. and Kim, W. C. (1993) "A theory of global strategic alliances: The case of the global auto industry", *Strategic Management Journal*, 14(6): 419-32.

Cartwright, S. and Cooper, G. L. (1993) "The role of cultural compatibility in successful organizational marriage", *Academy of Management Executive*, 7 (2): 57-70.

Carvens, K., Piercy, N., and Carvens, D. (2000) "Assessing the performance of strategic alliances: Matching metrics to strategies", *European Management Journal*, 18: 529-541.

Cavaye, A. L. M. (1996) "Case study research: A multi-faceted research approach for IS", *Information Systems Journal*, 6: 227-242.

Cavusgil, S. T. and Evirgen, C. (1997) "Use of expert systems in international marketing: An application for co-operative venture partner selection", *European Journal of Marketing*, 31(1): 73-86.

Chandler, A. E. Jr. (1962) "Strategy and Structure: Chapter in the History of the American Industrial Enterprise", MIT Press, and Cambridge, Mass.

Chaudhuri, P. R. (1995) "Technological asymmetry and joint product development", *International Journal of Industrial Organization*, 13: 23-39.

Cherry (2000) "Introduction to social research: Quantitative and qualitative approaches", London, Sage.

Chi, T. (1994) "Trading in strategic resources: Necessary conditions, transaction cost problems, and choice of exchange structure", *Strategic Management Journal*, 15: 271-290.

Chung, S., Singh, H. and Lee, K. (2000) "Complementarity, status similarity and social capital as drivers of alliance formation", *Strategic Management Journal*, 21: 1–22.

Clark, Margaret, S. and J. Mills (1979) "Interpersonal attraction in exchange and communal relationships", *Journal of Personality and Social Psychology*, 37: 12-24.

Coase, R. H. (1937) "The nature of the firm", *Economica* (New Series), 4 (November): 386-405.

Cohen, W. M., and Levinthal, D. A. (1990) "Absorptive capacity: A new perspective on learning and innovation", *Administrative Science Quarterly*, 35: 128-152.

Contractor, F. J. and Kundu, S. K. (1998) "Modal choice in a world of alliances: Analyzing organizational forms in the international hotel sector", *Journal of International Business Studies*, 29(2): 325- 357.

Contractor, F. J., and Lorange, P. (2002) "The growth of alliances in the knowledge-based economy", *International Business Review* 11: 485-502.

Contractor, F.J., and Lorange, P. (1988) "Why should firms co-operate?", 3-2o, in F.J. Contractor and P. Lorange (eds.), "Co-operative Strategies in International Business" London: Lexington Books.

Coopers, and Lybrand, (1997) "Strategic alliances", Coopers and Lybrand Barometer, Spring.

Corbin, J., *and* Strauss, *A. (*1990*)* "Grounded theory research: Procedures, canons, and evaluative criteria", *Qualitative Sociology*, 13: 3-20.

Cravens, D., Cravens, K. and Piercy, N. (2000) "Assessing the performance of strategic alliances: Matching metrics to strategies", *European Management Journal*, 18: 529-41.

Creswell, J. (2003) "Research design: Qualitative, quantitative and mixes methods approaches", Thousand Oaks, CA, Sage.

Crotty, M. (1998) "The foundations of social research: Meaning and perspective in research process", Sage Publications Ltd.

Cullen, J. B., Johnson, J. L., and Sakano, T. (2000) "Success through commitment and trust: The soft side of strategic alliance management", *Journal of World Business*, 35: 223-240.

Cumming, L. L. and Bromiley, P. (1996) "The organizational trust inventory (OTI): Development and validation", in Kramer, R. M. and Tyler, T. R. (Eds), "Trust in organizations: Frontiers of theory and research", Sage, Thousand Oaks, CA, 302-30.

Czinkota, M. R. and Ronkainen, I. A. (2001) "International marketing", The Dryden Press, Hinsdale, IL.

Dacin, M. T., Hitt, M. A. and Levitas, E. (1997) "Selecting partners for successful international alliances: Examination of US and Korean firms", *Journal of World Business*, 32: 3-16.

Dane, F. (1990) "Research methods", California, Brooks, Cole Publishing Company.

Dark, M. (2004) "A contract with the government", *Government Purchases Review*, Law Update, 155: 6-9.

Darligton, Y. and Scott D. (2002) "Qualitative research in practice: Stories from the field", Open University Press.

Das, T. K. and Teng, B. S. (1998) "Between trust and control: developing confidence in partner cooperation in alliances", *Academy of Management Review*, 23(3): 491 – 512.

Das, T. K. (2005) "Deceitful behaviors of alliance partners: potential and prevention", *Management Decision*, 43: 706-19.

Das, T. K. and Kumar, R. (2007) "Learning dynamics in the alliance development process", *Management Decision*, 45(4): 684-707.

Das, T. K. and Teng, B. (1997) "Sustaining Strategic Alliances: Options and Guidelines", *Journal of General Management*, 22(4): 49-64.

Das, T. K. and Teng, B. (2000) "Resource-based theory of strategic alliances", *Journal of Management*, 26: 31-61.

Das, T. K. and Teng, B. (2000b) "Instabilities of strategic alliances: An internal tensions perspective", *Organization Science*, 11: 77-101.

Das, T. K. and Teng, B. (2001) "A risk perception model of alliance structuring", *Journal of International Management*, 7: 1-29.

Das, T. K. and Teng, B. (2002) "The dynamics of alliance conditions in the alliance development process", *Journal of Management Studies*, 39: 725-46.

Das, T. K., Teng, B. S (2003) "Partner analysis and alliance performance", *Scandinavian Journal of Management*, 19: 279–308.

Das, T. K., and Teng, B-S. (1998) "Resources and risk management in the strategic alliance process", *Journal of Management*, 24: 21-42.

Datta, D. K. (1988) "International joint ventures: a framework for analysis", *Journal of General Management* 14: 78-90.

Deeds, D. L. and Hill, C. W. L. (1996) "Strategic alliances and the role of new product development: An empirical study of entrepreneurial biotechnology firms", *Journal of Business Venturing*, 11(1): 41-55.

Demirbag, M. and Mirza, H. (2000) "Factors affecting international joint venture success: An empirical analysis of foreign-local partner relationships and performance in joint ventures in Turkey", *International Business Review*, 9: 1-35.

Denzin, N. (1989) "Interpretive biography: Applied social methods research series", Newbery Park, California, Sage.

Devlin, G. and Bleackley, M. (1988) "Strategic alliances guidelines for success", *Long Range Planning*, 21(5): 18-23.

Dierickx, I. and Cool, K. (1989) "Asset stock accumulation and sustainability of competitive advantage", *Management Science,* 35(2): 1504 -1511.

Doh, J. P. (2000) "Entrepreneurial privatization strategies: Order of entry and local partner collaboration as sources of competitive advantage", *Academy of Management Review*, 25: 551-571.

Dollinger, M., and Golden, P. (1992) "Interorganizational and collective strategies in small firms: Environmental effects and performance", *Journal of Management*, 18(4): 695-715.

Douma, M. U., Bilderbeek, J., Idenburg, P. J. and Looise, J. K. (2000) "Strategic alliances: Managing the dynamics of fit", *Long Range Planning*, 33: 579-598.

Doz Y. (1992) "The role of partnerships and alliances in the European industrial restructuring", in K. Cool, D. J. Neven and I. Walter (eds), "European Industrial Restructuring in the 1990s", Macmillan, London.

Doz, Y. L. (1996) "The evolution of cooperation in strategic alliances: Initial conditions or learning processes", *Strategic Management Journal*, 17(Summer Special Issue): 55-83.

Doz, Y. L. and Hamel, G. (1998) "Alliance advantage: The art of creating value through partnering", Havard Business School Press, Boston, MA.

Druker, P. F. (1995) "The network society", *Wall Street Journal*, Eastern edition, 29 March: 225, A12.

Dubai population soars to 1,321,453 (2006, December 8), Khaleej Times: 3.

Dubai's non-oil trade hits AED523.5 billion (2007, January 16), Gulf News: 33.

Dunning, J. (1993a) "The globalization of business", London and New York, Routledge.

Dussauge, P., Garrette, B. and Mitchell, W. (2000) "Learning from competing partners: Outcomes and durations of scale and link alliances in Europe, North America and Asia", *Strategic Management Journal*, 21(2): 99-126.

Duysters, G. and Hagedoorn, J. (2000) "Organizational modes of strategic technology partnering", *Journal of Scientific and Industrial Research*, August-September: 59:640-649.

Dyer, J. (1996) "Specialized supplier networks as a source of competitive advantage: Evidence from the auto industry", *Strategic Management Journal*, 17(4): 271291.

Dyer, J. H., and Nobeoka, K. (2000) "Creating and managing a high-performance knowledge-sharing network: The Toyota case", *Strategic Management Journal*, 21: 345-367.

Dymsza, William A. (1988) "Successes and failures of joint ventures in developing countries: Lessons from experience", in F. Contractor and P. Lorange, eds, "Cooperative strategies in international business", Lexington, Mass, Lexington Books: 403-24.

Easterby-Smith, M., Thorpe R. and Lowe A. (1991) "Management research: An introduction", Sage Publications, London.

Economist Intelligence Unit (2006a), United Arab Emirates, Country Profile. Retrieved January 26, 2007, from http://www.eiu.com.

Economist Intelligence Unit (2006b, November), United Arab Emirates, Country Report, Retrieved January 26, 2007, from http://www.eiu.com.

Eisenhardt, K. M. (1989) "Building theory from case study research", *Academy of Management Review* 14(4): 532-550.

Eisenhardt, K. M. and Bourgeois, L. J. (1992) "Conflict and strategic decision making: How top management team disagree", working paper, Stanford University.

Eisenhardt, K. M. and Schoonhoven, C. B. (1996) "Resource-based view of strategic alliance formation: Strategic and social effects of entrepreneurial Firms", *Organization Science*, 7:136-50.

Elhiraika, A. and Hamed, A. (2002) "Explaining growth in an oil-dependent economy: The case of the United Arab Emirates", United Arab Emirates University and Abu Dhabi Fund for Development, respectively, UAE.

Elmuti, D. and Kathawala, Y. (2001) "An overview of strategic alliances", *Management Decision*, 39(3): 205-218.

Elmuti, D., Abebe, M. and Nicolos, M. (2005) "An overview of strategic alliances between universities and corporations", *The Journal of Workplace Learning*, 17 (1/2): 115-129.

Ernst, D. and Stern, M. (1996) "Managing alliances-Skills for the modern era", *The Alliance Analyst*, (Online), http://www.alliance.analyst.com, 18 March.

Erramilli, M. K., Agarwal, S. and Dev, C. S. (2002) "Choice between non-equity entry modes: An organizational capability perspective", *Journal of International Business Studies*, 33(2), 223- 242.

Evered, R., and Louis, M.R. (1991) "Research perspectives", in N.C. Smith and P. Dainty (eds.), *The Management Research Book*, London: Routledge.

Fahy, L. (1981) "On the strategic management decision process", *Strategic Management Journal*, 2:43-60.

Federal Research Division (2006) "Country profile: United Arab Emirates", Library of Congress, Kessinger Publishing, LLC.

Ferraro, G. (1990) "Cultural dimensions of international business", Prentice Hall, Englewood Cliffs, NJ, 1990.

Fey, C. F. and Beamish, P. W. (2001) "The importance of organizational climate similarity between parent firms and the JV: the case of IJVs in Russia", *Organization Studies*, 22: 853-882.

Forrest, J. E. (1992) "Management aspects of strategic partnering", *Journal of General Management*, 17(4): 25-40.

Foss, N. (1999) "Research in the strategic theory of the firm: Isolationism and integrationism", *Journal of Management Studies*, 36(6), 725-755.

Foss, N. J. (1998) "The resource-based perspective: an assessment and diagnosis of problems", *Scandinavian Journal of Management*, 14: 133–149.

Franke, R. H., Hofstede, G. and Bon, M. H. (1991) "Cultural roots of economic performance", *Strategic Management Journal*, 12: 165-173.

Frankel, R., Whipple, J. S. and Frayer, D. J. (1996) "Formal versus informal contracts: Achieving alliance success", *Journal of Physical Distribution and Logistics Management*, 26(3): 47-63.

Free trade agreement with China under negotiation, says bin Sulayem (2007, January 12).

Friedman W. G. and J. P. Beguin (1971) "Joint international business ventures in developing countries", Columbia University Press, New York.

Gahan, C. and Hannibal, M. (1998) "Doing qualitative research using QSR and NUD.IST", Sage Publications.

General Electric Aircraft Engines News Release (1996).

Geringer, J. M. (1988) "Selection of Partners for International Joint Ventures", *Business Quarterly*, Autumn: 31-36.

Geringer, J. M. (1991) "Strategic determinants of partner selection criteria in international joint ventures", *Journal of International Business Studies*, 22(1): 41-61.

Geringer, J. M. and Hebert, L. (1989) "Control and Performance of international Joint Ventures", Journal of International Business Studies, 20: 235-254.

Geringer, J. M. and Hebert, L. (1991) "Measuring performance of international joint ventures", *Journal of International Business Studies*, 22 (2):249-263.

Getting started (2006), Retrieved January 26, 2007, from http://www.government.ae/gov/en/biz/start/incorp.jsp.

Ghemawat, P., Porter M. E., and Rawlinson R. A. (1986) "UK patterns of international coalition activity", in M. E. Porter (ed.), Competition in Global Industries, 345-365, Harvard Business School, Boston, MA.

Gilroy B.M. (1993) "Networking in multinational enterprises: the importance of strategic alliances", Columbia: University of South Carolina Press.

Glaister, K. W. and Buckley, P. (1996) "Strategic motives for international alliance formation", *Journal of Management Studies*, 33(3): 301-32.

Glaister, K. W. and Buckley, P. J. (1995) "Dimensions of control in UK international joint ventures", *British Journal of Management*, 6: 77-96.

Glaister, K. W. and Buckley, P. J. (1997) "Task-related and partner-related selection criteria in UK international joint ventures", *British Journal of Management* 8(3): 199-222.

Glaister, K. W. and Buckley, P. J. (1999) "Performance relationships in UK international alliances", *Management International Review*, 39(2): 123-147.

Glaister, K., Husan, R. and Buckley, P. J. (1998) "UK international joint ventures with the Triad: Evidence for the 1990s", *British Journal of Management*, 9:169-80.

Glaister, K.W., Husan, R., and Buckley, P.J. (2005) "International joint ventures: An examination of the core dimensions", *Journal of General Management*, 30: 43-72.

Goel, R. K. (1994) "Research joint ventures and uncertain innovation", *Economic Notes*, 23: 266-74.

Grant, J., Golawala, F. S. and McKechnie, D. S. (2007) "The United Arab Emirates: The twenty-first century beckons", *Thunderbird International Business Review*, 49(4): 507-533, published online in Wiley InterScience (www.interscience.wiley.com).

Grant, R. M. (1991) "The resource-based theory of competitive advantage: Implications for strategic formulation", *California Management Review*, 33(3): 114-135.

Grant, R. M. (1996) "Prospering in dynamically-competitive environments: Organizational capability as knowledge integration", *Organisation Science*, 7(4): 375–87.

Grant, R. M., and Baden F. C. (2004) "A knowledge accessing theory of strategic alliances", *Journal of Management Studies*, 41(1): 61-84.

Gulati, R., Khanna, T. and Nohira N. (1994) "Unilateral commitments and the importance of process in alliances", *Sloan Management Review*, 35(3): 61-70.

Gulati, R. (1995) "Does familiarity breed trust? The implications for repeated ties for contractual choice in alliances", *Academy of Management Journal* 38(1): 85-112.

Gulati, R. (1998) "Alliances and networks", *Strategic Management Journal*, 19(4): 293-317.

Gulati, R. (1999) "Network location and learning: the influence of network resources and firm capabilities on alliance formation", *Strategic Management Journal*, 20: 397-420.

Gulati, R., and Gargiulo, M. (1999) "Where do inter-organizational networks come from?", *American Journal of Sociology*, 104: 1439–1493.

Gulati, R., and Singh, H. (1998) "The architecture of cooperation: Managing coordination costs and appropriation concerns in strategic alliances", *Administrative Science Quarterly*, 43(4): 781-814.

Gulati, R., Nohira, N., and Zaheer, A. (2000) "Strategic networks", *Strategic Management Journal*, 21: 203-215.

Gullander, S. (1976) "Joint ventures and corporate strategies", *Columbia Journal of World Business*, Spring: 104-114.

Gyenes, L. A. (1991) "Build the foundation for successful a joint ventures", *The Journal of Business Strategy*, November/December 1991.

Hagedoorn, J. (1993) "Understanding the rational of strategic technology partnering: Interorganizational modes of cooperation and sectoral differences", *Strategic Management Journal*, 14: 371-385.

Hagedoorn, J. (1995) "A note on international market leaders and networks of strategic technology partnering", *Strategic Management Journal*, 16: 214-250.

Hallen, L. and F. Wiedersheim-Paul (1979) "Psychic distance and buyer-seller interaction" *Organisaijon, Marknad och Samhalle*, 16(5): 308-324. Reprinted in P. J. Buckley and P. N. Ghauri (eds) (1993) "The Internationalization of the Firm", Dryden Press, London.

Hamel, G. (1991) "Competition for competence and inter-partner learning within international strategic alliances", *Strategic Management Journal*, 12: 83–103.

Hamilton, D. P. (1996) "Murdoch joins growing held in Japanese TV", *Asian Wall Street Journal*, 13 June, 1.

Hammersley, M. and Atkinson, P. (1983) "Ethnography: Principles in practice", London, Tavistock.

Hansen, M. T., and Nohria, N. (2004, Fall) "How to build collaborative advantage", *Sloan Management Review*, 46(1): 22-30.

Harbison, J. R. and Pekar, P. (1998) "Smart alliances: a practical guide to repeatable success", San Francisco, CA, Jossey-Bass.

Harrigan, K. R. (1986) "Managing for Joint ventures success", Lexington Books, Lexington, MA.

Harrigan, K. R. (1985) "Strategies for joint ventures", Lexington Books, Lexington, MA.

Harrigan, K. R. and Newman, W. H. (1990) "Bases of inter-organization co-operation: Propensity, power, persistence", *Journal of Management Studies*, 27(4): 417-434.

Harrigan, K. R. (1988) "Joint ventures and competitive strategy", *Strategic Management Journal*, 9: 141-158.

Harrison, J. S., Hitt, M.A., Hoskissonc, R.E., and Ireland, R.D. (2001) "Resource complementarity in business combinations: Extending the logic to organizational alliances", *Journal of Management*, 27: 679-690.

Hartley, J. (1994) "Case studies in organizational research", In Catherine, C. and Gillian, S. (eds.), "Qualitative methods in organizational research: A practical guide, London, Sage.

Heide, J. B. and Minor, A. S. (1992), "The shadow of the future: effects of anticipated interaction and frequency of contacts on buyer-seller co-operation", *Academy of Management Journal*, 35: 265-91.

Hennart, J. F. (1988) "A transaction cost theory of equity joint ventures", *Strategic Managent Journal*, 9: 361-74.

Hennart, J. and Zeng, M. (2002) "Cross-cultural differences and joint venture longevity", *Journal of International Business Studies*, 33: 4, 699-716.

Hennart, J. E. (1991) "The transaction cost theory of the MNE: The nature of the transnational firm", Routledge, New York, NY.

Hennart, J. F. and Reddy, S. (1997) "The choice between mergers/acquisitions and joint ventures: The case of Japanese investors in the United States", *Strategic Management Journal*, 18: 1-12.

Henwood, K. L. and Pidgeon, N. F. (1993) "Qualitative research and psychological theorizing" In Hammersley M. (eds.) „Social research: Philosophy, politics and practice", 14-32, Sage Publications.

Hickson, D. J., R. J. Butler, D. Cray, G. R. Mallory, and D. C. Wilson (1986) "Top decisions: Strategic decision-making in organisation", Oxford: Basil Blakwell. San Francisco. Josey-Bass.

Hiroshi, Y. (2005) "Formation of strategic alliances in high-technology industries: Comparative study of the resource-based theory and the transaction-cost theory", *Technovation*, 25: 763-770.

Hitt, M. A., Dacin, M. T., Tyler, B. B. And Park, D. (1997) "Understanding the differences in Korean and US executives' strategic orientations", *Strategic Management Journal*, 18: 159-167.

Hitt, M. A., Dacin, M.T., Levitas, E., Arregle, J.-L. and Borza, A. (2000a) "Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives", *Academy of Management Journal*, 43: 449–467.

Hitt, M. A., Ireland, R. D., Camp, S. M. and Sexton, D. L. (2001d) "Strategic entrepreneurship: Entrepreneurial strategies for wealth creation", *Strategic Management Journal*, 22(Special issue): 479–491.

Hitt, M. A., Tyler, B. B., Hardee, C. and Park, D. (1995) "Understanding strategic intent in the global marketplace", *Academy of Management Executive*, 9(2): 12-19.

Hodder, I. (1998) "The interpretation of documents and material culture", in Denzin, N. and Lincoln, Y. S. (eds.), "Collecting and interpreting qualitative materials", Sage Publications.

Hoffmann, W. H. and Schlosser, R. (2001) "Success factors of strategic alliance in small and medium-sized enterprises – an empirical survey", *Long Range Planning*, 34: 357-81.

Hofstede, G. (1980) "Culture's consequences", Sage, Beverly Hills, CA.

Hofstede, G. (1991) "Cultures and organizations: Software of the mind", London, New York, McGraw-Hill.

Hofstede, G. (1997) "Cultures and organizations", New York, McGraw-Hill.

Hyder, A. S. 1(999) "Differences between developed and developing country joint ventures - a reality or a myth?" *International Business Review*, 8: 441-461.
Inkpen A. and J. Birkinshaw (1994) "International joint venture and performance: An interorganizational perspective", *International Business Review*, 3(3): 201-17.

Inkpen A. C. and Beamish, P. W. (1997) "Knowledge bargaining power, and the instability of joint ventures", *Academy of Management Review*, 22(1): 177-202.

Inkpen A. C. and Currall S. C. (1997) "International joint venture trust: An empirical examination", in P. W. Beamish and J. P. Killing (Eds.), "Cooperative strategies", *North American Perspectives*, 1: 227-254, San Francisco: New Lexington Press.

Inkpen, A. C. (1998) "Learning and knowledge acquisition through international strategic alliances", *Academy of Management Executive*, 12(4): 69-80.

Inkpen, A. C. (2001) "Strategic alliances", in Hitt, M. A., Freeman, E., and Harrison, J. S. (Eds.), "Handbook of Strategic Management", 409-432, Oxford, UK, Blackwell Publishers.

Inkpen, A. C. (2005) "Learning through alliances: General Motors and NUMMI", *California Management Review*, 47(4): 114-36.

Inkpen, A. C. and Crossan, M. M. (1995) "Believing is seeing: Joint ventures and organisational learning", *Journal of Management Studies*, 32: 595-618.
Ireland, R. D., Hitt, M. A. and Vaidyanath, D. (2002) "Alliance management as a source of competitive advantage", *Journal of Management*, 28: 413–446.

Ireland, R. D., Hitt, M. A., Camp, S. M. and Sexton, D. L. (2001a) "Integrating entrepreneurship actions and strategic management actions to create firm wealth", *Academy of Management Executive*, 15: 49-63.

Ireland, R. D., Kuratko, D. F. and Hornsby, J. S. (2001b), "External and internal environmental strategic triggers of corporate entrepreneurship and entrepreneurial behaviour", paper presented during the 21st Annual Strategic Management Society conference.

Jarillo, J. C. (1988) "On strategic networks", *Strategic Management Journal*, 9: 31-41.

Johanson, G. (1987) "Strategic change and the management process", Basil Blackwell Ltd.

Johansson, J. (1997) "Global marketing: Foreign entry", Local Marketing, and Global Management, Irwin Homewood, IL.

Jones, G. R. and George, J. M. (1998) "The experience and evolution of trust: Implications for cooperation and teamwork", *Academy of Management Review*, 23(3): 531-46.

Kale, P., Singh, H. and Perlmutter, H. (2000) "Learning and protection of proprietary assets in strategic alliances: Building relational capital", *Strategic Management Journal*, 21: 217-37.

Kalmbach, C. Jr. and Roussel, R. (1999) "Dispelling the myths of alliances", (online), http://www.2c.com.html, 16 November, 1-8.

Kanter, R. M. (1994) "Collaborative advantage: The art of alliances", *Harvard Business Review*, 72(4): 96-108.

Kauser, S. and Shaw, V. (2004) "The Influence of behavioural and organizational characteristics on the success of international strategic alliances", *International Marketing Review*, 21(1): 17-52.

Kent, D. H. (1991) "Joint ventures vs. non-joint ventures: An empirical investigation", *Strategic Management Journal*, 12: 387-393.
Khaleej Times. Retrieved May 26, 2007, from http://www.khaleejtimes.com/DisplayArticle-New.asp?section=theuaeandxfile=data/theuae/2006/december/theuae_december42.xml.

Khalifa Issues an emiri decree amending the commercial agencies law (2006, July), Law Update, 184: 18–20.

Khanna, T., Gulati, R. and Nohria, N. (1994) "The dynamics of learning alliances: Competition, cooperation, and relative scope", *Strategic Management Journal*, 19(3): 193-210.

Khanna, T., Gulati, R. and Nohria, N. (1998) "The dynamics of learning alliances: Competition, cooperation and relative scope", *Strategic Management Journal*, 19: 193-210.

Killing, J. P. (1982) "How to make a global joint venture work", *Harvard Business Review*, 61(3): 120-127.

Killing, J. P. (1983) "Strategies for joint venture success", New York: Praeger.

Killing, J. P. (1988) "Understanding alliances: The role of task and organizational complexity", in Contractor, F. J. and Lorange, P. (Eds), "Cooperative strategies in international business", 55-68 Lexington Books, Lexington, MA.

Knor-Cetina, K. (1981) "The manufacture of knowledge: An essay on the constructivist and contextual nature of science", New York: Pergamon Press.

Kogut, B. (1988) "Joint ventures: Theoretical and empirical perspectives", *Strategic Management Journal*, 9: 319-32.

Kogut, B. (1989) "The stability of joint ventures: Reciprocity and competitive rivalry", *Journal of Industrial Economics*, 38(2): 183-198.

Kogut, B. (1998) "Knowledge of the firm, combinative capabilities and the replication of technology", *Organization Science*, 3: 383-397.

Kogut, B. and Zander, U. (1993) "Knowledge of the firm and the evolutionary theory of the Multinational Corporation", *Journal of International Business Studies*, 24(4): 625-45.

Koka, B. R. and Prescott, J. E. (2002) "Strategic alliances as social capital: A multidimensional view", *Strategic Management Journal*, 23(9): 795-816.

Koot, W. T. (1988) "Underlying dilemmas in the management of international joint ventures", in F. J. Contractor, and P. Lorange, (Eds.) "Cooperative strategies in international business", 347-368, Lexington, MA, D. C. Heath.

Kostova, T. (1999) "Transnational transfer of strategic organizational practices: A contextual perspective", *Academy of Management Review*, 24: 308-24.

Koza, M. P., and Lewin, A. (1999) "The co-evolution of network alliances: A longitudinal analysis of an international professional service network", *Organization Science*, 10: 638-653.

Kvale, S. (1996) "Interviews: An Introduction to qualitative research interviewing", Newbury Park, CA: Sage Publications.

Lacey, A., and Luff, D. (2001) "Trent focus for research and development in primary health care: An introduction to qualitative data analysis", 3-5, Nottingham, UK: Trent Focus.

Lane, H. W. and Beamish, P. (1990) "Cross-cultural cooperative behavior in joint ventures in LDCs", *Management International Review*, 30: 87–102.

Lane, P. J. and Lubatkin, M. (1998) "Relative absorptive capacity and interorganizational learning", *Strategic Management Journal*, 19: 461-477.

Larson, A. (1992) "Network dyads in entrepreneurial settings: A study of the governance of exchange relationships", *Administrative Science Quarterly*, 37: 76-104.

Larsson, R., Bengtsson, L., Hendricksson, K. and Sparks, J. (1998) "The interorganizational learning dilemma: Collective knowledge development in strategic alliances", *Organisation Science*, 9: 285-96.

LeCompte, M. and Goetz, J. (1982) "Problems of reliability and validity in ethnographic research", *Review of Educational Research*, 52 (1): 30-61.

Lee, A. S. (1991) "Integrating positivist and interpretivist approaches to organizational research", *Organizational Science* 2: 342-365.

Lei, D. and Slocum, J. W. (1992) "Global strategy, competence building and strategic alliances", *California Management Review*, 35(1): 81-97.

Lei, D. and Slocum, J. W. Jr. (1991), "Global strategic alliances: payoffs and pitfalls", *Organizational Dynamics*, Winter, 44-62.

Lei, D., Hitt, M. A. and Bettis, R. (1996) "Dynamic core competences through meta-learning and strategic context", *Journal of Management*, 22: 549-569.

Leonard-Barton, D. (1992) "Core capabilities and core rigidities", *Strategic Management Journal*, 13: 111-125.

Li H., Cheng, E. W. L., Love, P. E. D. and Irani Z. (2001) "Cooperative benchmarking: A tool for partnering excellence in construction", *International Journal of Project Management*, 19(3): 171-9.

Liebeskind, J. (1996) "Knowledge, strategy, and the theory of the firm", *Strategic Management Journal*, 17(Winter Special Issue): 93-108.

Lin, X. and Germain, R. (1998) "Sustaining satisfactory joint venture relationships: The role of conflict resolution strategy", *Journal of International Business Studies*, 29: 179-96.

Lin, X. and Germain, R. (1999) "Predicting international joint venture interaction frequency in U.S. - Chinese ventures", *Journal of International Marketing*, 7(2): 5-23.

Lincoln, Y. and Guba, E. (1985) "Naturalistic inquiry", Baverly Hills, CA, Sage Publication, Inc.

Lindblom, C. E. (1959) "The science of 'Muddling through', *Public Administration Review*, 19: 79-88.

Lloyd, H. L. and Varey, R. J. (2003) "Factors affecting internal communication in a strategic alliance project", *Corporate Communications: An International Journal*, 8(3): 197-207.

Locke, K. (2001) "Grounded theory in management research", Sage Publications, London.

Lorange, P. and Roos (1991) "Why Some Strategic Alliances Succeed and Others Fail", *Journal of Business Strategy*, Jan-Feb: 25-30.

Lorange, P., Roos, J. and Smith, P. (1992) "Building successful strategic alliances", *Long Range Planning,* 8(4): 10-17.

Luo, Y. (1997) "Partner selection and venturing success: The case of joint ventures with firms in the People's Republic of China", *Organization Science*, 8(6): 648-62.

Luo, Y. and Chen, Y. (1997) "Business strategy, investment strategy, and performance of international joint ventures: The case of China", in Beamish, P. W. and Killing, J. P., eds., "Cooperative strategies: Asian Pacific perspectives", New Lexington Press, San Francisco.

Lyles, M. A. (1988) "Learning among joint-venture sophisticated firms", *Management International Review*, 28(Special Issue): 85-98.

Lyles, M. A. and Reger, R. K. (1993) "Managing for autonomy in joint ventures: A longitudinal study of upward influence" *Journal of Management Studies*, 30: 383–404.

Lyles, M. A. and Salk, J. E. (1996) "Knowledge acquisition from foreign parents in international joint ventures: An empirical examination in the Hungarian context", *Journal of International Business Studies*, 27: 877–904.

Madhok, A. (1995a) "Revisiting multinational firms' tolerance for joint ventures: A trust-based approach", *Sound Int Bus Stud*, 26(1):117-37.

Madhok, A. (1998) "The nature of multinational firm boundaries: Transaction costs, firm capabilities and foreign market entry mode", *International Business Review*, 7(3): 259- 290.

Madhok, A. and Tallman, S. B. (1998) "Resources, transactions and rents: Managing value through inter-firm collaborative relationships", *Organization Science*, 9: 326–339.

Mahoney, J. T. (2001) "A resource-based theory of sustainable rents", *Journal of Management*, 27: 651–660.

Makadok, R. (2001) "Toward a synthesis of the resource-based and dynamic-capability viewof rent creation", *Strategic Management Journal*, 22: 387-401.

March, J. G. (1991) "Exploration and exploitation in organizational learning", *Organization Science*, 2: 71-87.

March, J. G. (1995) "The future, disposable organizations and the rigidities of imagination", *Organization*, 2: 427- 440.

Maxwell, J. A. (1998) "Designing qualitative study", In Bickman, L. and Rog, D. J. (eds.), "Handbook of applied social research methods", Sage Publications.

May, T. (1997) "Social research issues, methods and process", Second Edition, Open University Press.

McAlister, D. J. (1995) "Affect- and cognition-based trust as foundations for interpersonal cooperation in organizations", *Academy of Management Journal*, 38(1): 24-59.

McDermott, R. and O'Dell, C. (2001) "Overcoming cultural barriers to sharing knowledge", *Journal of Knowledge Management*, 5(1): 76-85.

McGee, J. E., Dowling, M. J. and Megginson, W. L. (1995) "Cooperative strategy and new venture performance: The role of business strategy and management experience", *Strategic Management Journal*, 16: 565-580.

Merriam, S. (1998) "Qualitative research and case study applications in education", San Francisco, Jossey-Bass Publishers.

Meschi, P.-X. (1997) "Longevity and cultural differences of international joint ventures: towards time-based cultural management", *Human Relations*, 50(2): 211–228.

Michelet, R. and Remacle, R. (1992) "Forming successful strategic marketing alliance in Europe", *Journal of European Business*, 11-15.

Miles, M. and Huberman, A. (1994) "Qualitative data analysis: An expanded sourcebook", second edition, London, Sage Publications Ltd.

Miller, D. and Shamsie, J. (1996) "The resource-based view of the firm in two environments: The Hollywood film studios from 1936 to 1965", *Academy of Management Journal*, 39: 519-543.

Miller, S., D. Hickson, and D. Wilson (1998) "Decision-making in organizations", Chapter 2.3 in Clegg, S. R., *et al.*, eds., "Handbook of Organization Studies", London, Sage.

Mintzberg, H. (1973) "The nature of the managerial work", New York, Harper and Row.

Mintzberg, H., Dougherty, D., Jorgensen, J. and Westley, F. (1996) "Some surprising things about collaboration – knowing how people make contact makes it works better", *Organizational Dynamics*, 25(1): 60-70.

Mintzberg, H., Raisinghani, D, Theoret, A. (1976) "The structure of "unstructured" decision processes", *Administrative Science Quarterly*, 21(1): 246-275.

Mitchell, W., and Singh, K. (1996) "Survival of businesses using collaborative relationships to commercialize complex goods", *Strategic Management Journal*, 17: 169-195.

Mjoen, H., and Tallman, S. (1997) "Control and performance in international joint ventures", *Organization Science*, 8: 257-274.

Mohr, J. and Spekman, R. (1994) "Characteristics of partnership success: Partnership attributes", *Strategic Management Journal*, 15(2): 135-153.

Mol M. (2000) "Creating wealth through working with others: Inter-organizational relationships", *Academy of Management Executives*, 15: 150-2.

Moore, P. W. (2004) "Doing business in the Middle East: Politics and economic crisis in Jordan and Kuwait", Cambridge, UK, Cambridge University Press.

Morgan, G. and Smircich, L. (1980) "The case for qualitative research", *Academy of Management Review*, 5: 491-500.

Morgan, R. and Hunt, S. D. (1994) "The commitment trust theory of relationship marketing", *Journal of Marketing*, 58: 20-38.

Morrison, M. and Mezentseff, L. (1997) "Learning alliances - a new dimension of strategic alliances", *Management Decision*, 35(5): 351-7.

Mowery, D. C., Oxley, J. E. and Silverman, B. S. (1996) "Strategic alliances and interfirm knowledge transfer", *Strategic Management Journal*, 17(Winter special issue): 77-93.

Muna, F. A. (1980) "Arab Executive", St. Martins Press, New York, NY, 1980.

Murray, E. A. and Mahon, J. F. (1993) "Strategic alliances: Gateway to the new Europe?", *Long Range Planning*, 26(4): 102-111.

Nagarajan, A., and Mitchell, W. (1998) "Evolutionary diffusion: Internal and external methods used to acquire encompassing, complementary and incremental technological changes in the lithotripsy industry", *Strategic Management Journal*, 19: 1063-1077.

Nanda, A. and Williamson, P. J. (1995) "Use joint ventures to ease the pain of restructuring", *Harvard Business Review*, 119-128.

Nandhakumar, J. and Jones, M. (1997) "Too close for comfort? Distance and engagement in interpretative information systems research", *Information Systems Journal*, 7: 109-131.

National Bank of Dubai (2006, September) "Trade barriers in the UAE: National versus foreign perspective", Economic Report, 10(3), 2–3.

Nelson, R. and Winter, S. (1982) "An evolutionary theory of economic change", Cambridge, MA, Balkan.

Nielsen, B. B. (2003), "An empirical investigation of the drivers of the international strategic alliance formation", *European Management Journal*, 21(3): 301-322.

Ohmae, K. (1989) "The global logic of strategic alliances", *Harvard Business Review*, 67(2): 143-54.

Ohmae, K. (1992) "Transnational management", Richard Irwin, Inc., Chicago, IL, 482-492.

Oliveira, M. (1999) "Core competencies and the knowledge of the firm", in M. A. Hitt, P. Gorman, R. D. Nixon, and K. P. Coyne (Eds.), "Dynamic strategic resources: Development, diffusion and integration", 17-41,. New York, John Wiley and Sons.

Omhae, K. (1989a) "The global logic of strategic alliances", *Harvard Business Review*, 67: 143-154.

Osborn, R. and Baughn, C. C. (1990) "Forms of inter-organizational governance for multinational alliance", *Academy of Management Journal*, 33: 503-19.

Oxley, J. E. (1997) "Appropriability hazards and governance in strategic alliances: A transaction cost approach", *Journal of Law Economics and Organization*, 13: 389-407.

Oxley, J. E. and Sampson, R. C. (2004) "The scope and governance of international alliances", *Strategic Management Journal*, 25: 723-749.

Pan, Y. (1996) "The influences on foreign equity ownership level in joint ventures in China", *Journal of International Business Studies*, First quarter: 1-26.

Papadakis, V.M., Lioukas S., Chambers, D. (1998) "Strategic decision-making: The role of management and context", *Strategic Management Journal* 19(2): 115-147.

Parast, M. M. and Digman, L. A. (2007) "A framework for quality management practices in strategic alliances", *Management Decision*, 45(4): 802-818.

Park, H., Ribiere, V. and Schulte, W. (2004), "Critical attributes of organizational culture that promote knowledge management implementation success", *Journal of Knowledge Management*, 8(3): 106-17.

Park, S. H. Ungson, G. R. (1997) "The Effect of national culture, organizational complementarity and economic motivation on joint venture dissolution", *Academy of Management Journal*, 40(2): 270-307.

Parkhe, A. (1991) "Interfirm diversity, organisational learning, and longevity in global strategic alliances", *Journal of International Business Studies*, 22: 579-601.

Parkhe, A. (1993a) "Partner nationality and the structure-performance relationship in strategic alliances", *Organization Science*, 4: 301-24.

Parkhe, A. (1993b) "Strategic alliance structuring: A game theoretic and transaction cost examination of inter-firm cooperation", *Academy of Management Journal*, 36: 794-829.

Pekar, P., and Allio, R. (1994) "Making alliances work: Guidelines for success", *Long Range Planning*, 27: 54-65.

Peng, M. W. (2001) "How entrepreneurs create wealth in transition economies", *Academy of Management Executive*, 15(1): 95-108.

Peng, M. W., Au, K. and Wang, D. (2001) "Interlocking directorates as corporate governance in Third World multinationals: Theory and evidence from Thailand", *Asia Pacific Journal of Management*, 18(2): 161-181.

Peteraf, M A., (1993) "The cornerstones of competitive advantage: A resource-based view", *Strategic Management Journal*, 14(3): 179-191.

Pett, T. L. and Dibrell, C. C. (2001) "A process model of global strategic alliance formation", *Business Process Management Journal*, 7(4): 349-364.

Phelan, S. E. and Lewin P. (2000) "Arriving at a strategic theory of the firm", *International Journal of Management Reviews*, 2(4): 305–323.

Pole, C. and Lampard, R. (2002) "Practical social investigation: Qualitative and quantitative research in the social sciences", London: Prentice Hall.
Porter, M. and Fuller, M. (1986) "Coalitions and global strategy", in Porter, M. (Ed.), "Competition in global industries", Harvard Business School Press, Boston, MA.

Potts, D. (1990) "The Arabian Gulf in Antiquity", volume 1, Oxford, Clarendon Press.

Powell, W. W., Koput, K. W. and Smith-Doerr, L. (1996) "Inter-organizational collaboration and the locus of innovation: Networks of learning in biotechnology", *Administrative Science Quarterly*, 41: 116-145.

Prahalad, C. K. and Hamel, G. (1990) "The core competence of the corporation", Harvard Business Review, May-June.

Preet, S.A. and Madhok, A. (2002) "Cooperation and performance in international alliances: the critical role of flexibility", in F.J. Contractor and P. Lorange (eds), "Cooperative Strategies and Alliances", 26–48. Elsevier, Oxford.

Priem, R. L. and Butler, J. E. (2001) "Is the resource-based 'view' a useful perspective for strategic management research?", *Academy of Management Review* 26(1): 22–40.

Punch, K. (2000) "Introduction to social research: Quantitative and qualitative approaches", Thousand Oaks, CA, Sage.

Qi, H. (2000) "Exploring the strategic development of Chinese township and village enterprises", *Unpublished Ph.D. thesis*, Lancaster University.

Quinn, J. B. (1980) "Strategies for change: Logical incrementalism", Homewood, IL, Irwin.

Rafii, F. (1978) "Joint ventures and transfer of technology to Iran: The impact of foreign control", Unpublished Doctoral Dissertation, Harvard University.

Ramanathan, K., Seth, A., and Thomas, H. (1997) "Explaining joint ventures: Alternative theoretical perspectives, in P.W. Beamish and J.P. Killing (eds.), *Cooperative strategies-* Vol.1*: North American perspectives,* 51-85. San Francisco: New Lexington Press.

Reid, D., Bussiere, D. and Greenaway, K. (2001) "Alliance formation issues for knowledge-based enterprises", *International Journal of Management Reviews,* 3(1): 79-100.

Remenyi, D. (1998) "Doing research in business and management – An introduction to process ad method, Sage Publications.

Reuer, J. and Zollo M. (2000) "Managing Governance Adaptations in Strategic Alliances", *European Management Journal*, 18(2): 164-172.

Reuer, J. J. and Miller, K. D. (1997) "Agency costs and the performance implications of international joint venture internalization", *Strategic Management Journal*, 18: 425–438.

Rice, G. (2003) "The challenge of creativity and culture: a framework for analysis with application to Arabian Gulf firms", *International Business Review*, 12: 461-477.

Ring, P. and Van de Ven, A. H. (1992) "Structuring cooperative relationships between organizations", *Strategic Management Journal*, l(13): 483-98.

Ring, P. and Van de Ven, A. H. (1994) "Developmental processes of cooperative inter-organizational relationships", *Academy of Management Review*, 19(1): 90-118.

Robson, M. J. (2002a) "Partner selection in successful international strategic alliances: The role of co-operation", *Journal of General Management*, 28(1): 1-15.

Robson, M. J., Leonidou, L. C. and Katsikeas, C. S. (2002) "Factors influencing international joint venture performance: theoretical perspectives, assessment, and future directions", *Management International Review*, 42(4): 385-418.

Rogers, E. (1983) "Diffusion of innovations", third edition, New York, Free Press.

Root, F. (1994) "Entry strategies for international markets", Lexington: Lexington Books.

Sako, M. (1992) "Prices, quality and trust: Inter-firm relations in Britain and Japan", Cambridge University Press, Cambridge.

Sarantakos, S. (1998) "Social research", second edition, Macmillan Press Ltd.

Saxton, T. (1997) "The effects of partner and relationship characteristics on alliance outcomes", *Academy of Management Journal*, 40: 443-62.

Schifrin, M. (2001b) "Is your company magnetic?", Forbes, May 21: 16.

Schmitz, J. M., R. Frankel, and D. J. Frayer (1995) "Vertical integration without ownership: Strategic alliances offer a managerial alternative", *Journal of Marketing Theory and Practice*, (Summer): 91-98.

Schwenk, C. R. (1995) "Strategic decision making", *Journal of Management* 21(3): 471-493.

Seale, C. and Kelly M. (1998) "Coding and analyzing data", in Seale C. (eds.) "Researching society and culture", Sage Publications, 233-244.

Sekaran, U. (1984) "Research methods for managers: A skill-building approach", New York, John Wiley and Sons.

Sharma, D. D. (1998) "A model for governance in international strategic alliances", *Journal of Business and Industrial Marketing*, 13(6): 511-28.

Shenkar O., and Y. Zeira (1992) "Role conflict and role ambiguity of chief executive officers in international joint ventures", *Journal of International Business Studies*, 23(1): 55-75.

Sherman, S. (1994) "Are strategic alliances working?" *Fortune*, September 21: 77–78.

Si, S. X. and Bruton, G. D. (1999) "Knowledge transfer in international joint ventures in transitional economies: The China experience", *Academy of Management Executive*, 13: 83-90.

Silverman, D. (1993) "Interpreting qualitative data: Methods for analyzing talk, text and interaction", Sage Publications.

Silverman, D. (2000) "Doing qualitative research - A practical handbook", Sage publications.

Simonin, B. L. (1997) "The importance of collaborative know-how: an empirical test of the learning organization", *Academy of Management Journal*, 40: 1150-74.

Simonin, B. L. (1999) "Ambiguity and the process of knowledge transfer in strategic alliances", *Strategic Management Journal*, 20: 595-623.

Sitkin, S. B. and Roth, N. L. (1993) "Explaining the limited effectiveness of legalistic remedies for trust/distrust", *Organizational Science*, (4): 367-92.

Slater, D. (1998) "Analyzing cultural objects: Content analysis and semiotics", in Seale C. (eds.) "Researching society and culture", Sage Publications, 233-244.

Smith, K. G., Carroll, S. J. and Ashford, S. J. (1995) "Intra-and inter-organizational cooperation: Toward a research agenda", *Academy of Management Journal*, 38(1): 7-23.

Souchon, A. L. and Diamantopoulos, A. (1996a) "A conceptual framework of export marketing information use: Key issues and research propositions", *Journal of International Marketing*, 4(3): 49-71.

Spekman, R. E., Forbes, T. M., III, Isabella, L. A. and MacAvoy, T. C. (1998) "Alliance management: A view from the past and a look to the future", *Journal of Management Studies*, 35: 747-772.

Spekman, R. E., L. A. Isabella, T. C. MacAvoy, and T. Forbes III. (1996) "Creating strategic alliances which endure", *Long Range Planning*, 29: 346-357.

Spekman, R. E., Kamauff, J.W., and Myhr, N. (1998) "An empirical investigation into supply chain management: A perspective on partnerships" *International Journal of Physical Distribution and Logistics Management*, 28: 630–650.

Spencer, L., Ritchie J., Lewis J. and Dillon L. (2003) "Quality in qualitative evaluation: A framework for assessing research evidence", London, Cabinet Office.

Stafford, E. R. (1994) "Using co-operative strategies to make alliances work", *Long Range Planning*, 27(3): 64-74.

Stake, R. (2000) "Case studies", in Norman, K. Denzin and Yvonna, S. Lincoln (eds.) "Handbook of qualitative research", Thousand Oaks, CA, Sage Publications.

Stanek, M. B. (2004) "Measuring alliance value and risk: A model approach to prioritizing alliance projects", *Management Decision*, 42(2): 182-204.

Stevens, P. J. (1976) "Joint ventures in Middle East oil: 1957-1975", Middle East Economic Consultants, Beirut.

Stiles, J. (2003) "A philosophical justification for a realist approach to strategic alliance research", *Qualitative Market Research*, 6: 263-271.

Stiles, P. (2001) "The impact of board on strategy: An empirical examination", *Journal of Management Studies* 38(5): 627-650.

Strauss, A, Corbin J. (1990) "Basics of qualitative research", Thousands Oaks: Sage Publications.

Strauss, A., and Corbin, J. (1998) "Basics of qualitative research: Techniques and procedures for developing grounded theory", second edition, Newbury Park, CA: Sage Publishing.

Stuart, T. E. (2000) "Interorganizational alliances and the performance of firms: A study of growth and innovation rates in a high-technology industry", *Strategic Management Journal*, 21: 791–811.

Sulej, J. C. (1998) "UK international joint ventures in technology and innovation: an analysis of patterns of activity and distribution", *European Business Review*, 98(1): 56-66.

Swierczek, F. and Hirsch, G. (1994) "Joint ventures in Asia and multicultural management", *European Management Journal*, 12 (2): 197-209.

Tatoglu, E. (2000) "Western joint ventures in Turkey: Strategic motives and partner selection criteria", *European Business Review*, 12(3): 137-147.

Teece D. J. (2000) "Strategies for managing knowledge assets: The role of firm structure and industrial context", *Long Range Planning*, 33: 35-54.

Teece, D. J. (1992) "Competition, co-operation, and innovation", *Journal of Economic Behaviour and Organisation*, 18: 1-25.

Teng, B. and Das, T. K. (2008) "Governance structure choice in strategic alliances: The roles of alliance objectives, alliance management experience, and international partners", *Management Decision*, 46(5): 725-742.

The Annual Economic and Social Report, Ministry of Economy and Planning (2004), United Arab Emirates.

The Annual Economic and Social Report, Ministry of Economy and Planning (2005), United Arab Emirates.

The Annual Economic and Social Report, Ministry of Economy and Planning (2006), United Arab Emirates.

The Bureau of Democracy (1997), Human Rights and Labour.

The IMF Country Report No. 05/268 (2005), International Monetary Fund.

The IMF Country Report No. 05/269 (2005), International Monetary Fund.

The IMF Country Report No. 06/257 (2006), International Monetary Fund.

The IMF Country Report No. 07/125 (2007), International Monetary Fund.

The IMF Country Report No. 07/347 (2007), International Monetary Fund.

Thomas, J. B. and Trevino, L. K. (1993), "Information processing in strategic alliances: A multiple case approach", *Journal of Management Studies*, 30(5): 779-814.

Tibbetts, G. R. (1971) "Arab navigation in the Indian Ocean before the coming of the Portuguese", London: Royal Asiatic Society of Great Britain and Ireland.

Ticehurst, G. and Veal, A. (2000) "Business research methods - A managerial approach", Sydney, Longman.

Tihanyi, L., Griffith, D. A. and Russell, C. J. (2005) "The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis", *Journal of International Business Studies*, 36(3), 270- 280.

Todeva, E. and Knoke, D. (2005) "Strategic alliances and models of collaboration", *Management Decision*, 43: 123-148.

Tomlinson, J. W. C. (1970) "The joint venture process in international business: India and Pakistan", MIT Press, Cambridge, MA.

Tsang, E. (1998) "Motives for strategic alliance: a resource based perspective", *Scandinavian Journal of Management*, 14: 207-221.

Tully, S. (1996) "Northwest and KLM: The alliance from hell", *Fortune*, 133(12): 24 June, 64-8.

UAE in intensive talks to forge strategic economic partnerships (2006, November 27), UAE Interact-UAE official Web site, Emirates News Agency-WAM, Retrieved May 26, 2007, from http://www.uaeinteract.com/news/default.asp?cntDisplay=10andID=325#22914.

UAE investment climate statement (2006), U.S. Department of State, Retrieved January 26, 2007, from http://www.state.gov/e/eb/ifd/2006/62046.htm.

UAE Investment Guide (2004), Retrieved January 26, 2007, from http://www.adcci.gov.ae:90/public/cms/external_links/info_report/UAE%20Investment%20Guide-2004.doc.

UAE Yearbook (2005), Ministry of Information and Culture, United Arab Emirates.

UAE Yearbook (2006), Ministry of Information and Culture, United Arab Emirates.

UAE Yearbook (2007), Ministry of Information and Culture, United Arab Emirates.

UAE Yearbook (2009), Ministry of Information and Culture, United Arab Emirates.

UNCTAD (1995) World investment report 1995: Transnational corporations and competitiveness. Sales No. E.95.II. A.9.

UNCTAD: United Nations Conference on Trade and Development. http://www.unctad.org/Templates/StartPage.asp?intItemID=2068

US trade deal close to stalemate (2007, January 15), Gulf News, UAE Interact-UAE official web site, Retrieved May 26, 2007, http://www.uaeinteract.com/news/default.asp?cntDisplay=10andID=325#23522.

Van de Ven, A. H. (1976) "On the nature, formation, and maintenance of relations among organizations", *Academy of Management Review*, 1 (October): 24-36.

Varadarajan, P. R. and Rajaratnam, D. (1986), "Symbolic Marketing Revisited", *Journal of Marketing*, 50: 7-17.

Volderba, (1996) H. W. "Toward the flexible form: How to remain vital in hypercompetitive environments", *Organizational Science*, 7(4): 359-374.

Von Hippel, E. (1994) "Sticky information' and the locus of problem solving: Implications for innovation", *Management Science*, 40(4): 429-439.

Vyas, N. M., Shelbum, W. L. and Rogers D. C. (1995) "An analysis of strategic alliances: Form, functions, and framework", *Journal of Business and industrial Marketing*, 10(3): 47-60.

Wakema, J. (2003) "The five factors of a strategic alliance", *Ivey Business Journal* May/June 2003.

Walsham, G. (1995) "Interpretative case studies in IS research: Nature and methods", *European Journal of Information Systems*, 4(2): 74-81.

Washington Institute (1991) "Background notes: United Arab Emirates".
Weitz, B. A. and S. D. Jap. (1995) "Relationship marketing and distribution channels", *Journal of Academy of Marketing Science*, 23: 305-320.

Wernerfelt, B. (1984) "A resource-based view of the firm", *Strategic Management Journal*, 5(2): 171-180.

Whipple, J. M. and Frankel, R. (1998) "The alliance formation process", *International Food and Agribusiness Management Review*, 1 (3): 335-357.

Williamson, O. E. (1975) "Markets and hierarchies", Free Press, New York, NY.

Williamson, O. E. (1985) "The Economic institution of capitalism", Free Press, New York, NY.

Williamson, O. E. (1983) "Credible commitments: Using hostages to support exchange", *American Economic Review*, 73: 519-540.

Williamson, O. E. (1991) "Strategizing, economizing, and economic organization", *Strategic Management Journal*, 12: 75-94.

Williamson, O. E. (1999) "Strategy research: governance and competence perspectives", *Strategic Management Journal*, 20(12): 1087–1108.

Wilson, D. (2003) "Strategy as decision making", in "Images of Strategy", S. Cummings and D. Wilson (eds), Blackwell, Oxford U.K: 383-410.

Yan, A. and Zeng, M. (1999) "International joint venture and instability: a critique of previous research, a re-conceptualization and directions for future research', *Journal of International Business Studies*, 30: 395-414.

Yan, A. M. and Gray, B. (1994) "Bargaining power, management control, and performance in United States - China joint ventures - A comparative case study", *Academy of Management Journal*, 37 (6): 1478-1518.

Yin, R. (1989) "Case study research: Design and methods", Newbury Park, CA, Sage Publishing.

Yin, R. (1994) "Case study research: Design and methods", second edition, CA, Sage Publishing, Beverly Hills.
Yin, R. (2003) "Case study research: Design and methods", third edition, Newbury Park, CA: Sage Publishing.

Yoshimura N. and P. Anderson (1997) "Inside the Kaisha: Demystifying Japanese business behaviour", Boston, Harvard Business School Press.
Yoshino, M. Y. and Rangan, U. S. (1995) "Strategic alliances: An entrepreneurial approach to globalization", 51-70, Boston, Harvard Businesss School Press, Boston, MA.

Zaheer, A., McEvily, B. and Perrone, V. (1998) "Does trust matter? Exploring th effects of inter-organizational and interpersonal trust on performance", *Organization Science*, 9: 141-59.

Zajac, E. T. and Olsen, C. P. (1993), "From transaction cost to transaction value analysis: Implications for the study of inter-organizational strategies", *Journal of Management Studies*, 30 (1): 131-45.

Zand, D. E. (1972) "Trust and managerial problem solving", *Administrative Science Quarterly*, 17: 229-39.

Zineldin and Dodourova (2005) "Motivation, achievements and failure of strategic alliances: The case of Swedish auto-manufacturers in Russia", *European Business Review*, 17(5): 460-470.

Zineldin, M. (1998) "Towards an ecological collaborative relationship management", *European Journal of Marketing*, 32: 1138-1164.

Zineldin, M. (2000) TRM, Studentlitteratur, Lund.

Zineldin, M. (2002) "Co-opetition: The organization of the future", *Journal of Quality, Innovation and Prosperity*, 1: 1-13.

Zineldin, M., and Dodourova, M. (2005) "Motivation, achievements, and failure of strategic alliances: The cases of Swedish auto-manufacturers in Russia", *European Business Review*, 17: 460-470.

Zollo, M., Reuer, J. and Singh, H. (2002) "Interorganizational routines and performance in strategic alliances", *Organization Science*, 13(6):701-13.

Appendixes

Appendix (1)

Section A. Sample of support letter provided by research supervisor

Dundee Business School

30 July 2007

TO WHOM IT MAY CONCERN

Access to Collect Data for PhD Research

Dear Sir/ Madam

Ref: Yasir Yasin Fadol

This is to confirm that Mr Yasir Yasin Fadol is registered as a PhD student at the Dundee Business School, University of Abertay Dundee, Scotland, UK, and to ask that he be granted access to collect data from your esteemed organization to help him to complete his PhD research.

The subject of Mr Yasir Yasin's research is 'International Strategic Alliance Formation Process in the Developing Context: The Case of the United Arab Emirates'. This study is very useful for understanding processes of best practice in international strategic alliances and for formulating strategies that would help UAE organizations develop effective and successful alliances internationally.

As his PhD supervisor, I am confident that he will be able to conduct a high quality academic research and will treat the data he collects with utmost confidentiality. Therefore, I request you, Sir/Madam, to support him by giving him access to your organization to collect the data that he really needs to complete his PhD research.

If you require any information about the student's background and research, or about the University, please do hesitate to contact me and I will be pleased to oblige.

Yours faithfully,

[redacted]

Professor Mohamed Branine
Director of Postgraduate Programmes and Research

UNIVERSITY of ABERTAY DUNDEE

Old College Bell Street Dundee DD1 1HG
Tel: 01382 308401 *Fax:* 01382 308400 *E-mail:* dbs@abertay.ac.uk

Appendix (1)

Section B. Sample of letters sent to respondents

Yasir Yasin Sid Ahmed
College of Business and Economics
United Arab Emirates University
Al Ain, P. O. Box: 17555
[redacted]

September 24, 2006

Dubai Alminium
P.O Box: 3627
Dubai, UAE

RE: Seeking access to data collection

Dear Sir,
I am a PhD researcher studying at the University of Alberta Dundee (UK) on part-time basis while working as a full-time lecturer at the College of Business And Economics - United Arab Emirates University. My thesis is entitled "*The Formation Process of Global Strategic Alliances in a Developing Context: The Case of the United Arab Emirates* ".

It has been noticed that the area of strategic alliances and joint ventures is poorly researched in the UAE. Since this study is the first of its kind in the UAE, it will be beneficial to both academics and practitioners. It is expected to help in identifying best ways and models that can be used by practitioners and decision makers in strategic alliance formation. Furthermore, this research is expected to help in determining factors that affect alliance success developing countries in general and the UAE in particular. It has been noticed that the area of strategic alliances and joint venture is poorly researched in the UAE. This study is expected to make a significant contribution to the existing knowledge.

The research methodology implemented by the researcher requires using case studies based on mail questionnaires and in-depth interviews with the company's top executives.

I would be very grateful if you could:
Fill in the enclosed questionnaire and return it back to the above mentioned address.
Provide approval to conduct interviews in your highly reputable company, which will be used as a case study. The intention is to focus on and study one of the alliances or joint ventures conducted by your company (find enclosed proposed interview questions).

I would like to assure you that any information provided as well as names will be treated with a high degree of CONFIDENTIALITY and ANONYMITY. I very much hope that you will spare a little of your valuable time to help me with this useful academic research.

Thank you in advance for your cooperation and I look forward to receiving filled questionnaires and hearing from you an appointment to start interviews.

Yours sincerely,

Yasir Yasin

CC. Support Letter from the research supervisor
Study Questionnaire
Interview Questions

Appendix (1)

Section C. Letter sent to organizations for the purpose of building collaborative ties

Yasir Yasin S. A. Fadol
College of Business and Economics
United Arab Emirates University
Al Ain, P. O. Box: 17555
[redacted]

September 24, 2006

Emirates Centre for Strategic Studies and Research
P.O Box: 901,Abu Dhabi, UAE

<u>RE: Seeking Collaboration</u>

Dear Sir,
I am a PhD student studying at Dundee Business School, University of Alberta Dundee (UK). I am currently in the final stage of my thesis, which is entitled "*The Formation Process of Global Strategic Alliances in a Developing Context: the Case of the United Arab Emirates*". Since it is the first of its kind in the UAE, this study is expected to be beneficial to both academics and practitioners. It is very useful in understanding the processes by which enterprises in the UAE form international strategic alliances. The study also aims to design a model that would help UAE organizations develop effective and successful alliances globally.

I am looking forward to establish some bases of collaboration between us towards achieving a joint goal. My intention is to find an organization to work as an establishing collaborator for this study. After doing an in-depth investigation and conducting a fruitful meeting with your Excellency, I realized that the Emirates Centre for Strategic Studies and Research (ECSSR) is the most appropriate organization for this role.
<u>*Progress of the study:*</u>
This study is 4 years old; during this period the researcher has completed the literature review part, completed data collection stage, semi finalized analysis stage and I am planning to finalize this study by July 2008. However, during the analysis stage a need for further data from more two companies has emerged. In doing so, I contacted some companies to get access to data, but unfortunately my attempts failed to any get approval.
<u>*What the ECSSR is expected to contribute to this study?*</u>
Your organization is politely requested and expected to facilitate the process of getting access to and approval to data collection from any two companies, preferably from the following group: Etisalat, ADNOC, Emaar, Emirates Air Line, or any other company proposed by your organization. Although I have been granted approvals from all of the above mentioned companies, my documents were either transferred to the wrong person or they were transferred to the right person but still I have received no reply.
<u>*What benefits the ECSSR may gain from this relationship?*</u>
As expected, this study would be beneficial to different parties. Expected benefits to ECSSR are as follows:

1. The findings, results and recommendations of the study could be used by the ECSSR for any purpose as you see convenient to your organization or to the UAE organizations. Moreover, the researcher will be pleased to participate in any activities and events to be organized by your organization such as consultancies, producing publications, organizing conferences and seminars, and conducting training courses.
2. ECSSR will be mentioned in the thesis as an establishing collaborator.

Your positive and prompt reply is highly appreciated

Yours sincerely

Yasir Yasin

Appendix (2): Enterprises approached by the researcher

No.	Company	Area of Business	Response
1.	Dolphin Energy	Energy (Gas)	Apologized
2.	Dana Gas	Energy (Gas)	No response
3.	EMARAT	Energy (Oil and Gas)	No response
4.	Abu Dhabi National Oil Company (ADNOC)	Energy (Oil and Gas)	Approved
5.	Gulf Total Tractebel Power Company	Energy (Electricity)	Apologized
6.	Emirates Telecommunication Corporation (ETISALAT)	Telecommunication	Approved
7.	Thuraya Satellite Telecommunications Company	Telecommunication	No response
8.	Emaar Properties	Real Estate	Approved
9.	Nakheel Properties	Real Estate	Apologized
10.	Sorouh	Real Estate	No response
11.	Deyaar	Real Estate	No response
12.	Ras Al Khaimah Ceramics Company	Manufacturing	Approved
13.	Gulf Pharmaceutical Industries (Julphar)	Manufacturing	No response
14.	Dubai Aluminum Company (DUBAL)	Manufacturing	Approved
15.	Dubai Cables Company (DUCAB)	Manufacturing	Approved
16.	Dubai Holding	Manufacturing	No response
17.	National Paints	Manufacturing	No response
18.	Tabreed	Manufacturing	No response
19.	Borouge	Manufacturing	No response
20.	Emirates Group	Air Line	Approved
21.	Etihad Air Line Company	Air Line	No response
22.	Abu Dhabi Investment Company (ADIC)	Trade and Investment	No response
23.	Global Investment House	Trade and Investment	Apologized
24.	Istithmar	Trade and Investment	No response
25.	Dubai Investment	Trade and Investment	No response
26.	Sama Dubai	Trade and Investment	No response
27.	Abraj Capital	Trade and Investment	No response
28.	Mubadala Development Company	Trade and Investment	No response
29.	The UAE Offset Group	Trade and Investment	Approved
30.	Dubai Ports World	Operation of Ports	Approved
31.	Jebel Ali Free Zone Authority	Operation of Ports	Approved

Appendix (3): Sample of interviews' questions:

Dear Sir/Madam,

The researcher is seeking answers for the following questions. Although it is not necessary to cover all the interview questions, it will be highly appreciated if you could help me by answering all the questions.

Please read the following prior to conducting the interview:

- Identify only one alliance/joint venture, which has been already formed and implemented in your company, so that its results are known.
- The interview questions address only the alliance/joint venture you have chosen above, not the general pattern of alliance formation in your company.
- In your response, please describe exactly what happened as this alliance was being formed, not what you feel is the right answer or believe should have happened.
- By participating in this interview, you will receive a summary of the results of this study. This summary will include some suggestions as well as a model for improving your team's ability to successfully from and implement strategic alliances.

Part one: Introduction:

1. Would you please tell me about the establishment of your company and its development to date?

2. Have you ever been encouraged or hindered by the UAE government to enter certain alliances?

☐ Yes ☐ No

If yes, what were the reasons?

3. Please describe the chosen alliance/joint venture (the project of Etisalat Egypt).

Part two: Motives for Strategic Alliances:

4. Would you please tell me about the reasons of forming this alliance?

Part three: Partner Selection: (partner search, evaluation and selection)

5. Did you follow a formal process for searching, evaluating and selecting benchmark partners?

If yes, what is this process?

6. Did your previous alliance experience with foreign partners help in finding appropriate partners?

☐ Yes ☐ No

If yes, how did it help?

7. Did the decision of selecting this particular partner contribute to the success of the alliance? If yes, what was its contribution?

☐ Yes ☐ No

If yes, how it has contributed?

8. Have you ever experienced a situation where you had to select a particular partner because of unavailability or limited number of potential partners?

☐ Yes ☐ No

If yes, give examples?

9. Was the decision of partner selection affected by motive for alliance?

☐ Yes ☐ No

If yes, how was it affected?

10. Was the decision of partner selection affected by mode of entry?

☐ Yes ☐ No

If yes, how was it affected?

11. Was the decision of partner selection affected by the prospective partners' national culture?

☐Yes ☐ No

If yes, how was it affected?

Part four: Partner's Trust:

12. Before deciding to form this alliance, how did you ensure that the partner is capable to achieve the venture's stated outcomes and how did you ensure that his behaviour and objectives are consistent with yours?

13. Given that relationships in the context of strategic alliances may be perceived by partners as temporary projects, how did this weaken the state of trust based on a common future?

14. Given that organizational context changes, did existing trust change? How did you manage existing relationships (trust) against dynamic environment? An example is the desire of one partner to ally with a third one.

Part five: Form of Structure:

15. How did you select the structure of alliance? What factors did affect your decision of selecting this form of structure?

16. Before selecting this form of structure, did you study other alternative structures such as mergers, acquisitions, or wholly owned subsidiaries?

☐ Yes ☐ No

If yes, why did you favour strategic alliances? If no, why?

17. Has the decision of selecting the current mode of structure affected by the motive for alliance?

☐ Yes ☐ No

If yes, how has it affected?

Part six: Alliance Governance (Management):

18. How did your company and your alliance partner jointly control the venture? What is the control ratio? How this ratio is decided (on what basis)?

19. Is there any government interference regarding the alliance control? In other words, is there any minimum control ratio determined by the government?

☐ Yes ☐ No

If yes, what is form of control?

20. Did your venture experience any major modifications since its formation?

☐ Yes ☐ No

If yes, what were these modifications? What were the reasons?

21. How did you decide on the amount and kind of resources you committed to the alliance? In other words, what factors did affect your decision regarding resource commitment to this alliance?

22. Did you form an independent team to run the alliance? If yes, who are the members of this team? Were there any members from outside the company (e.g. investment and legal advisors)?

23. Are you managing more than one alliance at once? How well are they performing?

24. What organizational and technical competencies/strengths did your alliance team require in order to successfully manage the alliance?

Part seven: Alliance Performance and Survival:

25. Do you measure the performance of your alliance on an on going base?

☐ Yes ☐ No

If yes, what methods are used?

26. How could you ensure that the results given by the performance evaluation methods are reliable ones?

27. Have you experienced any venture ended (terminated) where one partner internalizes (acquired/bought) the project?

☐ Yes ☐ No

If yes, what were the reasons? Please give examples.

Part eight: Transfer of Knowledge and Organizational Learning:

28. Did you follow any formal procedures to transfer knowledge and information between your company and your partnering company?

☐ Yes ☐ No

If yes, what were these procedures?

29. Did you face any difficulties with your partner with respect to transferring knowledge and information that was importance to the alliance operation?

☐ Yes ☐ No

If yes, of what were these difficulties?

30. Have you experienced opportunistic behaviour or the problem of leaking information by your partners?

☐ Yes ☐ No

If yes, what was your reaction?

31. Have you experienced any situations where you learned something valuable from your partner that led to gaining a competitive advantage by your company?

☐ Yes ☐ No

If yes, how have you gained this knowledge?

32. Did the level of learning vary from one alliance to another?

☐ Yes ☐No

If yes, what factors did affect the level of learning?

33. Have you experienced a situation where the desire in proceeding with the partnership was reduced because one party has learned something valuable?

☐ Yes ☐ No

If yes, what were the actions taken by the partners?

<u>Part nine: Cultural Differences:</u>

34. How did cultural match or mismatch affect alliance decisions?

35. Have you gained any benefits because of cultural differences of your partner?

☐ Yes ☐ No

If yes, of what kind?

---

36. Overall could you please describe the process of forming a strategic alliance?

Appendix (4): Interview questions distributed by research questions:

Research question	Interview questions
• ***Are the motives suggested by the literature for forming strategic alliances prevailing in the developing context? If yes, why? If not, what other motives are responsible for directing companies to form such alliances?***	1. Please describe the chosen alliance/joint venture (the case under study). 2. Would you please tell me about the reasons for forming this alliance? 3. Have you ever been encouraged or hindered by the UAE government to enter certain alliances? If yes, what were the reasons?
• ***Does partner(s) selection affect alliance formation and operation in developing countries? What factors do companies in the UAE take into consideration when selecting a partner? What selection criteria are used by managers in UAE to select their venture's partners? What is the relative importance of these criteria? Are these criteria affected by the motives of alliance?***	1. Did you follow a formal process for searching, evaluating and selecting benchmark partners? If yes, what is this process? 2. Did your previous alliance experience with foreign partners help in finding appropriate partners? If yes, how did it help? 3. What criteria did your company use to evaluate and select the alliance partner(s)? 4. What were the main sources of data used for partner's evaluation? 5. Did the decision of selecting this particular partner contribute to the success of the alliance? If yes, what was its contribution? 6. Have you ever experienced a situation where you had to select a particular partner because of unavailability or limited number of potential partners? If yes, give examples? 7. Was the decision of partner selection affected by motive for alliance? If yes, how was it affected? 8. Was the decision of partner selection affected by mode of entry? If yes, how was it affected? 9. Was the decision of partner selection affected by the prospective partners' national culture? If yes, how was it affected?
• ***How does increasing knowledge of and trust in each other partner affect alliance governance and adaptation? What other factors may lead to such adaptation? How does alliance structure change in response to such factors?***	1. Before deciding to form this alliance, how did you ensure that the partner is capable to achieve the venture's stated outcomes and how did you ensure that his behaviour and objectives are consistent with yours? 2. How did you determine the level of trust between your company and your partner? 3. What benefits did your company and your partner expect to gain from building trust? 4. What factors did complicate the process of building inter-organizational trust? 5. Given that relationships in the context of strategic alliances may be perceived by partners as temporary projects, how did this weaken the state of trust based on a common future? 6. Given that organizational context changes, did existing trust change? How did you

	manage existing relationships (trust) against dynamic environment? An example is the desire of one partner to ally with a third one.
• ***What are the most common forms of structure used by companies in the UAE to form strategic alliances? How do companies in UAE choose between the different structures? What factors do affect managers' decisions?***	1. What is the form of structure of this alliance? 2. How did you select the structure of alliance? What factors did affect your decision of selecting this form of structure? 3. Before selecting this form of structure, did you study other alternative structures such as mergers, acquisitions, or wholly owned subsidiaries? If yes, why did you favour strategic alliances? If no, why not? 4. Has the decision of selecting the current mode of structure affected by the motive for alliance? If yes, how has it affected?
• ***How do firms in the UAE manage strategic alliances jointly with their partners?***	1. How did your company and your alliance partner jointly control the venture? What is the control ratio? How this ratio is decided (on what basis)? 2. Is there any government interference regarding the alliance control? In other words, is there any minimum control ratio determined by the government? If yes, what is form of control? 3. How did you decide on the amount and kind of resources you committed to the alliance? In other words, what factors did affect your decision regarding resource commitment to this alliance? 4. What terms and conditions did you most emphasize when designing the alliance's contract? 5. Did you form an independent team to run the alliance? If yes, who are the members of this team? Were there any members from outside the company? (e.g. investment and legal advisors) 6. What organizational and technical competencies/strengths did your alliance team require in order to successfully manage the alliance? 7. Do you measure the performance of your alliance on an on going base? If yes, what methods are used? 8. How could you ensure that the results given by the performance evaluation methods are reliable ones? 9. Have you experienced any serious problems with your partner that led or were about leading to the termination of the alliance's contract? If yes, what were the reasons?

• ***What is the effect of organizational learning and alliance experience on deciding on the alliance motives, partner selection, alliance governance and performance?***	1. Why exchanging knowledge and information with your partner was important for the success of the alliance? In other words, what benefits this will add to the alliance? 2. What kind of information did you exchange with your partners? 3. Did you face any difficulties with your partner with respect to transferring knowledge and information that was importance to the alliance operation? 4. Have you experienced opportunistic behaviour or the problem of leaking information by your partners? If yes, what was your reaction? 5. What methods did your company use to avoid opportunistic behaviour? 6. Have you experienced any situations where you learned something valuable from your partner that led to gaining a competitive advantage by your company? If yes, how have you gained this knowledge? 7. Did the level of learning vary from one alliance to another? If yes, what factors did affect the level of learning? 8. Have you experienced a situation where the desire in proceeding with the partnership was reduced because one party has learned something valuable? If yes, what were the actions taken by the partners?
• ***How do culture similarities and differences between partners affect the process of strategic alliances?***	1. How did cultural match or mismatch affect alliance decisions? 2. Have you gained any benefits because of cultural differences of your partner? 3. Have you experienced any difficulties because of cultural differences between your company and partners? If yes, what were these difficulties? 4. What business areas did experience frequent conflict due to cultural differences?

Appendix (5): Questionnaire

Dear Sir/Madam,

The researcher is seeking answers for the following questions; it will be highly appreciated if you could help me by answering all the questions.

Please fill in the questionnaire in the following way:

- Identify only one alliance/joint venture, which has been already formed and implemented in your company, so that its results are known.
- This questionnaire addresses only the alliance/venture you have chosen above, not the general pattern of alliance formation in your company.
- In your response, please describe exactly what happened as this alliance was being formed, not what you feel is the right answer or believe should have happened.
- This questionnaire should be completed by one of the executives who participated in the formation process of strategic alliances in your company.
- By participating in this interview, you will receive a summary of the results of this study. This summary will include some suggestions as well as a model for improving your team's ability to successfully from and implement strategic alliances.

Part One: Company's Information

1. Company's official name:
   ....

2. From the following, please select the area of business of your company:
   ☐ Communication
   ☐ Energy, oil and gas
   ☐ Air line
   ☐ Manufacturing
   ☐ Real estate
   ☐ Other, please specify ....

3. From the following, please select the form of ownership:
   ☐ Single proprietorship
   ☐ Family owned
   ☐ Partnership (private sector)
   ☐ Partnership (government and private sector)
   ☐ Publicly owned enterprise
   ☐ Government

4. When did your company form its first international strategic alliance or when did it enter its first joint venture?
   ☐ 1-3 years ago
   ☐ 4-6 years ago
   ☐ 7-9 years ago
   ☐ 10-12 years ago

☐ 13-15 years ago
☐ More than 15 years

5. How many alliances did your company form to date?
   ☐ 1 - 5
   ☐ 6 - 10
   ☐ 11 -15
   ☐ 16 – 20
   ☐ More than 20

6. Please list your most important previous and current alliances:
   Previous alliances:
   I. ....
   II. ....
   III. ....
   Current alliances:
   I. ....
   II. ....
   III. ....

Part Two: Motives for Strategic Alliances:

Please put (✓) symbol in the appropriate boxes for the following questions. ***Note***: please do not put more than one (✓) for the same answer. ***Key***: 1 = strongly applicable, 2 = applicable, 3 = not certain, 4 = not applicable, 5 = strongly not applicable.

1. What were the motives / reasons for forming this alliance?

S.		1	2	3	4	5
1.	Sharing economic risks in new business ventures.	☐	☐	☐	☐	☐
2.	Sharing entry cost to new and potentially profitable markets.	☐	☐	☐	☐	☐
3.	Sharing Research and Development costs.	☐	☐	☐	☐	☐
4.	Conform to host government policy (in terms of local ownership, transaction costs and knowledge transfer).	☐	☐	☐	☐	☐
5.	Accessing parent's patents and licensing.					
6.	Reaching economies of scale.	☐	☐	☐	☐	☐
7.	Benchmarking company's performance with the world's best.	☐	☐	☐	☐	☐
8.	Controlling or reducing competition.	☐	☐	☐	☐	☐
9.	Gaining access to valuable technology (learning), which would otherwise be difficult to independently develop or buy.	☐	☐	☐	☐	☐
10.	Gaining access to market and cultural knowledge.	☐	☐	☐	☐	☐
11.	Gaining access to distribution channels.	☐	☐	☐	☐	☐
12.	Gaining access to capital.	☐	☐	☐	☐	☐
13.	Gaining access to labor.	☐	☐	☐	☐	☐

Other, please specify ....
....

Part Three: Partner Selection: ***(partner search, evaluation and selection)***

2. What criteria did your company use to evaluate and select the alliance partner(s)?

S.		1	2	3	4	5
1.	Partner's degree of willingness to form strategic alliances and commit resources.	□	□	□	□	□
2.	Partner's degree of readiness to form strategic alliances and commit resources.	□	□	□	□	□
3.	Partner's ability to negotiate with the government of the host country.	□	□	□	□	□
4.	Partner's established marketing and distribution systems.	□	□	□	□	□
5.	Partner's experience in developing new technology application.	□	□	□	□	□
6.	Partner's knowledge of local market and culture.	□	□	□	□	□
7.	Partner's experience in international strategic alliances.	□	□	□	□	□
8.	Partner's access to materials/natural resources.	□	□	□	□	□
9.	Partner's past and current financial performance.	□	□	□	□	□
10.	Compatibility and trust between top management teams.	□	□	□	□	□
11.	Complementarities of partner's resource contribution.	□	□	□	□	□
12.	Patents and licenses possessed by partner.	□	□	□	□	□

Other, please specify ....

....

3. What were the main sources of data used for partner's evaluation?

S.		1	2	3	4	5
1.	Partner's internal reports.	□	□	□	□	□
2.	Government annual reports.	□	□	□	□	□
3.	Business newspaper, magazine, and journal articles.	□	□	□	□	□
4.	Conference speakers.	□	□	□	□	□
5.	Industry and professional associations.	□	□	□	□	□
6.	Consultants and accounting firms.	□	□	□	□	□
7.	Stock market.	□	□	□	□	□

Other, please specify ....

....

Part Four: Partner's Trust:

4. How did you determine the level of trust between your company and your partner?

S.		1	2	3	4	5
1.	Assessing the partner's amount and type of resources to be committed to the alliance.	□	□	□	□	□
2.	Testing the compatibility and state of character similarity between your company and your partner's company.	□	□	□	□	□
3.	Testing the partner's past and current financial performance.	□	□	□	□	□
4.	Assessing partner's state of reputation.	□	□	□	□	□
5.	Using third party reference.	□	□	□	□	□

Other, please specify ....

....

5. What benefits did your company and your partner expect to gain from building trust?

S.		1	2	3	4	5
1.	Quick exchange of resources.	□	□	□	□	□
2.	More resource commitment.	□	□	□	□	□
3.	Smooth exchange of knowledge and information.	□	□	□	□	□
4.	Reducing the extent and cost of legal contracts	□	□	□	□	□
5.	Avoidance of routine and bureaucracy and enhancement of decision making process.	□	□	□	□	□

Other, please specify ....
....

6. What factors did complicate the process of building inter-organizational trust?

S.		1	2	3	4	5
1.	Differences in cultures.	□	□	□	□	□
2.	Time pressure.	□	□	□	□	□
3.	Increasing level of environmental uncertainty (e.g. market and political changes).					
4.	Strict requirements and terms and conditions set by your company.	□	□	□	□	□
5.	Strict requirements and terms and conditions set by your partnering company.	□	□	□	□	□

Other, please specify ....

<u>Part Five: Form of Structure:</u>

7. What is the form of structure of this alliance?

S.		1	2	3	4	5
1.	Equity joint venture.	□	□	□	□	□
2.	Minority equity interest.	□	□	□	□	□
3.	Strategic supplier arrangement.	□	□	□	□	□
4.	Research and development partnership.	□	□	□	□	□
5.	Joint production.	□	□	□	□	□
6.	Licensing and joint marketing and promotion agreement.	□	□	□	□	□

Other, please specify ....
....

8. What factors did affect the decision of selecting this mode of entry?

S.		1	2	3	4	5
1.	Cost and benefit characteristic of the venture.	□	□	□	□	□
2.	Risk characteristic of the venture.	□	□	□	□	□
3.	Amount of resources to be committed by your company.	□	□	□	□	□
4.	The possibility that this mode could provide to learn and acquire new technology and transfer knowledge.	□	□	□	□	□
5.	Desire and bargaining power of foreign partner.	□	□	□	□	□
6.	Level of trust between your company and partners.	□	□	□	□	□
7.	Amount of control to be given up by your company.	□	□	□	□	□

8.	Home government regulations.	☐	☐	☐	☐	☐
9.	Host government regulations.	☐	☐	☐	☐	☐
10.	Your company's prior experience with this structure.	☐	☐	☐	☐	☐
11.	Time Limits.	☐	☐	☐	☐	☐

Other, please specify ....

....

Part Six: Alliance Governance (Management):

9. What terms and conditions did you most emphasize when designing the alliance's contract?

S.		1	2	3	4	5
1.	Control systems.	☐	☐	☐	☐	☐
2.	Scale of the venture.	☐	☐	☐	☐	☐
3.	Duration of the venture.	☐	☐	☐	☐	☐
4.	Distribution of the expected outcomes.	☐	☐	☐	☐	☐
5.	Exchange and use of information.	☐	☐	☐	☐	☐
6.	Research and development intensity.	☐	☐	☐	☐	☐
7.	Resource commitment.	☐	☐	☐	☐	☐
8.	Venture dissolution conditions.	☐	☐	☐	☐	☐

Other, please specify ....

....

10. What factors did affect the amount of resources you committed to the alliance?

S.		1	2	3	4	5
1.	Degree of trust in your partner.	☐	☐	☐	☐	☐
2.	Amount of resources committed by partner compared to yours.	☐	☐	☐	☐	☐
3.	Potentiality of the venture's success.	☐	☐	☐	☐	☐
4.	Macro-economic factors (e.g. political, economic …etc).	☐	☐	☐	☐	☐
5.	Government rules and regulations.	☐	☐	☐	☐	☐

Other, please specify ....

....

Part Seven: Alliance Performance and Survival:

11. What major areas relating to the alliance performance did you emphasize to measure?

S.		1	2	3	4	5
1.	Profitability.	☐	☐	☐	☐	☐
2.	Return on investment.	☐	☐	☐	☐	☐
3.	Sales and market share.	☐	☐	☐	☐	☐
4.	Alliance longevity.	☐	☐	☐	☐	☐
5.	Degree of attaining and maintaining competitive advantage.	☐	☐	☐	☐	☐
6.	Level of cooperation and harmony between partners.	☐	☐	☐	☐	☐
7.	Transfer of knowledge, organizational learning, and innovation.	☐	☐	☐	☐	☐
8.	Reaction of stock market and investors.	☐	☐	☐	☐	☐

Other, please specify ....

....

12. Have you experienced any serious problems with your partner that led to or were about leading to the termination of the alliance's contract?

☐ Yes ☐ No, If yes, what were the reasons?

S.		1	2	3	4	5
1.	Goal incongruence and inadequate advance planning.	☐	☐	☐	☐	☐
2.	Failure to share risk.	☐	☐	☐	☐	☐
3.	Dissatisfaction with the alliance relationship (e.g. financial performance of the alliance, the degree of commitment or competence displayed by the partner).	☐	☐	☐	☐	☐
4.	Unwillingness of giving up control over one's own resources.	☐	☐	☐	☐	☐
5.	Lack of organizational capabilities, competencies, and resources.	☐	☐	☐	☐	☐
6.	Lack of participation in decision making.	☐	☐	☐	☐	☐
7.	Lack of coordination.	☐	☐	☐	☐	☐
8.	Lack of cooperation and trust.	☐	☐	☐	☐	☐
9.	Disagreement regarding distribution of alliance gains.	☐	☐	☐	☐	☐
10.	Differences in management styles, attitudes, and operating procedures among partners.	☐	☐	☐	☐	☐
11.	Cultural mismatch and communication difficulties.	☐	☐	☐	☐	☐
12.	Opportunistic behaviour shown by partner.	☐	☐	☐	☐	☐

Other, please specify ....

Part Eight: Transfer of Knowledge and Organizational Learning:

13. Why exchanging knowledge and information with your partner was important for the success of the alliance? In other words, what benefits this will add to the alliance?

S.		1	2	3	4	5
1.	Helps in identifying new opportunities or markets.	☐	☐	☐	☐	☐
2.	Helps in identifying problems and risks inherited in the alliance.	☐	☐	☐	☐	☐
3.	Helps in learning new technology.	☐	☐	☐	☐	☐
4.	Helps in learning new management styles.	☐	☐	☐	☐	☐
5.	Helps in finding joint understanding of national policies, rules and regulations.	☐	☐	☐	☐	☐

Other, please specify ....

14. What kind of information did you exchange with your partners?

S.		1	2	3	4	5
1.	New strategies and policies.	☐	☐	☐	☐	☐
2.	New technologies and production process.	☐	☐	☐	☐	☐
3.	New opportunities (e.g. products and markets).	☐	☐	☐	☐	☐
4.	New resources and sources of supply.	☐	☐	☐	☐	☐
5.	Environmental threatening factors.					
6.	Quality control systems.	☐	☐	☐	☐	☐
7.	Management styles and processes.	☐	☐	☐	☐	☐

Other, please specify ....

15. Have you experienced a situation of opportunistic behaviour or exploitation in which the intention of your partner was to achieve his private benefits?

☐ Yes ☐ No

If, yes, what factors made your partner behave opportunistically?

S.		1	2	3	4	5
1.	Weak contract formation.	☐	☐	☐	☐	☐
2.	Short alliance period.	☐	☐	☐	☐	☐
3.	Increasing market uncertainty.	☐	☐	☐	☐	☐
4.	Inadequate governance mechanisms.	☐	☐	☐	☐	☐
5.	Appearance of environmental threatening factors.	☐	☐	☐	☐	☐

Other, please specify ....

16. What methods did your company use to avoid opportunistic behaviour?

S.		1	2	3	4	5
1.	Stimulating trust between the alliance partners.	☐	☐	☐	☐	☐
2.	Encouraging mutual forbearance "mutual ignorance of short term advantages in favour of a long-term approach".	☐	☐	☐	☐	☐
3.	Using legally well designed agreement contract.	☐	☐	☐	☐	☐
4.	Obtaining patents to prevent imitation.	☐	☐	☐	☐	☐
5.	Limiting information access to few people in your company and your partner's company.	☐	☐	☐	☐	☐

Other, please specify ....

Part Nine: Cultural Differences:

17. Have you experienced any difficulties because of cultural differences between your company and partners?

☐ Yes ☐ No, If yes, what were these difficulties?

S.		1	2	3	4	5
1.	Communication difficulties.	☐	☐	☐	☐	☐
2.	Adversely affecting the firm's learning capabilities.	☐	☐	☐	☐	☐
3.	Creating ambiguities and mistrust in the relationship.	☐	☐	☐	☐	☐
4.	Complicating and prolonging the negotiation process.	☐	☐	☐	☐	☐
5.	Complicating or reducing the process of knowledge acquisition.	☐	☐	☐	☐	☐

Other, please specify ....

18. What business areas did experience frequent conflict due to cultural differences?

S.		1	2	3	4	5
1.	Marketing.	☐	☐	☐	☐	☐
2.	R and D.	☐	☐	☐	☐	☐
3.	Finance.	☐	☐	☐	☐	☐
4.	Human resources	☐	☐	☐	☐	☐
5.	Management style "communication and problem solving styles)	☐	☐	☐	☐	☐

Other, please specify ....

Appendix (6) Summary of generated characteristics of the formation process of strategic alliances within ADNOC

	Summary of generated propositions
<u>Phase 1:</u> Motives for forming ADGAS strategic alliance	***Prop. 6.1a****: The motives for forming the strategic alliance of ADGAS are multilevel in nature; organizational and contextual.* ***Prop. 6.1b****: There were three organizational motives for the formation of ADGAS alliance which include: utilization of abundant gas resources; accessing technology and know-how to process liquefied gas; sharing economic risk and entry cost to new and potentially profitable markets.* ***Prop. 6.1c****: There were three contextual motives for the formation of ADGAS alliance which include: responding to the pressures of the international community to stop environmental pollution resulted from gas flaring; increase in demand for LNG in the international markets associated with price hikes and the presence of Western companies investing in the UAE which possess know-how and technology of gas liquefaction and knowledge of the UAE.*
<u>Phase 2:</u> Selection of ADGAS strategic alliance partners	***Prop. 6.2a****: The process of partners' selection passed through three stages: search for partners, evaluation of partners and selection of a partner.* ***Prop. 6.2b****: The commercial viability of ADGAS was conditioned by the availability of long-term buyers of the company's products. Therefore, securing long-term buyers of the company's products was a major issue in the discussion agenda of ADNOC.* ***Prop. 6.2c****: The underdeveloped nature of the UAE's economy, Gulf countries and the Middle Eastern countries directed the search process for long-term buyers to the international markets. Meanwhile, the fast growing and industrialization nature of the Japanese economy induced the Japanese government to look for long-term suppliers who can satisfy its industries' needs for clean and environment-friendly energy.* ***Prop. 6.2d****: Having secured a long-term buyer of its new company products, ADNOC began searching for partners to provide technology and know-how to liquefy, store and transport gas.* ***Prop. 6.2e****: Criteria set by ADNOC for partners selection were: (1) partners' competency and knowledge of developing new technology in the area of gas liquefaction, (2) financial performance of partners, (3) compatibility and trust between ADNOC's management and partners' management teams, (4) partners' willingness to forma strategic alliance and commit resources and (5) partners' readiness to form a strategic alliance and commit resources.* ***Prop. 6.2f****: The decision of selecting BP and TOTAL was influenced by their prior experience, trust and relationship with ADNOC.*

<u>Phase 3:</u> Choice of the form of ADGAS strategic alliance structure	***Prop. 6.3a:*** *The selection of the equity joint venture form of structure by the partners was based on three reasons: (1) the strategic nature of the project requires long-term commitment of huge resources and thus partners were willing to share cost and reduce risk and tie each other to the project by having a equity share to ensure long-term commitment and positive behaviour of partners; (2) the promising success and profits of the project encouraged each partner have equity share in the project and (3) it provides a degree of protection to the know-how possessed specifically by BP and Total.* ***Prop. 6.3b:*** *The allocation of equity share among partners changed twice upon request of ADNOC. It was firstly changed after the construction works of the plant started in Das Island/Abu Dhabi. The distribution of equity share among partners was changed again after constructing a new (third) LNG processing train which was financed by ADNOC.* ***Prop. 6.3c:*** *ADNOC was successful to increase its share only after granting incentives to its partners. These incentives were: first, providing partners new concessions to invest in new oil and gas projects in Abu Dhabi and second, extending the foreign partners' participation in ADGAS until 2019.*
<u>Phase 4:</u> ADGAS strategic alliance management	***Prop. 6.4a:*** *BP and TOTAL are responsible for the plant management including the production, storage and transportation of LNG and other associated gas products and the technical activities such as health and safety and environment protection. ADNOC and Mitsui perform the administrative work which includes sales and marketing; human resource management; financial management and other support activities.* ***Prop. 6.4b:*** *The majority shareholding of ADNOC qualified the company to hold the positions of chairman, general manager and deputy general manager.* ***Prop. 6.4c:*** *Staff training and development and gas pricing are core activities that receive especial attention by all partners.* ***Prop. 6.4d:*** *Although ADNOC enjoys more control over its partners, cooperation, commitment and trust between partners are the basic themes for the smooth and successful operation of the plant and the company as a whole.*
<u>Phase 5:</u> ADGAS strategic alliance performance evaluation	***Prop. 6.5a:*** *Partners agreed on common criteria to be used for performance measurement. These criteria are the company's sales, profitability, growth and longevity of the alliance.* ***Prop. 6.5b:*** *Transfer of knowledge and organizational learning is another undeclared criterion used by partners to measure performance of the alliance.*
Partners' culture	***Prop. 6.6a:*** *Cultural differences between partners have both positive as well as negative influence on the formation process of the alliance.* ***Prop. 6.6b:*** *Cultural differences between partners have positive influence and no negative influence on the alliance performance.*

Trust between partners	***Prop. 6.7a***: *Trust and cooperation between partners play a vital role throughout the different phases of the alliance formation process.* ***Prop. 6.7b***: *Trust and cooperation is developed over a long lasting relationship which characterized by mutual respect, honesty and sense of common interests and goals.* ***Prop. 6.7c***: *The adoption of the equity joint venture form of structure enhanced trust and cooperation between the alliance partners.*

Appendix (7): Summary of generated characteristics of the formation process of strategic alliances within ETISALAT

	Summary of generated findings
<u>Phase 1:</u> Motives for forming Etisalat Egypt strategic alliance	***Prop. 7.1a***: *The motives for forming the strategic alliance of Etisalat Egypt are multilevel in nature; organizational and contextual.* ***Prop. 7.1b***: *There were four organizational motives for the formation of Etisalat Egypt alliance which include: abundance of financial resources at the disposal of the company, desire to capitalize on its knowledge and expertise in the areas of telecommunication and foreign investments, desire to share cost and risk of the new project; and learning and acquiring knowledge of the local Egyptian market.* ***Prop. 7.1c***: *There were five contextual motives for the formation of Etisalat Egypt alliance which include: lack of growth opportunities in the UAE market, the attractiveness of the Egyptian market, attractiveness of the technical specifications of the license offered by the Egyptian authorities, foreign investments policy of UAE's government and the regulations of the Egyptian government.*
<u>Phase 2:</u> Selection of Etisalat Egypt strategic alliance partners	***Prop. 7.2a***: *The process of partners' selection passed through three stages: search for partners, evaluation of partners and selection of partners to ensure that its selected partners are trustable and committed to the new venture.* ***Prop. 7.2b***: *The process of partners' search was organized and facilitated by the Egyptian authorities who prepared a list of potential Egyptian investors and foreign investors and worked as a mid point between the two parties.* ***Prop. 7.2c***: *Good reputation of Etisalat led to almost all Egyptian investors to approach the company to become a partner.* ***Prop. 7.2d***:*The policy of Etisalat for selecting foreign partners favours government companies over privately owned companies.* ***Prop. 7.2e***: *The major criteria used by Etisalat for partners evaluation and selection were: (1) complementarities of resources, (2) partner's readiness to start the project and (3) partner's influence on the Egyptian authorities.*
<u>Phase 3:</u> Choice of the form of Etisalat Egypt strategic alliance structure	***Prop. 7.3a***: *The equity joint venture form of structure was selected because of two reasons: (1) this form conforms to host government regulations; and (2) it ties partners to the project and reduces the cost and economic risk of entering this alliance because it requires all partners to share cost and commit long-term resources.* ***Prop. 73b***: *The majority shareholding of Etisalat reflects its financial contribution and its key technical role as the provider of the telecommunication know-how.*
<u>Phase 4:</u> Etisalat Egypt strategic alliance management	***Prop. 7.4a***: *Etisalat Egypt developed a rigorous plan to ensure launching service of the new mobile phone according to deadline set by the government authorities.*

	Prop. 7.4b: *Exchange of knowledge and information between partners was very crucial especially at the first stages of the project implementation.* ***Prop. 7.4c***: *While technical positions are filled by Etisalat's staff brought from the incumbent company in the UAE and the other subsidiaries in the region, middle and lower level administrative positions are filled by local staff from the Egyptian labor market.* ***Prop. 7.4d***: *Etisalat Egypt, in cooperation with Etisalat Academy (subsidiary of Etisalat), developed and delivered intensive training programs to all administrative and technical staff.* ***Prop. 7.4e***: *The spirit of trust, cooperation and commitment promoted by partners helped in the successful and quick implementation of the company's plan and achievement of operation's goals in a short period of time.*
<u>Phase 5:</u> Etisalat Egypt strategic alliance performance evaluation	***Prop. 7.5a***: *Partners agreed on common criteria to be used for performance evaluation. These criteria are derived from the alliance goals and they include: market share (measured by the number of subscribers), return on investments and profitability.* ***Prop. 7.5b***: *The alliance outstanding performance is attributed to the Etisalat's expertise in the telecommunication industry and international business investments and to the trust, commitment and cooperation promoted by partners.*
Partners' culture	***Prop. 7.6a***: *Cultural similarities between Etisalat and its partners facilitated the process of preliminary negotiations, alliance management and alliance performance evaluation.* ***Prop. 7.6b***: *Cultural similarities between partners have positive influence and no negative influence on the alliance performance.* ***Prop. 7.6c***: *Etisalat's experience in cross-border investments lessens the negative impact of minor differences in partners' culture.*
Trust between partners	***Prop. 7.7a***: *Trust among partners directly affected the decision of partner selection and the process of alliance management. With regard to alliance management, improving trust between partners led to more commitment and quick resource by partners; reducing the extent and cost of legal contracts; smooth exchange of knowledge and information and avoidance of routine and bureaucracy and enhancement of decision making process* ***Prop. 7.7b***: *The form of equity joint venture enhanced trust between the alliance partners.*