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INTERNATIONAL STRATEGIC ALLIANCES: A TALE OF TWO FIRMS

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ABSTRACT

Firms seeking to enter international markets have increasingly opted for cooperative relationships with business partners as a mode of easing and promoting market entry. This study examines the expansion of two small/medium-sized enterprises (SMEs), organizations with 30 to 500 employees, in the U.S. and in Mexico. The study compares and contrasts the nearly simultaneous expansion of a U.S.-based franchisor into Mexico and that of a Mexican firm into the U.S. In addition to its implications regarding strategic alliance as an international entry mode for SMEs, this study also contributes toward the quest for longitudinal theory building. Given that this was the first international expansion for both principal entities, a major outcome of the study is documentation of the importance of both partnership and planning for successful international activities.

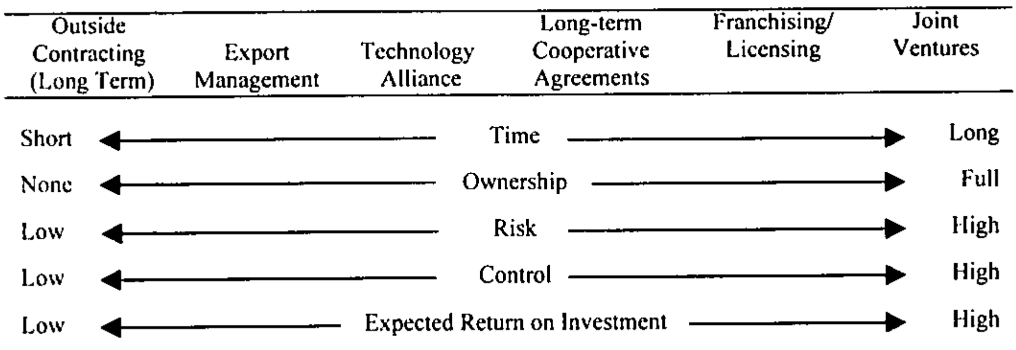
INTRODUCTION AND CONCEPTUAL FOUNDATIONS

Cooperative relationships between and among firms have grown into a mature and still-developing stream of research. These relationships have become the focus of even more attention as they are formed to facilitate expansion into and development of international markets, particularly when the firms are entrepreneurial in nature (e.g., Hoy & Hoy, 1994; McDougall & Oviatt, 1997). Increasingly, firms on an international scale are opting for cooperation and negotiation in pursuit of global expansion rather than relying on the traditional mode of competition with other entering firms (e.g., McDougall & Oviatt, 1997).

Strategic alliances generally refer to partnerships among firms in which cooperation occurs in the pursuit of a common strategic goal (Harrigan, 1988; Ulrich, Von Glinow, & Jick, 1993). Although clear goal delineation is an important element of successful inter-partner relationships, alliances may yield other far-reaching, long-term benefits such as learning the other partner's skills and alliance experience per se (Tsang, 1999). In fact, Johanson and Vahlne (1990) argue that knowledge developed through strategic alliances plays a major role in the internationalization process of firms. Preference for alliance-based growth in international markets is attested to by the dramatic increase in the formation of strategic alliances in the international community over the past two decades (Contractor & Lorange, 1988; Lynch, 1989; Lorange & Roos, 1992; Ohmae, 1995; Tsang, 1999). This growth in alliance activity has resulted in a transformation of international commerce, which researchers are only now beginning to grapple with (Tsang 1999; Cullen, Johnson, & Sakano, 2000).

The traditional competitive model of firms entering the international arena has led to a view of strategic alliances as a strategic option of "last resort," to be turned to only when the firm is beset by pressure from competitors, the need to avail itself of venture capital, or simply when it is no longer possible for it to cross international boundaries on its own (Hamel & Prahalad, 1989). As more companies come face-to-face with the intimidating factors that accompany the "global marketplace" (e.g., increased costs of research and development, technology costs, etc.), they are learning, in the words of Ohmae (1989), "what nations have always known: in a complex, uncertain world filled with dangerous opponents, it is best not to go it alone" (p. 143).

Figure 1
A Continuum of Strategic Alliances[a]



[a] Adapted from Weaver and Dickson 1995.

Strategic alliances can take on an array of forms, as illustrated in Figure 1 (adapted from Weaver & Dickson, 1995). The continuum in the figure highlights those strategic factors across which forms of strategic alliance activity may be differentiated, ranging from simple import/export relationships (in which the alliance is more likely to assume the nature of an "arm's length" transaction) to fully-developed joint ventures. The length of time required to achieve the strategic goal and the degree of both risk and return inherent in the alliance, for example, will be greater for a franchise agreement and joint venture than for a buyer-seller relationship or simple marketing agreement. In each instance of alliance activity, however, the general characteristic of cooperative behavior in pursuit of a common strategic goal is found.

As suggested in Figure 1, a strategic alliance *may* imply full commitment in terms of resources, financial and human, as well as effective management and operational control as exemplified by joint ventures. In the services industry, strategic alliances seem to be the most dominant modes of entry in the experimental and active involvement stages of the internationalization process (Cavusgil & Nevin, 1980; Root, 1987). Strategic alliances may also be designed to overcome resource constraints and at the same time allow the partners to retain some management control in the new venture. The form of inter-firm cooperation allows partners to benefit from market, business, and operational know-how exchanges (Tsang 1999).

Within the developing corpus of alliance literature, a secondary stream is emerging, with its focus on alliance activity among small to medium-sized enterprises ("SMEs"), or those with 30 to 500 employees (Larson, 1992; Weaver & Dickson, 1995; Weaver, Dickson, & Davies, 1995). Currently, the general state of research concerning inter-firm cooperative relationships exhibits either a bias in favor of larger firms, or fails to distinguish among firms regarding size and resource base (Weaver & Dickson, 1995). This tendency to focus on larger firms in alliances exists in spite of the rapid growth of alliances among SMEs, and evidence that SME-based strategic alliances are unique in a variety of ways (McGee, Dowling, & Megginson, 1995).

PURPOSE OF THE STUDY

In the international business community, various global and regional trade agreements (e.g., WTO, the European Union, the North American Free Trade Agreement - *NAFTA*, *Mercado Común del Sur* - *MERCOSUR*, etc.) have encouraged the expansion of international trade and have highlighted the need for more research into the role of and opportunities for small and entrepreneurial ventures. This study is a qualitative analysis comparing and contrasting the entry strategies adopted by the owner/founders of two SMEs, "Silver Streak Restaurant Corporation" and "Chihuahua Charlie's Restaurants" and their venture teams in pursuing international entrepreneurial expansion. These expansions were planned and executed across the United States-Mexico border during the initial implementation of the North American Free Trade Agreement.

The study examines how an American firm and a Mexican firm responded to differences in social, individual, and economic conditions in their efforts to penetrate a foreign market. In the case of Silver Streak, the firm entered the fast-food restaurant market in Mexico by venturing with a larger Mexican partner, an alliance that has eased international entry in a variety of ways. By contrast, Chihuahua Charlie's opted for the more traditional direct market entry mode, considering alliance with a partner perhaps too risky (in terms of relinquishment of control and/or know-how, two key dimensions of alliance activity - see Figure 1), or believing in the company's competitive strengths as justification for "going it alone" in a foreign market. The cases are contrasted to determine whether environmental conditions and venture activities can be identified to distinguish successful from unsuccessful cross-border ventures, and to examine the role played by strategic alliance activity. The two firms also allow an assessment of how venture teams manage the risks of newness, small size, and international activity.

NAFTA AND OTHER REFORMS IN FACILITATING ALLIANCES IN MEXICO

The climate for alliances in the business culture in Mexico and the desirability of entry into the Mexican market have been aided significantly by the liberalization of regulations for foreign investment in Mexico (Winsor, 1994). This liberalization, along with the reformation of the "Law to Promote Mexican Investment and Regulate Foreign Investment" in 1989, has stimulated business activity in that country by opening over two-thirds of Mexico's total gross domestic product to foreign participation and investment in business ventures (Winsor, 1994). These reforms have created significant opportunities for foreign firms desiring partnership with Mexican businesses. A great example of the positive outcome of these reforms is the tremendous growth witnessed in the Mexican franchise industry over the passed decade.

The franchising boom in Mexico begun in 1990 when the Mexican government realized the potential economic benefits of franchising and enacted a new Industrial Property Law. This particular law established the first legal definition of franchises in Mexico and eliminated some of the major franchising obstacles. Along with this, the development of trademark protection legislation helped franchising become one of the major growth sectors of the Mexican economy during the last few years. Although some of the big international franchises have appeared in Mexico since the 1960's, changes in the law have made it possible for small players in the Mexican franchise industry to enjoy the same protection as the large chains without having to invest the majority of their profits to hire expensive attorneys. In 1994, Mexico went even further in the establishment of franchising as a viable business enterprise by also establishing basic legal guidelines for the provision of information prior to the signing of franchise contracts. Undoubtedly, the signing of NAFTA further enhanced the image of the Mexican market in the eyes of potential franchisors and other investors, even though the agreement itself did not essentially alter the ample protection already offered by Mexican law.

Interest in Mexico as an investment market and growing business culture has been highlighted by the passage of NAFTA, facilitating trade between the U.S., Canada, and Mexico through the removal of tariff and most non-tariff barriers. With the goal of opening world markets to the free movement of products, the U.S. pursuit of free trade has led to an increased interest by American firms to partner with Mexican enterprises (O'Driscoll, Gruben, & Welch, 1993). Nations have come to a growing realization that economic self-sufficiency has become increasingly difficult, thereby making the importance of access to crucial markets that much more critical (O'Driscoll, Jr., et al., 1993). A common misconception about NAFTA is that the agreement opens up the U.S. market to cheap Mexican products and labor. In reality, however, U.S. firms enjoy competitive advantages in Mexican trade. This phenomenon is partly due to the high financing and communication costs for Mexican firms vis-à-vis their American counterparts. Coupled with the cost issue for Mexican companies, is a vastly inferior (compared to the U.S.) business infrastructure in Mexico (O'Driscoll, Jr., et al., 1993). A by-product of this situation is that Mexican firms are becoming ever more aware of the advantages of developed markets through partnerships with U.S. and other global firms, rather than going it alone.

The evolving pro-business environment in Mexico encourages an entrepreneurial orientation, particularly among SMEs, which have the most to gain from alliances with other firms (e.g., the case of Silver Streak). A commonly recurring theme among U.S.-Mexico alliances has been the need of U.S. firms to adapt to Mexican trading methods and business cultures (Alston, 1994; Jones & Anderton, 1995).

METHOD

This study takes its cue from prior studies such as Hills and LaForge (1992) who have stated the need for more longitudinal studies that trace firms through all stages of development and market evolution. Such studies are essential for adequate theory-building and the subsequent testing of such theories. Hills and LaForge (1992) also call for "significant efforts" directed at qualitative theory generation and caution against premature movement to the hypothesis-generation stage. This study traces the entrepreneurial venturing of two contemporary firms, and attempts to fit the firms' actions against established market entry characteristics. The "compare and contrast" methodology adopted here pits the firms' individual actions against established paradigms. This allows for a detailed examination of the applicability (and validity) of the paradigms themselves, while suggesting modifications that may be necessary for the paradigms to extend their generalizability and applicability across international domains.

Yin (1989) further notes that evidence for case studies can originate from six different sources: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts. Evidence to support the Silver Streak case study came from three of these sources: documents (articles, published materials concerning franchising and the restaurant industry), interviews (with the owners and managers of the chain), and direct observation of the restaurant, its environments, operations, and management. Chihuahua Charlie's involved interviews with the principals and direct observation of the restaurant's operations in Dallas, Texas, USA, and Ciudad Juarez, Chihuahua, Mexico.

FIRM PROFILES

Silver Streak Corporation

The first Silver Streak restaurant opened its doors in 1988 in the southwestern U.S. city of El Paso, Texas. El Paso, a city of approximately 650,000 people, is located on the U.S. side of the Texas border with Mexico. Alan Simpson and Jerry Malachkowski, with several years of management experience at McDonald's and Burger King restaurants, decided to open Silver Streak. They intended to take advantage of the many opportunities offered by "drive-through only" fast-food restaurants. These include substantially reduced costs and simple operational procedures. Having successfully established three restaurants in El Paso, Silver Streak was approached in 1994 by a large Mexican corporation for its franchise rights in Mexico. After carefully reviewing their operations and with the help of franchising attorneys, the Silver Streak owners drew up a master franchise agreement that would serve as the blueprint for future franchise operations. They also signed a country development agreement with the Mexican corporation. Currently, Silver Streak operates four restaurants in El Paso and two in the city of Juarez, located just across the border from El Paso in the northern Mexico state of Chihuahua. There are plans for two additional restaurants in Juarez, with further expansion into other Mexican cities over the next few years, depending on the success of the first three restaurants in Juarez. At the same time, Silver Streak has adapted its concept to convenience store operations. The new, smaller version of Silver Streak, coined "Silver Streak Express," is currently in two convenience stores in El Paso. An agreement is pending for four more outlets with a similar chain.

Chihuahua Charlie's

Opening its first restaurant in Mexico in 1983, the Chihuahua Charlie's chain has always distinguished itself by offering family-style Mexican cuisine, as well as unique service and entertainment value to its customers. Chihuahua Charlie's draws its inspiration from the rich culinary culture of southern-Mexico and traditional Mexican home-cooking recipes. The restaurant serves beef, fish, poultry, homemade cheese breads, and baked-on-site tortillas. The owner, Jose Luis Gutierrez, often points out that "it does not have to be *hot* to be Mexican." Taste is the credo of the chain and is institutionalized as part of the company's logo - "Taste the Fun."

Adaptation and openness have played major roles in the chain's growth. Gutierrez is convinced that to succeed in a new market, it is necessary to adapt to the specific cultural and economic characteristics of the locale. This has been one of the chain's mainstays throughout its growth. For example, early in the planning process for a restaurant in Monterrey, Mexico, Gutierrez felt that it would be inappropriate to have the word "Chihuahua" in the name for a new restaurant located in Monterrey. Hence, Gutierrez coined the name "Señor Frog's" for the restaurant in that city. Another strategy employed successfully by Gutierrez was to invite local entrepreneurs as partners of a new restaurant. This practice has two immediate advantages. First, it is a convenient source of funds needed to finance the new project. Second, it provides the business a partner with local know-how and savvy. As a result of this practice, every restaurant in the chain operates as an independent entity under the general supervision of Gutierrez.

MODE OF ENTRY CHOICE

Chihuahua Charlie's growth in the domestic Mexican market has been bolstered by strong familial and kinship networks (cf. Broehl, 1982), as well as a strong sense of identity with the Mexican business culture - translated into the integration of business values and ethics traditional to that culture. By contrast, Silver Streak's choice of a partnering strategy was likely influenced by the increased pro-business environment in Mexico. Franchising and other forms of strategic alliances have become increasingly popular ways for Mexican firms to compete against U.S. and other global firms (Norris 1993), reflected in the decision of Silver Streak's Mexican partner to enter into the alliance.

Chihuahua Charlie's decision not to partner with a U.S. firm in entering the American market appears contrary to the advantages in strategic partnering encouraged by the passage of NAFTA and similar legislation protecting trade. Chihuahua Charlie's domestic success in Mexico has occurred in spite of the many competitive disadvantages faced by local Mexican firms in that market, including financing and communication costs that are significantly higher than in the U.S., along with the comparatively under-developed business infrastructure in Mexico (O'Driscoll, Jr., et al., 1993).

Silver Streak, by contrast, has recognized the difficulties facing small businesses in Mexico - particularly higher costs and being able to successfully deal with a less-developed infrastructure. The firm's solution was to exploit the learning curve advantages of the larger Mexican firm with respect to the Mexican business culture, capitalizing on this partnership to take advantage of the increasing pro-business climate in Mexico (fueled by NAFTA and deregulation reforms) and to let the Mexican firm deal with the high cost of doing business in Mexico. In return, Silver Streak agreed to relinquish some control over their franchise format, by allowing the firm to use the "Silver Streak Concept." The "control" versus "cost and risk" issue was obviously resolved differently in the case of Chihuahua Charlie's. Gutierrez decided to *maintain* control of the firm, its business format and concept, encouraged by his earlier successes in a higher-cost/less-developed business environment. Table 1 compares and contrasts Silver Streak and Chihuahua Charlie's on several salient dimensions.

OPPORTUNITY IDENTIFICATION AND SENSITIVITY TO THE MARKET

Silver Streak Corporation

From his initiation of the Silver Streak Concept in 1988, Alan Simpson has reacted to his target market in a proactive manner. Both Simpson and Malachkowski, the two principal protagonists of the Silver Streak story, have relied on their considerable experience in restaurant management to put in place those design and strategic characteristics, which their collective experience suggests are critical for leadership in their sector of the industry. Although attracted early by the notion of franchising, neither party considered the company to be ready for such a venture, owing to a lack of preparation and necessary support.

Table 1
A Comparison Of the two Firms on Salient Dimensions

Dimension	Silver Streak Restaurant Corp.	Chihuahua Charlie's Restaurants
Size	6 outlets (U.S.); 2 outlets (Mexico)	6 outlets (Mexico)
Menu	Flame-broiled hamburgers	Authentic Mexican cuisine
Service Format	Fast-food; convenience	Full-service; fine dining
Primary Market	El Paso-Juarez border zone	Northern Mexico
Expansion Direction	U.S. to Mexico	Mexico to U.S.
Status of Expansion to Date	Successful	Unsuccessful
Mode of Market Entry	Franchise (development) agreement with host country firm	Direct market entry; no strategic alliance
Market Growth Concept	The Silver Streak concept: Quality burgers, low price, cost control, convenience, drive-through or walk up windows	Family-style cuisine: unique service and entertainment value, authentic Mexican dining experience
Control Philosophy	Relinquish some control of concept to developer/sub-franchisor to gain advantage in market development	Maintain total control of concept; develop and grow own market
Mode of Market Adaptation	Market creation	Market filling

However, when a large Mexican corporation approached Silver Streak in 1994 for its franchise rights into Mexico, Simpson and Malachkowski decided that the opportune moment for international franchising had come. The franchise master plan provided an avenue for a country development agreement signed with the larger Mexican corporation shortly thereafter. In this manner, the firm entered the new market, while the larger partner underwrote operations and "cleared the path" by dealing with the business and political/legal culture of Mexico (e.g., how to approach and deal with franchisees, Mexican leasing laws, etc.). An immediate result of the modification of Simpson and Malachkowski's original concept was "Silver Streak Express," a newer and smaller version of the original restaurant. The "Express" currently exists in two U.S. convenience stores, with a tentative agreement for additional restaurants in both the U.S. and Mexico.

Consistent with Broehl's (1982) argument, Silver Streak's entry into the Mexican market has been fostered by the willingness of the larger Mexican partner to take on the attendant financial risk of such a move. The partner's cultural affinity (both with the business and national culture of Mexico) and larger capital base have freed Silver Streak as an "agent of change," to deal directly with the risks of entrepreneurship itself. Chief among these risks, from which Silver Streak has been freed, is that of introducing an untried, unique, and unproven concept into a new (international) market. Silver Streak's strategic move thus counters Hisrich and Peters' (1995) arguments that entrepreneurship *necessarily* entails financial risk, lending credence to Broehl's (1982) and Stevenson, Roberts, and Grousbech's (1989) propositions that entrepreneurship is not necessarily characterized by the assumption of financial risk, but by the entrepreneur's serving as an *agent of change.*

Chihuahua Charlie's Restaurants

The Bank of Mexico reported in July 1996 that the domestic economy had started to grow again in the second quarter of 1996; inflation was decreasing; and the peso/dollar exchange-rate seemed to have finally stabilized. Gutierrez believed that the time had come to cross the U.S. border.

A market study further convinced Gutierrez that it was time to leave the domestic market and cross the border to the north. Mexico had a population of 93 million and an annual GDP per capita of around $3,000. The U.S., conversely, presented a far greater market opportunity - with a population of 263 million and an annual GDP per capita of $23,000. As far as Gutierrez and his associate Oscar Guevara were concerned, their expansion into the U.S. was a foregone conclusion.

In early August 1996, a U.S. Federal Trade Commission team came to the El Paso/Juarez area to perform a review of NAFTA on the border. On the agenda was dinner at Chihuahua Charlie's in Juarez, Mexico, where Gutierrez gave a presentation on the impact of NAFTA on the region. During his talk, he mentioned the desire of many Mexican entrepreneurs (including himself) to enter the U.S. market, and also referred to the many difficulties that such a venture would face. At the conclusion of the meeting, the then director of the Texas Department of Commerce suggested that Gutierrez go to Dallas to explore the possibilities of opening a restaurant there. The director indicated that Mexican entrepreneurs could take advantage of flexible investment regulations established under the auspices of NAFTA in the U.S. Two days later, Gutierrez and two of his advisors flew to Dallas to gather as much information as they could on the feasibility of establishing a restaurant there.

Chihuahua Charlie's entry into the U.S. market stands in stark contrast to that of Silver Streak. Chihuahua Charlie's entered the market essentially alone, without the help of an American partner. Gutierrez elected to enter headlong into the venture, believing in the firm's distinctive competencies (family-style Mexican cuisine and unique service and entertainment value) as evidenced by its successes in Mexico. American restaurant statistics, however, indicate that the chances of survival for restaurants after one year are about one in nine. This fact apparently did not daunt Gutierrez. Chihuahua Charlie's had also experienced a small successful international venture with the El Paso Trolley Company, financed 50-50 with U.S. and Mexican capital. Possibly driven by this initial success, Gutierrez believed that he could make the changes necessary to adopt the Chihuahua Charlie's Concept to the expectations of the American restaurant environment. Consequently, unlike Silver Streak, he did not feel that he needed the support of partnership with an American firm to compete and gain share in the Dallas (U.S.) market.

LESSONS FROM SUCCESSFUL AND UNSUCCESSFUL ENTRIES

The Critical Importance of a Local Partner

As discussed earlier, Silver Streak's decision to enter the Mexican market via franchising was predicated on its partnering with a larger firm that could, in essence, deliver two critical competencies. These were (1) the necessary financial capital to assume the financial risks of market entry, and (2) experience with the Mexican business culture. The latter included seemingly mundane, yet crucial issues such as who to "talk to" in order to expedite the construction phase of the new restaurants in Mexico, and other political and legal issues unique to Mexican business. Although Silver Streak could build its own "drive-through" restaurants (typically consisting of kitchen, equipment, and land) for approximately $350,000, whereas competitors such as McDonald's would typically spend close to three times that amount, the Mexican partner's ability to provide financial support is of particular value to a small business firm such as Silver Streak. The financial support provided by the Mexican partner allows Silver Streak to retain corporate earnings in a way that may not be possible for larger corporate franchisees (e.g., McDonald's), in which a sizable percentage of sales is paid by the franchisee in the form of royalties, rent, advertising, and the like. In addition to its financial leverage and organizational structure, the larger Mexican firm also has considerable experience in doing business in Mexico. The firm has a history of success in retailing ventures such as restaurants and drive-through dry-cleaning establishments throughout Mexico, and can thus also serve as a potential information broker to Silver Streak.

When the 1994 devaluation of the Mexican Peso hit, shortly after Silver Streak and their Mexican partner had signed the country development agreement, there was a forced delay in the implementation of the franchise plans until the economy stabilized. Nevertheless, the initial two restaurants in Juarez, Mexico, have been in operation for more than two years, with the expectation that two more restaurants are to open (as per the country development agreement) in the near future. The Mexican partner is well positioned to capitalize on advantages inherent in the Mexican business and legal environment, thus enhancing Silver Streak's chances of success by eliminating many of the major franchise obstacles. Still in the early stages of the implementation of their franchising strategy, the protagonists of Silver Streak have learned valuable lessons regarding the Mexican market, which they hope to translate into a long-term vision for continued success. For example, the firm has learned that despite its distinctive competitive advantage in the Mexican market - i.e., cost containment, product quality, and low prices, market differences still prevail. Succinctly put by Simpson, "one needs to know people to get things done there." The details of negotiation (e.g., for land) and the intricacies of construction and other policies in Mexico have taught Simpson and Malachkowski the importance of having a Mexican partner - particularly one with large financial leverage, an established organizational structure, and local contacts. That this partner could deal directly with business and operational issues - e.g., obtaining land and negotiating with Mexican contractors, as well as developing relationships with vendors - was further enhanced by its ability to procure and provide information, consistent with its role as an information broker (Liebenstein, 1973). In a developing country in which demographic information necessary for analyzing a trade area is not readily available, the presence of a Mexican partner who is able to determine desirable locations helps to compensate for the lack of objective data procurement methods prevalent in the U.S.

Both Simpson and Malachkowski have acknowledged that Silver Streak's continued growth is closely tied to franchising. While the company has been successful in procuring outside capital (thanks to its Mexican partner), other issues remain to be addressed. One concern is whether Silver Streak has enough human resources to reach rapid growth in the Mexican market or will it need to draw upon talent from outside the firm. As Silver Streak plans for future expansion, this issue becomes more critical.

Lack of Planning and Weak Execution of Direct Market Entry

Chihuahua Charlie's management viewed their northward expansion into the United States as a natural extension of their previous success with restaurants in Mexico. The Dallas expansion was to be a first step toward a nationwide chain of franchised outlets in the U.S.

Unlike Silver Streak, however, the management of Chihuahua Charlie's decided to implement the international expansion by retaining complete control over the new operation. The venture was financed by equity and managed as an extension of the existing and profitable Mexican operations. Unfortunately, this effort failed due to several factors, some of which are analyzed below.

First, Chihuahua Charlie's management had previously acknowledged the vital role that local partnerships had played in their success in the Mexican market. However, despite the past successes in teaming up with local partners for their Mexican expansion, the Dallas expansion used very limited local (U.S.) resources. Previously, the local partners in Mexico have brought both capital and knowledge to the ventures, and thereby had served as motivated information brokers to them. For the Dallas venture, however, Chihuahua Charlie's retained a local lawyer to aid in compliance with legal requirements and joined the Dallas Chamber of Commerce in order to establish contacts in the community. Unknown to Gutierrez, the local lawyer also owned some business interests in the Dallas area that put him in a position of conflict of interest with Chihuahua Charlie's. This unfortunate situation was further exacerbated by Gutierrez and his team's undue reliance on an accountant trained only in Mexican accounting standards and totally unfamiliar with U.S. conventions. Thus, the Dallas establishment was only partially provided the necessary information for the successful conduct of business. Further compounding the problem was a lack of continuous, motivated, and experienced on-site management, since the principals (Gutierrez and Guevara) commuted between the restaurants in Dallas and Juarez (approximately a two-hour air commute) on an irregular basis.

Second, and partially as a result of a lack of continuous local oversight, the timing of both strategic and operational business decisions was externally-driven, amounting to a perennial exercise in crisis management. For example, the initial opening of the Dallas operation was hurried due to the potential loss of the registered logo of the company. Ex-post, management conceded that had they had the time, they would have accomplished a more thorough site-selection process and would have probably located the restaurant in the Dallas suburbs rather than the highly competitive downtown area. Thus, once the Dallas management had fallen into a reactive mode, it was unable to ever become proactive.

In a further reflection of Chihuahua Charlie's limited U.S. management expertise, the Dallas menu had only been about 60 percent finalized before the operation was sold. Further, throughout the Dallas restaurant's ten-month long operation, management was unable to refer to either ad-hoc or regular financial statements for performance measurement and evaluation. The ten months of operation with high employee turnover, coupled with intermittent oversight by management, led to missed opportunities and inept problem resolution. These included: (1) inadequate representation by the local attorney when Chihuahua Charlie's was wrongly charged with a liquor license violation; (2) inadequate legal representation against repeated raids on the restaurant by agents of the U.S. Immigration and Naturalization Service; (3) failure to screen miscreants (supposedly dispatched by more established local competition) who harassed customers and destroyed the restaurant's ambiance; and (4) management's inability to develop and maintain internal controls over inventory and provisions within the restaurant.

Third, Chihuahua Charlie's did not make effective use of the restaurant space mostly due to lack of an effective advertising strategy. Although the restaurant was seated to capacity during peak hours, there were long periods of low occupancy that could have been addressed by target marketing and pricing changes during off-peak hours. Management had expected that the eating habits of U.S. customers would vary from their Mexican counterparts. However, they were unprepared for the magnitude of the necessary changes. Reliance on word-of-mouth advertising worsened the seating problem since, in essence, the referral customers were similar in profile to the existing customers and attempted to patronize the establishment during the same (capacity) hours. Management had planned to market the restaurant through local publications, but these plans were not realized in time to help the venture survive.

Although the venture failed, the principals behind Chihuahua Charlie's are convinced that the concept itself is valid. First, they note that the restaurant was purchased, albeit at a loss, as a going-concern by a local Dallas businessman. Second, the restaurant did generate substantial cash flow during the ten months of its operation. It is important to note here that there is no exact measure of such cash flows, or income, due to the lack of financial statements. As is often common among erstwhile managers of unsuccessful ventures, management of the now-defunct Chihuahua Charlie's has frequently opined that had they been able to sustain the operation for a few more months, they could have turned things around. Unlike many failed ventures, however, we believe that had there been sufficient accounting controls and dedicated local management in place from inception, provided by strategic alliance with an American partner, Chihuahua Charlie's of Dallas, Texas, would have remained operational and profitable under Gutierrez and his team.

DISCUSSION

Chihuahua Charlie's and Silver Streak provide valuable lessons regarding success and failure in cross-border venturing. In the case of Silver Streak, a small American fast-food restaurant was able to successfully enter the Mexican franchise market by partnering with a larger Mexican firm. The latter could effectively compensate for Silver Streak's potential weaknesses in the venture. This allowed Silver Streak to capitalize on its chief strength and distinctive competency - the Silver Streak Concept. The strategic foresight of the owners made them realize that their lack of financial leverage, organizational structure, experience with both the Mexican retail and franchise markets, and unfamiliarity with Mexican business culture (and a lack of knowledge of the political-legal environment in Mexico) had the potential to put the franchising venture in peril. The price for gaining these necessary insights was the forfeiture of some control over the concept. While this decision was probably not a very easy one, the owners recognized that they could not succeed in Mexico by "going it alone."

Conversely, Chihuahua Charlie's illustrates the dangers of falling headlong into a cross-border venture. Gutierrez and Guevara were armed with the belief that their earlier successes in Mexico and the firm's distinctive competence in their own country were enough to insure success in a leading market such as the United States. According to Johansson and Roehl (1994), leading markets are strong at the high end of the product line and are also characterized by the intense nature of competition and the high sophistication of their customers. Nonetheless, the failure of Chihuahua Charlie's is attributable to a number of causes beyond those inherent to leading markets. Some of these are: management beliefs and attitudes concerning the host country's (U.S.) market and business culture, unwillingness to relinquish control over any part of the firm's distinctive concept - even in order to attract leverage and other assistance from a host country firm, and perhaps simply the belief that problems in the host country's market could be overcome without external resistance. One may even suggest that the potential success of such a venture blinded the players from a realistic view of the problems of operating in a wholly different business culture and relatively unpredictable market. Thus, it may be argued that Chihuahua Charlie's myopic strategic perspective led to a lack of acculturation, along with a number of business-related obstacles, leading to the venture's ultimate demise.

There are several important implications for SMEs interested in international expansion that derive from Silver Streak's and Chihuahua Charlie's vastly contradictory experiences. First, is the importance of alliance with a partner from the host culture, and the issue of partner selection. As previously discussed, Silver Streak's management did not feel that the firm was in a position to enter a cross-border franchise market on its own. Significant deficiencies that the firm faced, not only the lack of financial leverage and organizational structure, but also lack of knowledge of the Mexican business culture, inexperience with the Mexican market and the unique political-legal environment in Mexico, were overcome through partnership agreement with the larger host country firm. Silver Streak's partner was thus not only able to provide the organizational and underwriting support needed for the franchise venture, but also "greased the wheels" of market entry by negotiating with local developers and contractors, and by dealing with the host country's business cultural assumptions and expectations. On the contrary, Chihuahua Charlie's management appeared to be over-confident about the success of the company in the U.S. based on previous success in Mexico. What the principals of that company failed to realize is the fact that previous success in an entirely different market is no guarantee for success in a more sophisticated, vastly intricate business environment such as the one present in the U.S. In fact, the series of missteps exhibited by the Chihuahua Charlie's principals showed a lack of adequate preparation and commitment regarding their U.S. venture. Needless to say, a local partner may have provided Gutierrez and his team adequate support including proper representation (compared to the problematic arrangement with the local attorney), market research, and resources.

Another important implication is adaptability of the business concept to international markets. In Silver Streak's case, for example, the basic concept remained unchanged, with only operational modifications required to fit the expectations of the local market. These modifications included development of a Mexican breakfast menu (developed by the partnering firm), and additional attention to patio seating areas at the expense of the drive-through business. Even in the case of the drive-through business, which had to be scaled back to accommodate larger patio dining areas for local customers, Silver Streak has seen an increase in sales of 250 percent in the Mexican market, attesting to the viability of the "Silver Streak" concept. On the other hand, Chihuahua Charlie's was less forthcoming in second guessing the concept's apparent success in the Mexican market. Despite the fact that they had anticipated differences between the U.S. and Mexico, the lack of adequate preparation prior to market entry led to costly mistakes early on, which then exacerbated the issue of lack of commitment evinced through the limited financial resources. Additionally, the Gutierrez team failed to perform one of the fundamental elements of direct market entry: careful analysis of market conditions and planning *prior* to expansion in the international marketplace.

A final implication for managers considering international expansion is respect for and workable knowledge of business cultural differences between the host country and country of origin. Both Silver Streak managers alluded to the importance of "knowing who to talk to" and "knowing the right people" as key components of doing business in Mexico. Also, the art of negotiation is significantly different in that country (e.g., swapping land to acquire a retail site), and demographic information for trade analysis, essentially taken for granted in the U.S., is extremely difficult to come by in Mexico. In each of these cases, the Mexican partner was able to facilitate development of the franchise market through its knowledge and experience with the local business culture. Silver Streak's management was astute enough to recognize this – a major reason for selection of the partner in the first place, because of their respect for the cultural differences they were facing.

Silver Streak and Chihuahua Charlie's allow future researchers to study the role played by meta innovation in international market entry. In both cases, the firms had to adapt to environments very different from the original. Movement across the innovation boundary

(Slevin 1971) entailed actions of "market filling" for Chihuahua Charlie's as it entered the developed-world of the U.S. franchise market. Silver Streak, conversely, embarked on new "market creation," entering the developing Mexican franchise market. Many unknowns still await Silver Streak. For instance, the acceptance of the "Silver Streak Concept" by markets in the interior of Mexico is by no means certain.

As is the case with the majority of both qualitative and quantitative studies, the findings of this study must be viewed from a proper perspective. The current study does not delve into a systematic examination of the underlying causes of the success and failure factors surrounding either of the two firms' ventures outside their own markets. Therefore, the authors caution the generalizability of these findings to other firms or in other settings. Nonetheless, as Strauss and Corbin (1990) point out qualitative research is the first fundamental building block of sound theoretical paradigms. By investigating individual firms in a qualitative manner, researchers can begin the process of developing more sophisticated approaches to understand other firms and eventually develop grounded theory.

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