

**International Alliances
Involving New Zealand Companies**

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**A thesis submitted in fulfilment of the requirements for the degree of
Doctor of Philosophy,
University of Canterbury, Department of Management, 1998**

Acknowledgements

I never quite understood why authors of theses almost always had to thank so many individuals for their contributions to their efforts, but I do now! This thesis would never have seen the light of day had it not been for the help and encouragement of a number of people, and I am very grateful to so many:

- Ping, my partner and wife, for always being there for me
- Professor Bob Hamilton, my supervisor, for giving me the chance to undertake this project in the first place and for his valuable help and advice from start to finish
- Professor Larry Sundby, my mentor from St. Cloud State University, for believing in me
- All those who responded to the mail survey and in particular those alliance managers who agreed to be interviewed
- Fellow Ph.D. students, in particular Geoff Goodhew, Toby Harfield, Kathryn de Lima Turner, Bronwyn Boon, Tristram Scott and Mark Fox, for their friendship and help
- Staff in the Department of Management, in particular Professor John George, Dr Ian Brooks, Dr Nilakant, Dr Don McNickle and Dr Grant Read, for encouragement and help
- The Department of Management secretaries, Shelley Caines, Irene Joseph, Irene Edgar, Margaret Mahan and Joan Mawson for always being so helpful and friendly

- The Department of Management for accepting me into their program and for providing financial support
- The University of Canterbury for granting me a Ph.D. Scholarship
- Dr Mary Ellen Gorden for her help with the thesis in the early stages
- Judi Foster and Olly McCahon for always keeping my PC going
- Dr Steve Dakin and his wife, Bindy, our dear friends, for their encouragement and care along the way
- The New Zealand Institute of Economic Research for supplying the time series data on business confidence
- The New Zealand Trade Development Board for supplying the names of all Export Award winners
- Finally, my very special friend Nordic for always accepting me as I am, come rain or shine.

A portion of chapter 4 has been published in the *Journal of International Business & Entrepreneurship*, Vol. 5, No. 1, 1997, pp. 27-42. An article based on chapter 5 of the thesis has been accepted for publication in the December 1998 issue of the same journal. I thank the editors and referees of the journal for their support.

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Abstract

This thesis is concerned with international strategic alliances involving New Zealand companies. By Western standards, even the largest New Zealand company is relatively small. New Zealand is also of interest because of its Western culture and close trading relationships with Asia. The research investigates the affect on alliance performance of each of three influences: partner asymmetry; formation of shared objectives; and the role of contracts in alliance management. The methodology involved both a postal survey of 300 major businesses and multi-case study design covering a range of industries. Contrary to other studies, findings here indicate that firms can have positive experiences of partner asymmetries and seek partners on this basis. The process by which alliance objectives are set and the role of management contracts geared to these objectives are also shown to have an influence of alliance performance.

CHAPTER 1 INTRODUCTION

1.1 AIM OF THE THESIS

The aim of this research is to develop empirically-based conceptual frameworks on international strategic alliance management and performance. Even though an extensive strategic alliance literature exists, the review of the literature identifies research questions based on gaps in our understanding of the persistence of asymmetric alliances; and what factors influence their management and performance. These research questions are used to guide the overall research, and they are as follows:

Partner Asymmetries:

- 1) Why are so many international alliances between well-intentioned partners unsuccessful?

Strategic Alliance Objectives:

- 2) How do strategic alliance objectives affect alliance performance?

Strategic Alliance Contracts:

- 3) How do formal strategic alliance contracts affect alliance performance?

An extensive literature exists on both international and domestic strategic alliances, but most studies focus on larger companies from the triad of Europe, the

United States and Japan. This study deviates from this mainstream by focusing on international strategic alliances involving New Zealand companies. Even the largest companies in New Zealand are relatively small by international standards.

New Zealand, being a small economy, depends heavily on international business, mostly in the form of exporting (Akoorie and Enderwick 1992). At the same time, the substantial liberalisation of the New Zealand economy since 1984 has according to Akoorie and Enderwick (1992, p51) “accelerated the integration of New Zealand within the world economy.” More and more New Zealand firms have come to recognise that, as a result of the increased competition in the domestic market, they need to enter foreign markets. According to Ohmae (1993, p36) “globalization mandates alliances, makes them absolutely essential to strategy.”

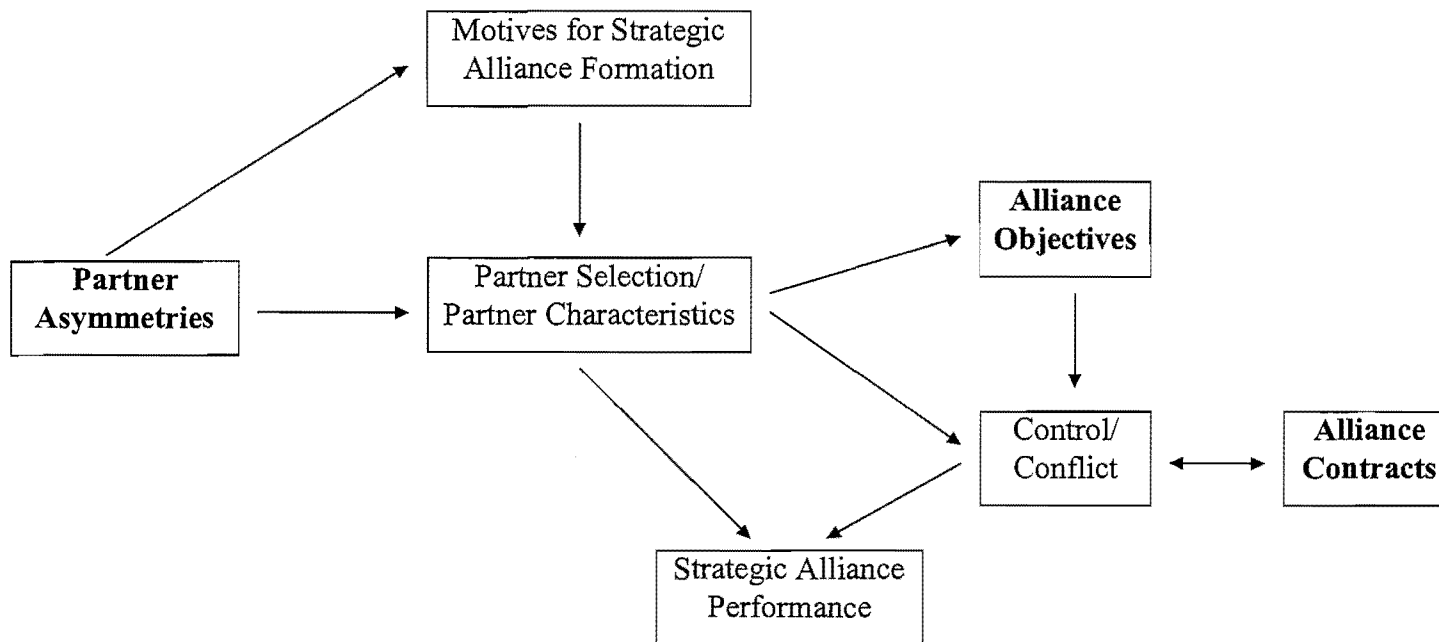
While this thesis focuses on international strategic alliances involving New Zealand companies, the research questions pursued are identified and justified from a review of the strategic alliance literature. The findings of this study are therefore relevant not only for New Zealand companies, but also for companies from other parts of the world.

This study should be viewed in light of the fact that a large number of companies report limited success with strategic alliances (Bleeke and Ernst, 1991, 1995). Bleeke and Ernst (1995, p97) claim that “the median life span for alliances is only about seven years, and nearly 80% of joint ventures - one of the most common alliance structures - ultimately end in a sale by one of the partners.” Along similar lines, Spekman et al. (1995) suggest that as many as 60% of all alliances fail. Even so, more and more companies are entering into various forms of strategic alliances such as joint ventures, co-marketing agreements, licensing agreements, research and

development agreements and consortiums both with international as well as with domestic partners. Strategic alliances are likely to be particularly important for companies from a small and isolated country like New Zealand where the domestic market is small and where major foreign markets are remote. Ohmae (1993, p36) suggests that “alliances are not tools of convenience. They are important, even critical, instruments of serving customers in a global environment.”

The figure overleaf shows how the three research questions identified earlier in this chapter fit in with the core theoretical dimensions of strategic alliance research.

Figure 1
Core Theoretical Dimensions of Strategic Alliance Research



Adapted from Parkhe (1993a, p230).

This study employs a mixed research methodology of a postal survey followed by case studies. The postal survey involved 300 New Zealand companies, and was followed by case studies of 14 firms selected from the respondents. The selection of the 14 case studies was based on extreme cases (Patton 1990, p169; Pettigrew 1988), and the case studies represent a variety of industries. By combining the more general data from a large number of firms with the more detailed data from a few firms, the researcher is able to draw a more extensive picture of the phenomena under investigation than if only one research methodology had been used.

1.2 DEFINITIONS OF INTERNATIONAL STRATEGIC ALLIANCES

The definition of the word international is straight forward. It is usually understood to mean “involving two or more nations”. The meaning of the Latin word “cooperare” is a goal-oriented joint activity of two or more persons (Gerybadze 1994, p15), but even so, there is no consensus in the literature on the definition of a strategic alliance (The Alliance Analyst 1996, Faulkner 1995, p7, Gordon 1995, Smith et al. 1995). Here are three examples:

...any governance structure involving an incomplete contract between separate firms and in which each partner has limited control. (Gomes-Casseres 1996, p34)

...we define a strategic alliance as possessing simultaneously the following three necessary and sufficient characteristics:

- The two or more firms that unite to pursue a set of agreed upon

goals remain independent subsequent to the formation of the alliance.

- The partner firms share the benefits of the alliance and control over the performance of assigned tasks.
- The partner firms contribute on a continuing basis in one or more key strategic areas, e.g. technology, products and so forth.

(Yoshino and Rangan 1995, p5)

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

(Spekman et al. 1995, p4)

It follows that because of the differences in the definition of strategic alliance, a given business relationship may be seen as a strategic alliance by some researchers, but not by others (Gordon 1995). It can be seen from the definitions given above that applying the definition provided by Yoshino and Rangan (1995, p5) will result in relatively few business relationships being classified as strategic alliances, while on the other hand, applying each of the other two definitions will result in a much larger number of business relationships being classified as strategic alliances.

Spekman et al. (1995, p4) suggest that despite the lack of an agreed upon strategic alliance definition in the literature, it is possible to identify some prominent themes among the various definitions used by authors. In particular, they identify three such themes:

- 1) The alliance has goals that are both compatible and directly related to the partners' strategic intent.
- 2) The alliance has the commitment of, and access to, the resources of its partners.
- 3) The alliance represents an opportunity for organizational learning.

These themes are reflected in their own definition given above.

So far we have been concerned with how academic researchers define international strategic alliances. However, in order for researchers and strategic alliance practitioners to communicate in a meaningful way, it is also necessary to ask how strategic alliance practitioners define the term. Gordon (1995) found that there seems to be little consensus among alliance practitioners as well. However, most of the practitioners she interviewed agreed that licensing agreements, co-marketing agreements, research and development agreements and joint ventures are all forms of strategic alliances.

For the purposes of this thesis, the definition of strategic alliances proposed by Spekman et al. (1995, p4), (“...a close, long-term, mutually beneficial agreement between two or more partners in which resources, knowledge and capabilities are shared with the objective of enhancing the competitive position of each partner”), will be adopted. Furthermore, the following cooperative business relationships will be considered as strategic alliances: licensing agreements, co-marketing agreements, research and development agreements, joint ventures and consortiums. Finally, the adjective international means that at least two of the alliance partners are of different

nationality.

1.3 RESEARCH OBJECTIVES

This section provides a brief introduction to the three main research areas focused on in this study. These are partner asymmetries, alliance objectives and alliance contracts.

1.3.1 PARTNER ASYMMETRIES

Faulkner (1995, p33) holds that “the choice of partner is clearly likely to be the main issue in the success of a joint enterprise,” and partner differences (asymmetries) are an integral part of this issue. Furthermore, Parkhe (1991) suggests that there are two types of interfirm diversity present among the partners in international strategic alliances, and he refers to these as type I and type II diversity. Type I diversity includes the interfirm differences that international strategic alliances are specifically formed to take advantage of. According to Parkhe (1991, p580), “these differences form the underlying strategic motivations for entering into alliances.” On the other hand, type II diversity refers to the differences in partner characteristics that may have a negative effect on strategic alliance performance. Parkhe (1991, p580) suggest that “type II differences, though inevitably present at the initiation of an alliance, may be overcome by iterative cycles of learning that strengthen the partnership.” This study addresses the research question of how partner asymmetries influence partner behaviour and strategic alliance outcome.

1.3.2 ALLIANCE OBJECTIVES

Several managers with extensive experience of international strategic alliances focus on alliance objectives during the alliance formation process. This is the view on alliance objectives of a New Zealand firm with considerable experience of international strategic alliances:

You have to agree where the joint venture is going. One of the things is really definition of individual and mutual objectives. It must be clear, don't hide the fact that you want to actually get a higher transfer price for your ingredients going in for example. You may have to offset some arrangements in markets against that, but you are better off with these things out in the open, rather than having hidden agendas. So that is pretty critical. Individuals' objectives are always different. You can't have a partner who says that it is my objective to increase the wealth of the New Zealand dairy farmer. It is our objective. Or the other way around, it is his objective to increase the wealth of his shareholders, it may be himself or his family or a whole group of public shareholders. It is our objective to increase the wealth of our shareholders. You need to do that right up front rather than say that we will fix it later on, none of these things are fixed later on, they fall over.

The management literature seems to agree with the alliance managers that it is important for the alliance partners to agree on alliance objectives, and some authors point out that to do so is not easy. However, none of the authors seem to offer any suggestions on how the challenge can be managed. This study explores the question of how strategic alliance objectives affect alliance performance.

1.3.3 ALLIANCE CONTRACTS

Some experienced alliance managers warned against attempting to run strategic alliances by contracts alone, and this is how one manager expressed his experience:

If it [a strategic alliance] needs a long contract, then I think you are on the wrong track. So my final principle there is that the agreements are almost worthless, they [strategic alliances] really only work when both parties have a mutual benefit and shake hands and the principals are actively supporting it.

The academic research literature has not involved itself with the topic of alliance contracts and their role in the strategic alliance formation process to any large extent. One could argue that this is somewhat surprising in light of the fact that many companies spend considerable resources on alliance contracts and agreements during the strategic alliance formation process.

1.3.4 ALLIANCE PERFORMANCE

The alliance literature report high failure rates of strategic alliances. For example, Bleeke and Ernst (1991) hold that cross-border alliances have roughly a 50% rate of success. However, Gomes-Casseres (1987) suggests that termination occurs with about the same frequency both for joint ventures and for wholly owned subsidiaries. The difference for joint ventures is the tendency for one partner to increase its position at the expense of the other. Furthermore, it is important to point out that not all terminated alliances suffer from poor performance. Some alliances are terminated because they have fulfilled their objectives or because they have come to the end of their useful life.

Anderson (1990, p29) claims that “many parent firms evaluate immature ventures too formally, with too much emphasis on financial criteria and not enough emphasis on input measures. The results are likely to be premature termination or a cutback in commitment before a venture has had time to realize its potential.”

The two terms “alliance outcome” and “alliance performance” are used

interchangeably in this thesis. Both terms are understood to have the same meaning.

1.4 THESIS STRUCTURE

This thesis includes seven chapters which fall into two distinct parts. The first part, involving chapters 2,3 and 4, is an aggregate quantitative study, while the second part, involving chapters 5 and 6, draws on the experiences of selected companies.

Chapter two reviews the international strategic alliance literature and demonstrates a necessity for research in the main topic areas. Chapter three develops an appropriate research method to handle the research questions developed in chapter two. The research method developed involves a mixed methodology consisting of survey research followed by case study research. Chapter four presents and discusses the results obtained from the analysis of the data acquired from the postal survey which is stage one of the mixed research methodology. Chapter five then goes on to present and discuss the results from stage two of the research design, the case studies. Chapter six compares the findings from the case studies developed in chapter five with the management literature on strategic alliances. The chapter aims to establish whether or not current alliance practices are in line with those prescribed in the management literature. Chapter seven is the final chapter of the thesis. It is divided into four main sections: a summary of overall findings, managerial implications, research limitations and suggestions for future research.

PART 1

CHAPTER 2

INTERNATIONAL ALLIANCES: A REVIEW OF THE LITERATURE

2.1 INTRODUCTION

International strategic alliances are being formed at an increasing rate worldwide (Bleeke and Ernst 1995). However, New Zealand companies involved in international strategic alliances have received relatively little attention from researchers. The few published studies which are available have tended to be either country or industry specific, or concerned with foreign market entry strategies. Cockroft (1990) found that international joint ventures (one form of an international strategic alliance) were being used successfully by New Zealand companies as a means of gaining entry to a foreign market. French (1993) established that New Zealand construction companies have been involved in international joint ventures for some 30 years. Initially these ventures enabled the New Zealand companies to gain knowledge from their foreign partners while jointly undertaking projects in New Zealand. The New Zealand companies then ventured overseas with their newly acquired knowledge and entered into joint ventures with domestic firms in foreign markets. Kai Ming Au and Enderwick (1994) studied New Zealand companies involved in joint ventures in China. They concluded that the New Zealand joint ventures had a high casualty rate. Two contributing factors were offered: 1) New Zealand companies have limited international investment experience, and 2) New Zealand companies are small (and so especially prone to problems due to partner asymmetry). Coviello and Munro (1995) studied international market development by

New Zealand software exporters and found various forms of international strategic alliances to be common modes of achieving foreign market entry.

This chapter reviews the following three major topic areas within the general context of international strategic alliances:

- (a) internationalizing the firm;
- (b) explanations of international strategic alliances; and
- (c) partner asymmetries

The literature review will summarise the relevant literatures and demonstrate a necessity for further research in the topic areas. Most strategic alliance research has primarily used large sample survey methods. There is therefore a need for case study research, ie. research designed to answer 'how' type questions. New Zealand is a small and isolated country and the domestic market is therefore small. At the same time, the physical distance to all foreign markets is considerable. As such, the formation of international strategic alliances as a mode of internationalizing New Zealand firms is seen as a timely and relevant research area. Another factor contributing to this is the liberalisation of trade implemented by New Zealand governments particularly since 1984. Furthermore, while the topic of partner asymmetries has received considerable empirical interest from international researchers, the research seems to be fragmented in that many different dimensions of partner asymmetries have been considered.

2.2 INTERNATIONAL STRATEGIC ALLIANCES AND THE INTERNATIONALIZATION OF THE FIRM

The purpose of this section is to locate the strategic alliance within the theories

of international business development. Internationalization is the process of increasing involvement in international operations across borders (Welch and Luostarinen 1988).

In terms of the relevance of internationalizing the firm as a research area, Lyles (1990) surveyed academic researchers in strategic management and found that multinational and global strategies was seen as the area having the most impact on strategic research in the next ten years. Furthermore, Dunning (1995, p481) suggests that “the growing significance of inter-firm partnering and of networking is demanding a reexamination of traditional approaches to our understanding of the extent and form of international business activity.”

McKiernan (1992, pp110-111) holds that the theories of internationalization can be divided into four general categories as set out in the table below:

Table 1
Theories of Internationalization

International Trade Theories	Trade and Investment Theory	International Investment Theories	Network Theory
<ul style="list-style-type: none"> • Mercantilism • Classical Theory <ul style="list-style-type: none"> • Absolute Costs • Comparative Costs • Hecksher-Olin Theory of Factor Endowments 	<ul style="list-style-type: none"> • Based on Product Life Cycle Model 	<ul style="list-style-type: none"> • Foreign Direct Investment Based on Market Imperfections: <ul style="list-style-type: none"> • Structural • Transaction Costs • Foreign Direct Investment Based on Product Life Cycle Model • Stage Models of Internationalization 	<ul style="list-style-type: none"> • The Firm is at the Centre of a Web of Business Relationships

Adapted from McKiernan (1992, pp110-111).

The international trade theories are concerned with the country as the unit of analysis

and this is also the case for trade and investment theory which is based on Vernon's (1966) product life cycle model. On the other hand, the international investment theories use the firm as the unit of analysis. However, the product life cycle model (Vernon 1966) can also according to McKiernan (1992, p110) be considered as an international investment theory. Along the same lines, Melin (1992) argues that the product life cycle model takes both the company level and the country level into account, although it has its main focus on the country level. Since this thesis is mainly concerned with the firm as unit of analysis, the focus of the remainder of this section will be on the international investment theories and the network theory.

Foreign Direct Investment Theory

Foreign direct investment is the movement between countries of the resources needed for production of goods and services (McKiernan 1992, p90). The resources in question are firm-specific assets such as capital, labour, managerial skills, and technological and production know-how. The focus of foreign direct investment theory is primarily to explain how organizations pursue investments in order to increase return, decrease costs and decrease risks.

One foreign direct investment theory is based on market imperfections. There are two forms of market imperfections: structural imperfections (Hymer 1976), and transaction costs (Williamson 1975). Another theory of foreign direct investment is based on Vernon's (1966) product life cycle model.

In terms of explaining international strategic alliances, foreign direct investment theory seems to suffer from an important limitation in that it does not explain the different forms of foreign direct investment like wholly owned subsidiaries

and joint venture (a type of strategic alliance) companies.

Stage Models of Internationalization

Stage models of internationalization have been referred to by researchers as internationalization process models (Melin 1992) and theory of internationalization (Fina and Rugman 1996). The stage model of internationalization briefly discussed here is the model developed by Johanson and Vahlne (1977, 1990) and referred to as the Uppsala Internationalization Model. In this model, the internationalization of the firm is seen as a process in which the firm gradually and in stages increases its international involvement. The firm goes through a number of logical stages of international behaviour based on its gradual acquisition, integration and use of knowledge about the foreign market and operations in that market. The firm will successively increase the commitment of resources to the foreign market.

As for foreign direct investment theory, the stage models of internationalization does not explain the different forms of foreign direct investment like wholly owned subsidiaries and joint venture (a type of strategic alliance) companies. The theory is therefore restricted in explaining international strategic alliances.

Network Theory

A relatively new perspective on the internationalization process of the firm is that of network theory. The theory is also referred to as industrial networks theory. According to Easton (1992) the general picture is of a firm at the centre of a web of business relationships which both constrain it and provide opportunities. These

business relationships are formed with stakeholders like for example customers, competitors, suppliers, distributors, agents and consultants as well as with regulatory and public agencies. Along the same lines, industries can be seen as networks of business relationships comprising a number of different business actors. It is also possible to distinguish the different industrial networks at the country level (Johanson and Vahlne 1990). Furthermore, the actors are tied to each other through a number of different types of bonds like for example technical, social, cognitive, administrative, legal and economic (Johanson and Vahlne 1990).

Håkansson (1992) holds that networks are always changing, never complete or in equilibrium. Along the same lines, Johanson and Vahlne (1992) state that networks are not transparent. It is therefore difficult for outside observers to fully understand what goes on within a specific network. However, all actors have a fairly clear view of their own relationships. Furthermore, Håkansson and Johanson (1988) suggest that networks are not designed by any single actor according to a master plan or strategic decision. Rather, networks emerge and develop as a consequence of interaction between semiautonomous interdependent actors.

Internationalisation of the firm, according to the industrial network approach, means that the firm establishes and develops network positions in foreign markets. Axelsson and Johanson (1992) hold that this can be done in three different ways:

- 1) Through establishment of positions in relation to counterparts in country-based networks that are new to the firm, for example by international extension of foreign market entry.
- 2) By further developing positions in those country-based networks in

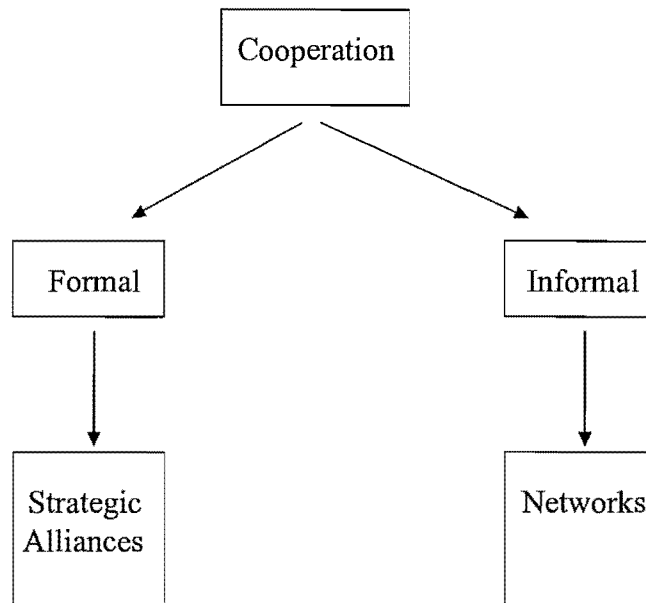
which the firm already has a position, i.e. penetration.

- 3) By increasing coordination between positions in different country-based networks, i.e. international integration.

It follows that the firm's progress towards internationalization is, to a large extent, dependent on its current network positions. Johanson and Vahlne (1990) suggest that the internationalizing firm is initially part of a network that is primarily domestic, and the firm seeks to internationalize its operations by developing business relationships in networks in other countries.

There is a strong link between network theory and international strategic alliances. According to network theory the firm can be seen at the centre of a web of business relationships (Easton 1992). Many of these relationships can be considered as cooperative in nature, for example in the form of exchanges of information. However, the cooperation is of an informal nature since the relationships tend not to be formalised in the form of legal contracts or explicit understandings. Instead, the actors are tied to each other through a number of different types of bonds like for example technical, social, cognitive, administrative, legal and economic (Johanson and Vahlne 1990). Furthermore, networks are always changing, never complete or in equilibrium (Håkansson 1992). On the other hand, strategic alliances can be considered as cooperative relationships which have been formalised in the form of legal contracts or explicit understandings. Both formal and informal cooperation is shown in the figure on the next page.

Figure 2
Cooperation Among Firms



Adapted from Easton et al. (1993, p218).

Håkansson and Johanson (1988, p377) state that there is a tendency among firms to use formal cooperation, in other words strategic alliances, instead of informal cooperation in international business because “there are fewer developed channels for informal market communication between countries than within countries”.

Furthermore, Håkansson and Johanson (1988) suggest that formal cooperation will be used in situations where the firm wants to clearly demonstrate its presence in the network of the firm’s foreign partner. The message can be directed at competitors (“this market is nothing for you”) or at a number of other stakeholders like customers, suppliers or authorities. On the other hand, informal cooperation can be used in situations where the firm wants to avoid visibility for example in order to avoid competitive moves by competitors.

2.3 THEORETICAL EXPLANATIONS OF STRATEGIC ALLIANCES

Several other theoretical frameworks can be used to explain the formation of strategic alliances, and it is unlikely that any single theory can fully explain the complexities of strategic alliances (Ahern 1991, p52, Glaister and Buckley 1996, Kogut 1988, Parkhe 1993b, and Smith et al. 1995). The three theoretical frameworks of strategic alliances that are most often referred to in the strategic alliance literature are listed in Table 2 below. These three theories as well as two other theories which have also been used to explain the formation of strategic alliances will be overviewed next.

Table 2
Theoretical Frameworks of Strategic Alliances

-
- Transaction Cost Theory
 - Resource Dependence Theory
 - Resource Based View of the Firm Theory
 - Other Theoretical Frameworks
-

2.3.1 TRANSACTION COST THEORY

Eisenhardt and Schoonhoven (1996) state that the principal theoretical approach used by researchers to understand strategic alliances is transaction cost theory. The transaction cost framework has to a large extent been developed by Williamson (1975, 1985). A major building block in Williamson's work is that of Coase (1937) who, in his effort to explain the existence of firms, suggests that the market and the firm are alternative forms of coordination of activities. Furthermore, the economic transaction itself, and not the firm, is seen as the fundamental unit of

analysis in the transaction cost literature. The central question is, according to Glaister (1996), whether any given transaction can be undertaken at a lower cost via a market or within a hierarchy (firm). If the costs of undertaking the transaction via the market are high, then the firm can gain economic benefits by internalising the transaction within its own organisation. Williamson (1975) states that there are a set of environmental factors as well as a set of human factors that may influence the firm to by-pass the market and instead undertake the transaction within its own organisation. Yet another critical dimension in transaction cost economics is that of asset specificity. To summarise transaction cost theory in a few words, according to Kogut (1988, p320), "simply stated, Williamson proposes that firms choose how to transact according to the criterion of minimizing the sum of production and transaction costs."

From a transaction cost perspective, strategic alliances are seen as governance structures that fall in between the market and the firm (hierarchy). A firm may enter into a strategic alliance in order to undertake a particular activity when that activity can not be efficiently carried out within the firm, and at the same time, a purchase in the market is too expensive or even impossible.

Eisenhardt and Schoonhoven (1996) are somewhat critical of transaction cost economics as an explanation for strategic alliance formation. They find the framework effective in explaining vertical integration among suppliers and buyers in mature industries, like for example automobile manufacturing, but the authors also claim that "the logic of transaction cost minimization does not capture many of the strategic advantages of alliances such as learning, creation of legitimacy, and fast market entry."

This view is to a large extent shared by Spekman and Sawhney (1990) as well as by

Zajac and Olsen (1993). Furthermore, Thorelli (1986) sees a weakness with transaction cost economics itself, rather than with the issue of the theory as an explanation for strategic alliance formation. Thorelli (1986, p44) suggests that transaction cost economics “may be overly polarized in that it deals somewhat skimpily with the rich institutional arrangements in the many types of markets encountered between the spot transaction and total internalisation.”

2.3.2 RESOURCE DEPENDENCE THEORY

The most important premise of resource dependence theory is that an organisation’s ability to survive is dependant upon its ability to acquire and maintain the resources it needs (Pfeffer and Salancik 1978). In that sense, organisations depend on their environments. Ahern (1991, pp57-58) suggests that the two focal issues in resource dependence theory are the way the environment constrains the firm, and the firm’s response to its environment. In a broad sense, according to Pfeffer and Salancik (1978), an organisation’s environment is the total of organisations and individuals that are related to it in any way. How well a firm responds to changes in its environment, like for example increased competition, will to a large extent determine whether or not the firm survives. It follows therefore that firms, in order to be effective, will try to reduce environmental uncertainty. Furthermore, Glaister and Buckley (1996, p307) suggest that “the central thrust of resource dependency explanations is to extend the firm’s domain of control - this can be proxied by vertical links and risk sharing.”

From a resource dependence perspective, the formation of a strategic alliance can be explained as an effort to reduce environmental uncertainty and to gain control over resources that are important to the organisation.

One weakness with resource dependence theory as an explanation for strategic alliances is that the theory does not seem to capture the motive of technology transfer.

2.3.3 RESOURCE BASED VIEW OF THE FIRM THEORY

The resource based view of the firm theory sees firms as bundles of resources (Wernerfelt 1984, Peteraf 1993), and these resources are varied in composition (Mahoney and Pandian 1992). Firms gain competitive advantage by managing their resources (Harrison et al. 1993, Peteraf 1993). The potential for resources to result in sustained competitive advantage is according to Barney (1991) a function of their value, rareness, inimitability and nonsubstitutability. These qualities of a firm's resources are briefly explained below.

Barney (1991) uses the word value to mean that a firm resource which is valuable exploits opportunities and/or neutralizes threats in a firm's environment. This view, according to Barney, is in line with the "strengths-weaknesses-opportunities-threats" model of firms performance. This model holds that firms are able to better their performance only when their strategies exploit opportunities or neutralize threats.

It follows that valuable firm resources held by many competing firms cannot be sources of competitive advantage. This is so because these firms will then have the ability to exploit that resource in the same way. A firm resource must therefore be rare among a firm's competitors in order to be a possible source of competitive advantage.

In addition to being valuable and rare, a firm resource must also be imperfectly imitable. In other words, a firm that do not possess the resource cannot obtain it.

Barney (1991) suggests that firm resources can be imperfectly imitable for one or a combination of 3 reasons. These are (a) the ability of a firm to obtain a resource is

dependent upon unique historical conditions, (b) the link between the resources possessed by a firm and a firm's sustained competitive advantage is causally ambiguous, or (c) the resource generating a firm's advantage is socially complex.

The fourth and final requirement for a firm resource to be a source of sustained competitive advantage is, according to Barney (1991, p.111), that "there must be no strategically equivalent valuable resources that are themselves either not rare or imitable." Barney suggests that two firm resources are strategically equal in value when each can be exploited separately to implement the same strategies.

The resource based view of the firm perspective is the most useful theory to use to explain the formation of strategic alliances because the logic behind strategic alliance formation is for the partners to take advantage of each others resources. The resource base is increased by the formation of strategic alliances. By taking advantage of each others resources, the total resource base available to each alliance partner becomes greater. It follows that with a greater resource base, the higher is the potential for one or more of these firm resources to become, or continue to be, a source of sustained competitive advantage. There are a number of ways this could take place. One situation is where a firm possessing a firm resource giving it sustained competitive advantage in its home market uses this firm resource to exploit opportunities in a foreign market by entering into an alliance with a foreign firm having superior knowledge of or exclusive access to this market. Since the foreign firm has superior knowledge of or exclusive access to (through local legislation for example) its home market, the other firm would not be able to access this market on its own.

There are support from a number of studies, like Faulkner (1995) and Gordon

and Berg (1996), for using the resource based view of the firm theory to explain the formation of strategic alliances.

This thesis is not only focusing on alliance formation. There is also an emphasis on the reasons for alliance failure and alliance termination. The resource based view of the firm theory does not help us to understand why strategic alliances fail or are short-lived. These matters are explored later in the thesis.

2.3.4 OTHER THEORETICAL FRAMEWORKS

The three theoretical frameworks of strategic alliances overviewed above are the three frameworks most often referred to in the strategic alliance literature. However, other theories have also been used to explain the formation of strategic alliances. Parkhe (1993b, p320) suggests that “the deductive power of game theory can potentially contribute extremely useful insights into enhancing the stability, longevity, and performance levels of strategic alliances.” Furthermore, Hamel (1991) and Kogut (1988) suggest that organisational learning is a suitable framework for explaining why firms enter into strategic alliances. In particular, Kogut (1988, p330) says that “organisational learning should apply reasonably well to explain [joint] ventures in industries undergoing rapid structural change, whether due to emergent technologies which affect industry boundaries or the entry of new (and perhaps foreign) firms.”

2.4 WHY FIRMS FORM INTERNATIONAL STRATEGIC ALLIANCES

The alliance literature has addressed the issue of why firms enter into international strategic alliances from two different angles. First, by looking at the

alliance partners' alliance motives (see for example Contractor and Lorange 1988), and second, by considering theoretical explanations of strategic alliances (see for example Eisenhardt and Schoonhoven 1996).

Glaister and Buckley (1996) suggest that alliance partners' alliance motives or objectives tend not to map neatly on to strategic alliance theory. The two authors (Glaister and Buckley 1996, p303) suggest that "the transition from overall theoretical perspective to the firm's strategic motives is not a straightforward one as the theoretical approaches do not map directly on to strategic motive." Furthermore, Glaister and Buckley (1996) maintain that researchers building theory are mainly concerned with issues other than the firm's motivation. It is therefore necessary to discuss both motives for strategic alliance formation and theoretical explanations of strategic alliances.

2.4.1 MOTIVES FOR STRATEGIC ALLIANCE FORMATION

There seems to be some consensus in the strategic alliance literature that one of the major drivers, on a macro level, of strategic alliance formations is the globalization of markets and technologies which is leading to intense global competition. This is taking place at a rapid rate in many areas of the world. See for example Gomes-Casseres (1996, p1), Faulkner (1995, p3), Yoshino and Rangan (1995, p51), Bleeke and Ernst (1991), Dunning (1993, p203), Gilroy (1993, p38), Jarillo (1993, p7), Ohmae (1993), Lorange and Roos (1992, p16), and Contractor and Lorange (1988).

Contractor and Lorange (1988) suggest that, on a micro level, there are several more or less overlapping objectives which strategic alliances can achieve. No

distinction is made by the researchers between domestic and international strategic alliances. The objectives are set out in Table 3 below.

Table 3
Benefits of Strategic Alliances

-
- Risk Reduction
 - Economies of Scale and Production Rationalization
 - Exchanges of Complementary Technologies and Patents
 - Co-opting or Blocking Competition
 - Overcoming Government-mandated Investment or Trade Barriers
 - Initial International Expansion
 - Vertical Quasi Integration
 - Restructuring
-

Adapted from Contractor and Lorange (1988, p10).

Risk Reduction

Contractor and Lorange (1988) hold that strategic alliances can reduce a partner's risk by (1) spreading the risk of a large project over more than one firm, (2) enabling diversification in a product portfolio sense, (3) enabling faster entry and payback, and (4) cost subadditivity.

New product development, particularly in high technology industries, is an example of an activity where firms form strategic alliances in order to spread the risk of the project over more than one firm (Deeds and Hill 1996, Kotabe and Swan 1995). For example, Boeing, by many considered to be the world's premier manufacturer of commercial jets, teamed up with three Japanese partners to develop the recent Boeing 777 commercial jet aircraft (Main 1990).

The formation of strategic alliances may enable diversification in a product portfolio sense. The firm reduces market risks associated with being reliant on only

one product or service. An example is oil and gas exploration consortia which are common in the oil and gas industry.

By forming a strategic alliance with one or more firms with strong local market presence, a firm may be able to enter a specific market and establish a presence in that market faster. By doing so, the firm may be able to achieve a shorter pay-back-period of the investment than if the firm decided to take on the total investment alone. In the example of the Boeing 777 mentioned earlier, Boeing's three Japanese partners will, beside manufacturing about 20 percent of the airframe, assist Boeing with the marketing of the 777 in Japan (Main 1990). Another potential benefit of having a local partner has to do with political risk (Contractor and Lorange 1988). If a local partner has sufficient political influence, he or she may be able to make sure that the local operation does not become the target for local government action or interference. This may be of particular importance in some developing countries.

The total cost of a particular project undertaken by a strategic alliance may be less to the strategic alliance as a whole than it would be if each partner firm should undertake the project alone. This is referred to as the cost subadditivity factor. A strategic alliance may be in a position to lower the total investment cost of a particular project by combining the partners' expertise or take advantage of slack facilities in the parent firms (Glaister and Buckley 1996).

Some researchers do not see risk reduction as an important motivating factor for strategic alliance formation. Glaister and Buckley (1996) studied the motives for international strategic alliance formation by United Kingdom firms, and concluded that risk reduction associated with new projects did not appear to be important motivating factors for international strategic alliance formation. Gerybadze (1994,

p31) holds that risk itself consists of two components: (1) the probability of failure (original risk), and (2) the size of potential losses incurred in case of failure (consequences). Furthermore, an alliance can not reduce the original risk. "Quite contrary, it often works in the opposite direction: through pooling activities, independent partners often create additional coordination problems which affect the probability of failure in a detrimental way" says Gerybadze (1994, p31). On the other hand, collaboration is helpful in affecting the second component of risk, consequences (Gerybadze 1994, p31).

Ring and Van De Ven (1992), in their conceptual paper, discuss what effect the level of risk in a deal and reliance on trust between organisations which cooperate have on governance structure. Varying combinations of risk and reliance on trust will direct the organisations to choose from four different forms of governance structures. These are markets, hierarchies, recurrent contracts and relational contracts. Levels of risk in deals and reliance on trust between firms tend to change over time. As this happens, the firms will change their selection of governance structure.

Economies of Scale and Production Rationalization

Strategic alliances allow firms in the same industry to rationalize production and thereby reduce costs through economies of scale and learning by doing (Glaister and Buckley 1996). Also, the partners in a strategic alliance can benefit from the comparative advantage of each partner. For example, if each partner is producing product components, production can be transferred to the location with the greatest comparative advantage, and thereby lower the cost. The higher component volume produced in the location with the highest comparative advantage may lead to a further

decrease in average unit costs due to economies of large-scale production. These types of cooperative arrangements are common in the automobile assembly and automobile component industries (Contractor and Lorange 1988). However, Glaister and Buckley (1996), in their study of the motives for international strategic alliance formation by United Kingdom firms, stated that economies of scale and production rationalization did not appear to be important motivating factors for international strategic alliance formation.

Exchanges of Complementary Technologies and Patents

Strategic alliances may be formed in order for the partners to pool their complementary technologies. Harrigan (1985, p28) holds that the partners forming a strategic alliance may be able to obtain strategic benefits from the exploitation of synergies, technology or other skills transfers. An example of a strategic alliance where the partners have pooled their complementary technologies is the joint venture formed by General Electric's jet engine subsidiary and Snecma, a French manufacturer of military jet engines (Lewis 1990, pp2-3). The joint venture, which is owned equally by the two partners, is called CFM International, and it makes engines for large commercial jets like those made by Boeing and Airbus. Furthermore, some strategic alliances involve one partner with strong technical skills joining forces with a partner with strong manufacturing or global marketing skills (Glaister and Buckley 1996). The company with the strong technical skills is, in many cases, a smaller firm unable to fully exploit their technology on their own due to insufficient manufacturing or marketing skills. It is common for smaller firms in the biotechnology industry to form strategic alliances with larger counterparts for this reason (Forrest 1990).

Co-opting or Blocking Competition

The formation of a strategic alliance can be used by a company either as a defensive or offensive strategy (Glaister and Buckley 1996). The defensive strategy involves an effort to reduce competition by, for example, co-opting potential or existing competitors into a strategic alliance. However, Gomes-Casseres (1996, p201) states that strategic alliances are not well suited to reduce competition since they are too fragile and tend to quickly fall apart due to internal conflict. As an alternative, Gomes-Casseres (1996, p201) proposes mergers. Furthermore, as an offensive strategy, a strategic alliance can be used by two or more partners in an effort to put pressure on the profits and market share of a common competitor. According to Contractor and Lorange (1988), this is exactly what Caterpillar and Mitsubishi did in Japan. Both wanted to put pressure on the profits and market share of their common competitor Komatsu, in Komatsu's important home market, Japan. By doing so, Caterpillar was hoping to reduce the competitiveness of Komatsu outside of Japan.

Overcoming Government-mandated Investment or Trade Barriers

Beamish (1988, pp11-12) claims that one of the oldest and still most common motives for strategic alliance formations is accommodating host government policy. Many governments, particularly those in developing countries, will only give a foreign company access to their local market if the foreign company enters into a strategic alliance (often a joint venture) with a local partner. One example is China, where some industries, including retailing, is blocked for foreign companies without a local partner (The Economist 1997b). However, government protectionist policies are not only practised by governments in developing countries. According to The Economist

(1997a) the main motive behind the 400 or so strategic alliances currently in operation (most of these are co-marketing agreements) among the world's airlines is local government imposed laws preventing takeovers of airline companies. The Economist states that without these laws, these strategic alliances would not exist.

Initial International Expansion

This motive has to some extent been discussed earlier in this chapter.

Hill et al. (1990) suggest that there are three distinct modes of foreign market entry which dominate the international business literature. These three modes are licensing or franchising, joint ventures and wholly owned subsidiaries. As discussed earlier in this chapter, for the purposes of this thesis, both licensing agreements and joint ventures are considered to be forms of strategic alliances. Contractor and Lorange (1988) argue that international expansion is an expensive, difficult and time-consuming activity, and that in this respect strategic alliances offer considerable time savings. In other words, in situations where speed of foreign market entry considerations are of importance, the formation of an international strategic alliance compared to establishing a wholly owned subsidiary may offer time savings.

However, not all researchers share this view. For example, Vanhonacker (1997) claims that it is faster for a foreign company to establish a wholly owned subsidiary in China than it is to enter into a joint venture with a local Chinese company. According to Vanhonacker (1997, p136) "...joint ventures can take years of negotiations to get up and running." Furthermore, Glaister and Buckley (1996) suggest that, while Contractor and Lorange (1988) propose strategic alliance formation as an entry mode for firms undertaking international expansion for the first time, the same argument

also seems to apply for firms with overseas experience since speed of foreign market entry considerations also may be of importance to these firms.

Vertical Quasi Integration

With vertical integration is understood that a firm owns or controls more than one stage of the production and distribution chain. It follows that strategic alliances can constitute a form of vertical quasi integration in situations where the alliance partners each contribute one or more different elements in the production and distribution chain (Contractor and Lorange 1988). By doing so, the strategic alliance partners may be able to benefit from some of the advantages of vertical integration, and, at the same time, avoid some of the disadvantages because each partner contributes to the alliance its distinctive competencies. There is a considerable literature on vertical integration, and a review of this literature falls outside of the scope of this thesis. However, some of the major advantages and disadvantages will be mentioned briefly. In terms of advantages, Contractor and Lorange (1988) propose five major advantages, and these are: (1) avoidance of interfirm contracting, transactions, and negotiations costs, (2) cost reductions by way of economies of scale, (3) internalizing technological or administrative abilities and secrets within a single firm, (4) better understanding of the industry as a whole, and (5) technological flexibility. On the other hand, some of the major disadvantages to vertical integration are: (1) potentially high capital investment costs for one company to bear, (2) an increase of fixed costs leading to higher break-even point, (3) lack of marketing or technical know how from outsiders, and (4) reduced flexibility to technological and environmental change.

Restructuring

Nanda and Williamson (1995) propose yet another benefit of strategic alliances. In particular, the authors are concerned with joint ventures, and they suggest that a joint venture can be used as a vehicle for selling basically sound but underperforming businesses that do not fit with a firm's core business. They refer to these joint ventures as restructuring joint ventures. One important issue facing the seller of an underperforming business is how to convey the worth of the business to potential buyers in light of its recent underperformance, and this issue makes an outright sale less attractive to the seller. A restructuring joint venture is actually a phased sale and is meant to be transitory. The main objective of the joint venture is to restructure the business. Furthermore, the potential buyer will, after the joint venture has been entered into, have the right to buy out the seller at a price contingent on the joint venture's performance. It follows that the buyer does not have to pay a high price for the joint venture if it continues to perform poorly even after restructuring. Hence, the main advantage to the seller is that they obtain a higher price than at an outright sale, given that the joint venture partners have been able to successfully restructure the business. Moreover, the main advantage to the buyer is that they may avoid paying an excessive price for the business. Another advantage for the buyer is that the joint venture allows them to learn from their joint venture partner and thereby gain an understanding of the business prior to running it by themselves. However, Blecke & Ernst (1995) argue that there may potentially be some important disadvantages for the seller as well. They hold that it may be difficult to sell the business to other parties than the joint venture partner since other potential buyers are likely to be deterred by the difficulty of unwinding the alliance, so the seller is usually unable to orchestrate a

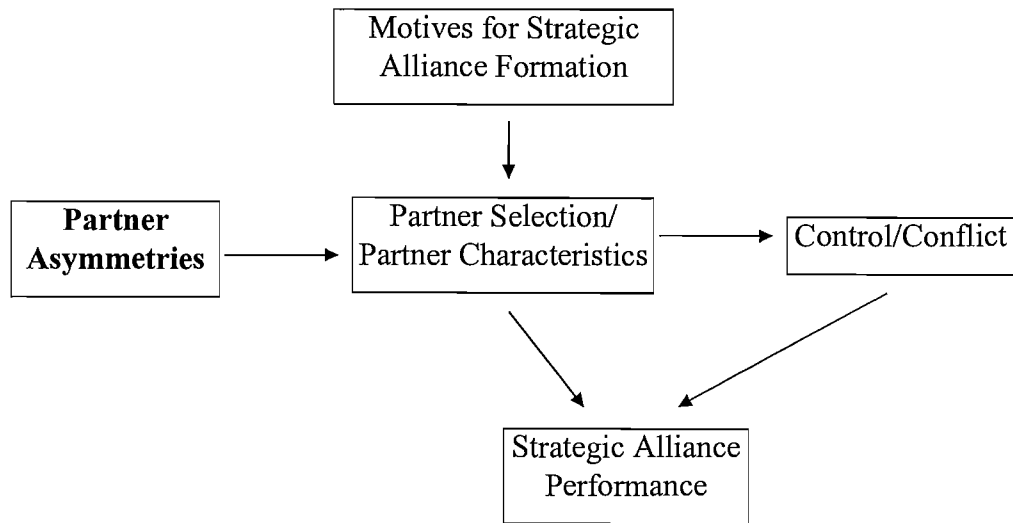
bidding process to drive up the acquisition price.

2.5 PARTNER ASYMMETRIES

This section will be concerned with the issue of partner asymmetries (differences) and their implications for international strategic alliance performance. Faulkner (1995, p33) suggests that “the choice of partner is clearly likely to be the main issue in the success of a joint enterprise,” and partner differences are an integral part of this issue. Faulkner (1995, p33) also argues that the choice of partner “is an area very difficult to research by means of interviews or questionnaires, since the partners in an alliance feel duty bound to assert to an interviewer that they have chosen the right partner, even when, in their innermost thoughts, they have real doubts.” Furthermore, Killing (1983, p56) finds that “making recommendations about choosing a partner is a little like advising your daughter on the kind of man she should marry. Everyone’s taste is different, and the ideal partner for one marriage may be a disaster in another.”

Figure 3 on the next page shows the core theoretical dimensions of strategic alliance research and their interconnections. The issue of partner asymmetries has been added to Parkhe’s (1993a) original model in order to show how this issue fits in with the overall alliance literature.

Figure 3
Core Theoretical Dimensions of Strategic Alliance Research and Partner Asymmetries



Adapted from Parkhe (1993a, p230).

The theoretical dimensions of motives for strategic alliance formation and strategic alliance performance have been reviewed earlier in this chapter.

The remainder of this section is divided into two parts. The first part provides an overview of the different forms of partner differences (asymmetries) and explains how these differences may influence the performance of a strategic alliance. The second part reviews previous research on partner asymmetries and develops several hypotheses which will be empirically tested later in the thesis.

2.5.1 FORMS OF PARTNER ASYMMETRIES

Parkhe (1991) suggests that there are two types of interfirm asymmetry present among the partners in international strategic alliances, and he refers to these two types as type I and type II asymmetry. Type I asymmetry includes the interfirm differences that international strategic alliances are specifically formed to take advantage of.

According to Parkhe (1991, p580), “these differences form the underlying strategic motivations for entering into alliances.” On the other hand, type II asymmetry refers to the differences in partner characteristics that may have a negative effect on strategic alliance performance. Parkhe (1991, p580) suggest that “type II differences, though inevitably present at the initiation of an alliance, may be overcome by iterative cycles of learning that strengthen the partnership.”

The issue of intra-alliance learning is dealt with in the recent conceptual paper by Khanna et al. (1998). These authors ascribe alliance failure to a poor understanding of the learning dynamics taking place within an alliance. In effect, Khanna et al. are seeking to shift the blame for alliance failure away from Parkhe’s Type II asymmetries. The real cause is the different rate of learning that one partner can bring to assimilating the perceived Type I benefits of the alliance. Such benefits can be technology-based but could also include the understanding of a particular market segment or territory. As these authors point out, “significantly greater benefits might accrue to the firm that finishes learning from its partners before the latter can do the same” (Khanna et al., 1998, p 194). The faster learner can then quit the alliance and deny its ally the opportunity to learn from it. The incentive to learn fast depends on the proportion of a firm’s trading activities that are ‘private’ i.e., not included in the activities that are ‘common’ to the alliance. It follows that the greatest likelihood of disappointing outcomes is when parties to an alliance each have a high proportion of their business outside of the alliance. Here each partner has the scope to apply what they can learn from the alliance: they each have a strong incentive to be the faster learner (at the expense of the other). The least likelihood of disappointment arises when most of the benefits of an alliance are ‘common’ to the alliance. This means that

the benefits can only accrue to all parties once they have each learned enough to synthesise their knowledge bases. So learning in pursuit of common benefits is a joint process with the same rewards for all and no special prize for the winner.

Table 4 below lists several forms of partner asymmetries. These issues are to some extent inter-related. A brief overview of each issue follows next.

Table 4
Forms of Partner Asymmetries (Differences)

-
- Nationality
 - Corporate Culture
 - Firm Size
 - Core Business
 - Alliance Experience Level
 - Time Perspective
 - Strategic Direction
 - Others
-

Differences in nationality or home country is obviously an inherent partner difference in international strategic alliances, and as such not a difference experienced in domestic strategic alliances. As will be seen in the review of the literature, this issue has received considerable attention from researchers. Different partner nationalities can be a source of tension and therefore hamper effective collaboration between the partners in a number of ways. Examples include differences in languages, social customs, business customs, and government policies. Furthermore, Parkhe (1991) points out that companies from some countries, like Japan, have a long domestic history of cooperating in some areas while competing in others. On the other hand, companies from some other countries, like the United States for example, have

traditionally been discouraged by their governments from cooperating with each other in domestic markets. Moreover, Adler and Graham (1989) conducted a negotiation simulation exercise with 462 business executives from the United States, Canada and Japan focusing on cross-cultural differences. They concluded that cross-cultural negotiations are more difficult than intra-cultural negotiations.

An issue related to partner nationality is that of corporate culture. Differences in corporate culture are not restricted to international strategic alliances alone. Parkhe (1991) holds that corporate culture includes those ideologies and values that characterize particular organizations. Aspects of corporate culture that can be a source of tension in strategic alliances includes decision-making processes and organizational structures.

Another form of partner difference experienced in some strategic alliances is firm size. It has been established that small and large firms tend to differ in terms of management practices and organizational structures. Small firms tend to be less bureaucratic than larger firms, and this could impede the communication process between the partners. Furthermore, any particular strategic alliance may have relative little importance to the large partner overall, but at the same time, the strategic alliance could be of great importance to the small partner. The small partner may only be involved in one strategic alliance, and this alliance could be of great importance in terms of the small firm's success or even survival. Another issue is access to resources. A small partner may not have access to sufficient resources for rapid expansion of the strategic alliance should this be necessary.

Partners from different industries or core businesses may join forces in order to undertake research and development. Strategic alliances formed for this purpose are

common in the computer, semiconductor and aerospace industries (Olk 1997). However, certain practises, such as the level of spending on research and development, may be more or less established within an industry, but differ from industry to industry. The variation in practises like these could be a source of conflict or misunderstanding between the partners.

Yet another potential source of conflict or misunderstanding between strategic alliance partners is the partners' strategic alliance experience level. Harrigan (1985, pp356-357) observes that "having experience with previous joint ventures...the experienced managers understood what joint ventures could (or could not) do better...the more willing they were for a little give and take to occur in their efforts to hammer out a satisfactory joint venture compromise."

It is well established in the management literature that firms have different time perspectives. Corporations from the United States may tend to focus on quarterly earnings, while Japanese firms may take a longer view and focus on establishing brand names or marketing channels and less on short term earnings. In other words, a Japanese partner may allow a newly formed international strategic alliance a longer period to establish itself before showing profitability than a United States partner typically would.

Another area of potential conflict between the partners in a strategic alliance is the partners' strategic direction. Harrigan (1985, p14) suggests that "asymmetries in the speed with which parent firms want to exploit an opportunity, the direction in which they want to move, or in other strategic matters are destabilizing to joint ventures."

Some other forms of partner asymmetries (differences) that can have a

negative impact on the performance of strategic alliance performance that have been mentioned in the strategic alliance literature includes financial and functional strength (Bleeke and Ernst 1991, 1995), technical contribution (Olk 1997), and location of the strategic alliance (Olk 1997).

Next follows a review of previous research on the effect of partner asymmetries on strategic alliance performance.

2.5.2 PREVIOUS RESEARCH ON PARTNER ASYMMETRIES

This section will review previous research on the effect of partner asymmetries on strategic alliance performance and develop some hypotheses that will be empirically tested later in the thesis.

Partner asymmetry as an explanation for strategic alliance outcome has received considerable attention in the literature, and a brief overview is presented in Table 5 on the next page.

Table 5
Summary of Studies Examining How Partner Asymmetries (Differences) Affect Alliance Outcome

Author	Form of Asymmetry (Partner Difference)											
	Corporate Culture	National Culture	Firm Size	Core Business	Home Country	Venturing Experience	Financial Strength	Functional Strength	Time Perspective	Technical Contribution	Research Location	Industry
Killing (1983)	Negative	Negative	Negative									
Perlmutter & Heenan (1986)		Negative										
Doz (1988)	Negative	Negative	Negative									
Geringer (1988)			Negative									
Harrigan (1988)			Negative	Negative	Negative	Negative						
Gomes-Casseres (1989)	Does not specify any particular forms of asymmetry, but the potential for joint gains is greater the more dissimilar the partners are.											
Bleeke & Ernst (1991, 1995)							Negative	Negative				
Ganitsky et al. (1991)									Negative			

Table 5
(continued)

Author	Form of Asymmetry (Partner Difference)											
	Corporate Culture	National Culture	Firm Size	Core Business	Home Country	Venturing Experience	Financial Strength	Functional Strength	Time Perspective	Technical Contribution	Research Location	Industry
Parkhe (1991)	There are two types of interfirm asymmetry. <u>Type 1</u> : Interdependencies (reasons for alliances) and <u>Type 2</u> : Differences that often negatively affect the longevity and effective functioning of alliances											
Forrest & Martin (1992)			Positive									
Depalma (1994)	Negative	Negative										
Faulkner (1995)	Positive		Negative									
Gordon & Berg (1996)			Negative	Negative	Positive							
Fedor & Werther (1995)	Positive or Negative	Positive or Negative										
Tully (1996)	Negative	Negative										
Olk (1997)					Positive					Positive	Negative	Positive

Killing (1983) studied 37 international joint ventures across several industries and put forward the hypothesis that partner differences in terms of corporate culture, national culture and firm size all will have a negative impact on the performance of a strategic alliance. Perlmutter and Heenan (1986) were also concerned with the performance of international strategic alliances, but they only considered one form of partner differences, national culture. They suggested, like Killing (1983), that a difference in national culture will have a negative effect on alliance outcome. Doz (1988) also holds a negative view of partner differences in strategic alliances. In his study, Doz (1988) found that the odds for a successful outcome are against those strategic alliances between larger and smaller firms, as well as those between firms that differ in terms of corporate and national cultures.

Geringer (1988), who studied 90 joint ventures across several industries in developed countries, agreed with the earlier researchers in that partner asymmetry in terms of firm size tend to have a negative effect on the outcome of the strategic alliance. The most extensive study on partner asymmetries to date is that of Harrigan (1988). She studied 895 strategic alliances in 23 industries and concluded that strategic alliances are more successful when partners are related (in products, markets and/or technologies) and also that strategic alliances seem to last longer between partners of similar cultures, asset sizes and levels of venturing experience. To summarise the research on partner asymmetries reviewed so far, all researchers have suggested that all forms of partner differences have a negative influence on strategic alliance performance. However, Gomes-Casseres (1989) disagrees with this view, and instead suggests that the potential for joint gains in a strategic alliance is greater the

more dissimilar the partners are.

Bleeke and Ernst (1991, 1995), who are management consultants with McKinsey & Company, disagree with Gomes-Casseres (1989), and instead suggest that strategic alliances between strong and weak companies seldom work. In their research, which involved 49 international alliances across several industries, strong and weak companies were defined in terms of financial performance and functional strengths. Ganitsky et al. (1991) introduce a new form of partner asymmetry into the debate, namely that of time perspective. The researchers suggest that partner differences in terms of time perspective will have a negative effect on alliance outcome. Like mentioned earlier, Parkhe (1991) suggests that there are two types of interfirm asymmetry present among the partners in international strategic alliances, type I and type II asymmetry. Type I asymmetry includes the interfirm differences that international strategic alliances are specifically formed to take advantage of. On the other hand, type II asymmetry refers to the differences in partner characteristics that may have a negative effect on strategic alliance performance. However, type II asymmetry may be overcome. In a very simplified way, Parkhe (1991) maintains that partner differences may have both a positive and a negative effect on strategic alliance performance.

Forrest and Martin (1992) studied 70 small biotechnology firms in USA and Canada involved in co-operative ventures with larger partners. They found that 83% of the smaller companies ranked their alliances as moderately to very successful despite the difference in firm size. In line with the earlier studies on national and corporate culture, Depalma (1994), who only studied one international joint venture, found that the joint venture failed because the two partners were unable to bridge the gap

between their different national and corporate cultures. Faulkner (1995, pp34-35) has a mixed view on partner asymmetries and strategic alliance performance. He proposes that firm size difference will have a negative effect on alliance outcome, while on the other hand, corporate culture asymmetry will have a positive effect.

Another study with a mixed outcome is that of Gordon and Berg (1996). They studied 35 strategic alliances in the prescription pharmaceutical market in the United States. They found that partner asymmetry in terms of home country has a positive influence on alliance outcome, while partner asymmetry in terms of both core business and firm size has a negative influence on alliance outcome. Fedor and Werther (1995) share the view of Parkhe (1991) that inherent partner differences, particularly with respect to corporate and national cultures, are potential sources of both unique strengths and tensions.

Tully (1996) studied the strategic alliance between two international airlines, KLM from the Netherlands and Northwest from the United States. According to The Economist (1997a) this strategic alliance is, from a financial perspective, the most successful strategic alliance in the airline industry. However, Tully (1996) claims that there are immense differences between the top management of the two partners in terms of corporate and national cultures, and that these differences are so severe that they may ultimately undermine the whole alliance. Tully (1996, p49) asserts that the top management of the two partners do not talk to each other, and he quotes one American top executive as saying that "this relationship is dysfunctional." He (Tully 1996, p49) goes on to quote KLM's President as saying that in terms of philosophies of doing business, "it's the European way vs. the American way."

The most recent study covered in this review is that of Olk (1997). He studied

81 strategic alliances formed in the United States to undertake research and development work. Some of the alliances had foreign partners. Olk (1997) concludes that partner differences in terms of technical contribution (skills), industry (core business) and nationality all have a positive effect on the performance of the strategic alliance. On the other hand, different research locations (i.e. whether or not the combined research was performed in one central location) were found to be negatively associated with alliance performance.

There are three over-all findings in the literature. First, in terms of international strategic alliances and the internationalization of the firm, there is a strong link between network theory and international strategic alliances. According to network theory the firm can be seen at the centre of a web of business relationships (Easton 1992). Many of these relationships can be considered as cooperative in nature.

The second over-all finding in the literature involves theoretical explanations of strategic alliances. The three main theoretical frameworks of strategic alliances are transaction cost theory, resource dependence theory and resource based view of the firm theory. The resource based view of the firm perspective is the most useful theory to use to explain the formation of strategic alliances. This claim is justified earlier in this chapter.

The third over-all finding in the literature involves partner asymmetries. The review of previous research on the effect of partner asymmetries on strategic alliance performance shows that there are two main over-all findings in the literature. First, most prior research has shown that partner asymmetries may negatively impact alliance outcomes. Second, the literature is somewhat fragmented in that many dimensions of partner differences have been considered. As a result, it is difficult to

compare the various studies with each other since they often focus on different forms of partner differences.

The most significant study on partner asymmetries is probably the study by Harrigan (1988). In her major study of alliance outcomes, Harrigan (1988) studied cross-section data on 895 alliances in 23 industries and issued a general caution against forming alliances with partners where there were marked asymmetries in cultures, asset sizes, and venturing experiences. There are two points to be made here. First, if partner asymmetries were so detrimental for alliance outcome, why would so many experienced managers continue to enter into such strategic alliances? It is something of a paradox of large cross-section studies such as Harrigan's can only reach their prescriptive conclusions because a sufficiently large number of these managers act counter to these prescriptions. Second, it is difficult to envisage how all partner asymmetries can be removed from international strategic alliances. In the case of a New Zealand firm seeking to ally itself with a technologically superior foreign company, the desired partner asymmetry (technology) can only be gained if other asymmetries (e.g., culture, asset size, and venturing experience) are accepted.

The following two hypotheses are put forward as a possible next step for researching this area:

Hypothesis 1: The more similar in size the alliance partners, the better the alliance outcome.

Hypothesis 2: The closer the national cultures of the alliance partners, the better the alliance outcome.

The issue of the literature being somewhat fragmented is addressed in the above hypotheses by focusing on the two major forms of partner asymmetries which are firm size and national culture.

The issue of the alliance partners' national culture is discussed further in the next subsection leading to the development of a third hypothesis.

2.5.2.1 ALLIANCE FORMATION BY COUNTRY

From the literature review earlier in this chapter, we have seen that from a stage model of internationalization view, the internationalization process of a firm is seen as a gradual development taking place in distinct stages and over a relatively long period of time (Melin 1992). One often cited model is that developed by Johanson and Vahlne (1977) in which each firm goes through a number of logical steps of internationalizing behaviour. These steps are based on the firm's gradual acquisition, integration and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets. According to these authors, the firm enters new markets with successively greater psychic distance, this being defined as the sum of factors preventing the flow of information from and to the market. Examples of such factors are differences in language, education, business practices, culture, and industrial development. Firms therefore typically start their internationalization by exporting from their home base to markets they can rather easily understand, often in neighbouring countries.

Since the formation of an international strategic alliance tends to involve a larger and more permanent commitment of resources than merely exporting, it is

likely that companies will enter into alliances involving those countries with which they already have an exporting relationship. This of course applies to each partner and leads us to expect that the pattern of international strategic alliances involving a New Zealand firm will reflect a high trade flow with New Zealand (exports and/or imports) and low psychic distance. Therefore:

Hypothesis 3: The closer the psychic distance and the higher the level of trade with a particular country, the more strategic alliances will be entered into with partners from that country.

It is generally accepted that a large number of companies have difficulty in maintaining successful international strategic alliances to the mutual benefit of the partners involved. We intend to use case studies to better understand both the formation and the termination of international strategic alliances. The study of alliance failure and alliance termination is exploratory in nature.

The main contributions of this study are the dual focus on alliance formation and alliance failure and termination as well as the dual research methods of survey and case studies.

2.6 CHAPTER CONCLUSIONS

This chapter has reviewed the following three major topic areas within the general context of international strategic alliances:

- (a) internationalizing the firm;

- (b) explanations of international strategic alliances; and
- (c) partner asymmetries

The literature review was not limited to international strategic alliances alone as the literature on domestic strategic alliances was also reviewed. The review summarised the relevant literatures and demonstrated a necessity for further research in the topic areas. Three hypotheses were developed to this end.

The next task is to establish an appropriate research method, and such a research method will be outlined in the next chapter.

CHAPTER 3 RESEARCH METHODS

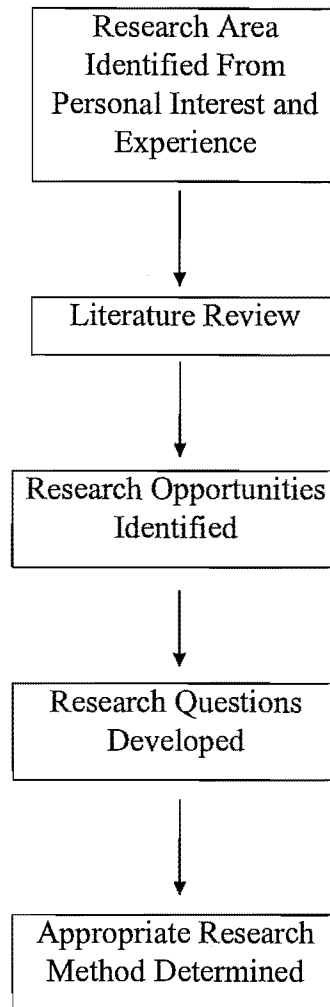
3.1 INTRODUCTION

This chapter develops an appropriate research method to handle the three hypotheses developed in the previous chapter. The chapter is divided into four sections. The first section reiterates the three hypotheses. The second section develops an appropriate research method, while subsequent sections discuss the research method in detail.

3.2 RESEARCH PROBLEM

This section reiterates the three hypotheses developed in the literature review. The remainder of this chapter then focuses on developing an appropriate research method. The flow of the research process is outlined in Figure 4 on the next page.

Figure 4
Flow of the Research Process



Adapted from Coviello (1994, p85).

The literature review identified an research opportunity from the international strategic alliance literature. This research opportunity involves identifying how partner asymmetries influence the performance of the international strategic alliance. This issue has received considerable attention from researchers, but the research seems to be inconclusive in that researchers do not agree on what effect partner differences have on alliance performance. Furthermore, the research also seems to be somewhat

fragmented in that the researchers do not necessarily consider the same forms of partner differences. The following three hypotheses were developed in the previous chapter:

Hypothesis 1: The more similar in size the alliance partners, the better the alliance outcome.

Hypothesis 2: The closer the national cultures of the alliance partners, the better the alliance outcome.

Hypothesis 3: The closer the psychic distance and the higher the level of trade with a particular country, the more strategic alliances will be entered into with partners from that country.

The remainder of this chapter focuses on developing an appropriate research method to handle the three hypotheses.

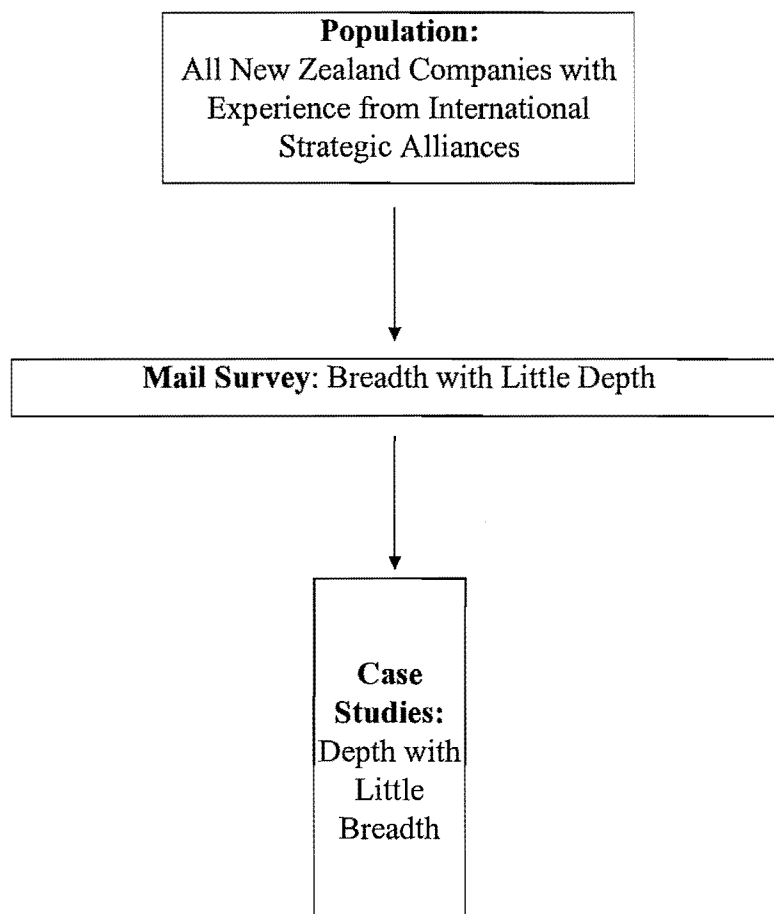
3.3 RESEARCH DESIGN

This section develops an appropriate research method for this study. Previous empirical work on strategic alliances are based on both quantitative (see for example Harrigan 1988) and qualitative methodologies (see for example Hamel 1991). On the other hand, some researchers have also applied mixed methodologies (see for example Ahern 1991 and Coviello 1994). Furthermore, Patton (1990, p10) suggests that “recent developments in the evaluation profession have led to an increase in the use of

multiple methods, including combinations of qualitative and quantitative data.” Patton (1990, p193) goes on to say that “using triangulation is recognition that the researcher needs to be open to more than one way of looking at things.”

This study employs a mixed research methodology consisting of survey research followed by case study research. There are two main reasons for this. First, by combining the more general data from a large number of firms with the more detailed data from a few firms, a richer picture of the phenomena under investigation can be drawn. This point is illustrated in Figure 5 on the next page.

Figure 5
Two Stages of Investigation



The second reason for choosing a mixed research methodology is that by doing the investigation in stages, the first research stage assists the second stage. By analysing the data obtained from stage one before entering stage two, the results from stage one can be used as a basis for selecting information-rich cases relative to the phenomena being studied. This point will be discussed in detail later in this chapter.

3.4 STAGE ONE

Stage one of the investigation involved a mail survey. The survey methodology will be discussed in detail in this section. The discussion is divided into

five subsections: sample, survey response, non-respondents, measures and analytical procedures. The discussion of the sample follows next.

3.4.1 SAMPLE

A questionnaire was mailed to 300 New Zealand companies. A copy of the questionnaire is attached in the appendix. The sample of 300 was generated by combining the 200 largest companies, in terms of turnover, in New Zealand in 1994 (Management 1994), and all the New Zealand Export Award winners¹. The New Zealand Export Award scheme has been in place for a number of years, and it was therefore not possible to track down all award winners. Some of the earlier winners may have changed name, merged with other company or gone out of business. However, we were able to aggregate a mailing list of 100 New Zealand Export Award winners. Many of the Export Award winners are small companies even by New Zealand standards, so by combining these companies with the 200 largest companies in New Zealand, we obtained a sample of companies varying widely in size. The 300 companies contacted were located all over New Zealand.

Three measures were taken to encourage companies to take part in the survey. First of all, the questionnaire was accompanied by a cover letter addressed to an individual, either the chief executive officer, the managing director or the general manager. Care was taken to make sure that all names were correct, in many cases companies were contacted via telephone in order to obtain or verify a person's name and title. A copy of the cover letter is attached in the appendix. Second, the questionnaire was accompanied by a stamped return envelope. Finally, the firms were

¹ Data provided by the New Zealand Trade Development Board

given an incentive to respond in that they were given the opportunity to receive a summary of the results of the study.

By numbering the questionnaires we were able to identify companies from their responses, and this was made clear in the covering letter. Those companies which had not responded by the due date set out in the original cover letter received a follow up letter asking them to complete the questionnaire. A copy of the follow up letter is attached in the appendix.

As can be seen in the questionnaire, managers were asked to report in detail on two of their current international strategic alliances. The two alliances were those with the largest and the smallest (in terms of turnover) foreign partner. If a firm was currently involved in only one international strategic alliance, then the firm was asked to report on this alliance.

3.4.2 SURVEY RESPONSE

We received a total of 154 (51%) responses to the survey, and 140 (47%) of these were useable providing data on a total of 259 international strategic alliances. Most of the 14 responses which were not useable involved companies responding back that they did not want to take part in the survey. Of the 140 respondents completing the questionnaire, 55 (39%) firms were currently involved in one or more international strategic alliance.

3.4.3 NON-RESPONDENTS

In order to gain some insight into the non-respondents, fifty of the firms which had not taken part in the survey, even after receiving a follow up letter asking them to

complete the questionnaire, were randomly selected and sent a third letter. The letter simply asked the main reason(s) for their non-response. A copy of this letter is attached in the appendix. In all 31 of the 50 companies responded to this request. The main reasons for not responding were 1) lack of time (49%), 2) company policy not to take part in surveys (23 %), and 3) never been involved in a strategic alliance (20%).

3.5 STAGE TWO

Stage two involves case studies. The case study methodology will be discussed in detail in this section. The discussion is divided into four subsections: key features of the case study method, choice of firms, data collection procedures and analytical procedures. The discussion of the key features of the case study method follows next.

3.5.1 KEY FEATURES OF THE CASE STUDY METHOD

Yin (1994, p13) has developed a two part definition of a case study where the second part builds on the first part. Here is the first part:

“A case study is an empirical inquiry that

- investigates a contemporary phenomenon within its real-life context, especially when
- the boundaries between phenomenon and context are not clearly evident.”

Furthermore, Yin (1994, p13) goes on to say that

“The case study inquiry

- copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
- relies on multiple sources of evidence, with data needing to converge in a triangulation fashion, and as another result
- benefits from the prior development of theoretical propositions to guide data collection and analysis.”

Each of these points will be overviewed next. The first point and the second point are related. The first point is that a case study investigates a contemporary phenomenon within its real-life context. This is in contrast with some other research strategies, such as experiments (Yin 1994, p13). Researchers performing experiments will often attempt to separate a phenomenon from its natural context in order to focus the attention on a few variables only. As far as surveys are concerned, Yin (1994, p13) suggests that “surveys can try to deal with phenomenon and context, but their ability to investigate the context is extremely limited.” Furthermore, the second point, which in effect is the second part of the first point, is “...the boundaries between phenomenon and context are not clearly evident.” Yin (1994, p13) holds that most real-life situations are characterised by the fact that phenomenon and context can’t be easily separated.

The third point is that “the case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points.” In effect, this would mean that most statistical methods can’t be used.

The fourth point is that “the case study inquiry relies on multiple sources of evidence, with data needing to converge in a triangulation fashion.” Patton (1990,

p187) suggests that “triangulation is ideal.” He is not only referring to data triangulation, but also to investigator, methodological and theory triangulation. As far as data triangulation is concerned, studies which use different types of data will strengthen the validity of the findings in that the different types of data provide cross-data validity checks. In other words, a way of data collection quality control (Romano 1989). Yin (1994, p79) claims that there are six major types of data: documentation, archival records, interviews, direct observation, participant-observation, and physical artifacts. This thesis will be concerned mainly with interviews. Documentation and archival records have been used in preparation for the interviews.

The fifth and final point is that the case study inquiry “benefits from the prior development of theoretical propositions to guide data collection and analysis.” Yin (1994, p27) holds that “for case studies, theory development as part of the design phase is essential, whether the ensuing case study’s purpose is to develop or to test theory.” The cases are used to test theory in this thesis. Furthermore, Patton (1990, p163) suggests that a review of the literature is a good tool for focusing the case study. The importance of research focus is also stressed by other researchers like Mintzberg (1979) and Eisenhardt (1989). Without a research focus, the researcher risks becoming overwhelmed by the volume of data.

According to Chetty (1996), a weakness of the case study method often mentioned by researchers is that it provides little basis for scientific generalisation. Yin’s (1994, p10) response to this is that “...case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes.” Yin (1994, p10) also suggests that the case study does not represent a “sample”, and the researcher’s aim “is to expand and generalize theories (analytic generalization) and not

to enumerate frequencies (statistical generalization).” Furthermore, Chetty (1996, p74) also holds that “the strengths of the case study method outweigh its weaknesses.”

Other researchers have also pointed to some limitations of the case study method. Yin (1994, p3) and Eisenhardt (1989) both suggest that, as all research strategies, the case study method also has limitations. Yin (1994, p7) suggests that the case study method is not suitable for certain types of research questions, in particular questions in the form of a “how many” or “how much” line of inquiry. Surveys and analysis of archival records are likely to be better research strategies for these types of research questions. Moreover, Eisenhardt (1989, p547) sees two weaknesses in terms of using case study research to build theory. First, the extensive use of empirical evidence may result in theory which is overly complex. Second, “building theory from cases may result in narrow and idiosyncratic theory.”

The next section discusses the choice of firms for the case studies.

3.5.2 CHOICE OF FIRMS

There are no specific rules for how many cases to include using the case study method (Eisenhardt 1989; Patton 1990, p184; Yin 1994, p50). Eisenhardt (1989) suggests that a number between four and ten cases in most cases works well. She (Eisenhardt 1989, p545) finds that it can be difficult to generate theory with less than four cases, and on the other hand, with more than ten cases it “quickly becomes difficult to cope with the complexity and volume of the data.” Moreover, Patton (1990, p184) proposes that the number of cases depends on a number of factors like what you want to know, the purpose of the study, what’s at stake, what will be useful, what will have credibility, and what can be done with available time and resources.

Patton (1990, p186) goes on to say that the ideal is sampling to the point of redundancy, but that this may be difficult in reality due to resource constraints. As a solution, Patton (1990, p186) suggests use of judgement and negotiation. Finally, Yin (1994, p50) says that the researcher should be concerned with the number of case replications he or she wants to have in the study rather than with the typical criteria regarding sample size since the concept of sampling logic is not relevant to the case study method. Yin (1994, p50) holds that “the selection of the number of replications depends upon the certainty you want to have about your multiple-case results, as with the higher criterion for establishing statistical significance, the greater certainty lies with the larger number of cases.” The selection of cases included in this study will be discussed next.

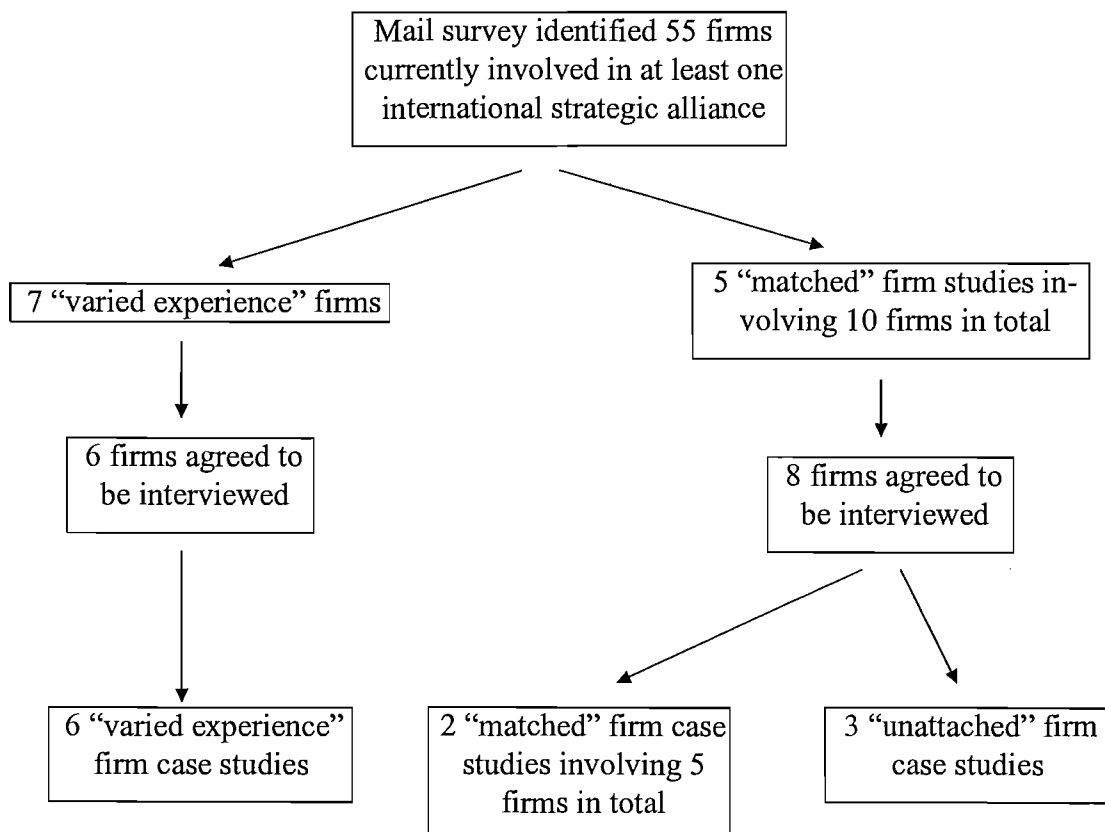
The selection of cases included in this study were based on extreme cases (Patton 1990, p169; Pettigrew 1990). The rationale, according to Patton, for focusing on extreme cases is that these cases are rich in information because they are unusual or special in some way. Obviously, the term “extreme case” can take on several meanings. For the purposes of this study, the responses to the postal survey were used as a means for selecting extreme cases. As can be seen from the questionnaire in the appendix, the respondents were asked “to what extent is the international strategic alliance(s) meeting the most important objective?” They were asked to respond on a seven point Likert-type scale with one being “much worse than expected” and seven being “much better than expected”. The question was asked both for current as well as for past (terminated) international strategic alliances. Extreme cases were then considered to be those international strategic alliances which fell into either the “1,2 or 3” category or the “5,6 or 7” category.

We decided to focus on the extreme cases in two ways. We looked first at companies with varied international strategic alliance experiences meaning that they had at least one alliance in both of the extreme groups. In other words, the company had at least one alliance performing better than expected, and also at the same time, at least one alliance performing worse than expected. The second way of looking at the extreme cases involved an effort to establish matched firms. The idea was to compare firms having only “better than expected” experience(s) from one or more alliances with other firms from the same industry having only “worse than expected” experience(s) from one or more strategic alliances. After considering all the 55 firms from the mail survey that were currently involved in at least one international strategic alliance, seven firms were classified as having varied alliance experiences. At the same time, four matched firm studies were also identified. In addition, one possible matched firm study was identified between two companies having diametrically opposite experiences from joint ventures established in the same country in Asia at the same time, although these companies were operating in different industries.

Based on the above selection of extreme cases, a total of 17 firms were approached, and 14 of these were willing to be interviewed. Of the three which declined, two declined due to the managing director’s busy schedule, while one declined giving the reason that “our licensing agreements are insignificant and of little benefit to us. There is very little we can tell you about them. ... 45 seconds not 45 minutes is all it would take to talk about them.” Of the firms which declined to be interviewed, one belonged in the varied alliance experience category, thereby leaving that category with six firms. The two other firms belonged to the matched firm studies, thereby leaving that category with eight firms. However, since the two firms

declining to participate belonged to different matched firm groups, these two groups were broken up, and we were therefore left with three matched firm groups as well as with two unattached firms. Incidentally, during the interview process it turned out that the firms in one of the matched firms groups did not really belong together after all. This was so because the businesses the international strategic alliances were involved in were quite different even though both belong to the broad category of agriculture. However, one of these firms could be included in another matched firm group since all the international strategic alliances formed by the three firms in the group were in the same type of business. The case study selection process is set out in the figure below.

Figure 6
Selection of Firms for Case Studies



In summary, the 14 firms to be studied in detail could be considered to fall into three different categories. The first category includes six firms with varied experiences from international strategic alliances where some alliances are performing better than expected while others are performing worse than expected. The second category includes two matched firm groups, one group including two firms and the other group including three firms. The last category includes three unattached firms. One firm has experiences from two international strategic alliances performing much better than expected while the two other firms have experiences from one international strategic alliance performing worse than expected. A short description of each of the firms can be found in the appendix. Furthermore, the firms participating in the case studies were located all over New Zealand, and the industries represented are set out in table 6 below.

Table 6
Industries Represented in the Case Studies

Industries	Number of Firms
Brewing	1
Cement	1
Agricultural Seeds	3
Dairy Products	1
Fishing and Fish Processing	1
Skin Tanning	1
Electrical Equipment	1
Automotive Parts	1
Medical Equipment	1
Ship Repairs	1
Food Products	2
Plastics	1
Engineering Services	1
Trading of Agricultural Products and Services	1

The number of industries represented in the case studies does not add up since some of the New Zealand firms are involved in international strategic alliances in more than one industry.

The number of cases included in this study, 14, is a little higher than the maximum number of cases, 10, recommended by Eisenhardt (1989). However, we are confident that we will be able to handle the volume of data, particularly since the case studies can be considered to fall into three separate subgroups as described above.

Next follows a discussion of the data collection procedures used for this study.

3.5.3 DATA COLLECTION PROCEDURES

This study will take advantage of three different sources of evidence, and thereby obtain data triangulation. As discussed earlier, Patton (1990, p187) suggests that “triangulation is ideal.” Studies which use different types of data will strengthen the validity of the findings in that the different types of data provide cross-data validity checks. In other words, a way of data collection quality control (Romano 1989). The three different sources of evidence to be used in this study are interviews, documentation and archival records. Each of these will be discussed next.

The primary type of evidence used for this study is interviews based on open-ended type questions. A copy of the interview guide is attached in the appendix. We sought to interview the person in the New Zealand organisation with the most knowledge of their international strategic alliance activities. In all cases this turned out to be either the managing director, general manager or chief executive officer, except in two cases where the chief operating officer and the group general manager marketing were interviewed. In all but three cases only one person from the New Zealand

organisation was interviewed. In the remaining three cases two people were interviewed, and this was after initiatives from the companies themselves. All companies were promised confidentiality in that no material that could identify their identity would be published in any reports. All interviews took place at the firm's premises, and the interviews were all recorded on tape. Each interview was followed up with either a telephone conversation or a telefax message in order to clarify points made during the interview that were unclear. The average duration of the interviews were about one hour, with the shortest interview lasting about 45 minutes and the longest lasting about two hours.

The second type of evidence used for this study is what Yin (1994, p81) refers to as documentation. There are several types of documents, and the two types used in this study are newspaper clippings and articles from mass media (other than newspapers). This evidence turned out to be valuable both prior to the interview stage and also after the interviews took place. The data were valuable prior to the interviews by giving us an understanding of the nature and the background of the international strategic alliances prior to the interview. Furthermore, after the interviews, the documents served as a means of cross-data validity checks against the two other types of data used for the case studies.

The third type of evidence used for this study is what Yin (1994, p83) refers to as archival records. As for documents there are several types of archival records, and the types used in this study are annual and quarterly reports published by public companies as well as company newsletters. Four of the companies participating in the case studies are publicly listed companies, two companies have recently been delisted, and one company is a subsidiary of a listed company. Moreover, as for the document

data described earlier, the archival records turned out to be valuable both prior to the interview stage and also after the interviews took place. The archival records were valuable prior to the interviews in terms of giving us an understanding of the nature and the background of the international strategic alliances prior to the interview. Furthermore, after the interviews, the same data served as a means of cross-data validity checks against the two other types of data used for the case studies. Moreover, one company provided us with a company newsletter having an article on their international strategic alliance.

Some of the case studies concentrate on partner asymmetries and learning (Chapter 5) while others are devoted mainly to alliance objectives and contracts (Chapter 6). However, the full case profile of all the case studies are in the appendices.

The next section covers the analytical procedures used to analyse the case study data.

3.5.4 ANALYTICAL PROCEDURES

Unlike hypothesis-testing research, case study research lacks a generally accepted model for data analysis (Miles and Huberman 1984, p16; Eisenhardt 1989; Patton 1990, p372; Yin 1994, p102). For example, Patton (1990, p372) holds that “in short, there are no absolute rules except to do the very best with your full intellect to fairly represent the data and communicate what the data reveal given the purpose of the study.” In the absence of an agreed upon standard for analysis of case study evidence, we used the following stepwise approach: 1) transcription of interviews, 2) analysis of secondary data, 3) development of case descriptions, 4) performance of within and cross-case analysis, and 5) development of conclusions and implications.

Each of these steps will be overviewed next.

The first step involved producing verbatim written transcripts from the tape recording of each interview. The interviewees were contacted either via telephone or via telefax in order to clarify points made during the interview that were unclear. The written transcripts were not sent back to the interviewees for verification, but permission to quote particular interviewees on particular points were obtained.

The second step involved analysis of secondary data. As mentioned earlier in this chapter, the secondary data used in this study involved documents and archival records. The analysis of the secondary data were helpful in several ways. First of all, the documents and archival records were helpful in verifying the correct spelling of names mentioned during interviews. Second, and of greater importance, the secondary data were used to corroborate information from the interviews. None of the secondary data were found to be contradictory to the interview data. Had this been the case, then it would have been of great importance to look closely into the area or topic where the contradiction were found.

Based on the first two steps of the process, case descriptions were developed for each of the 14 firms taking part in the case studies. This is the third step. A very brief general case description for each firm is attached in the appendix. Much longer and much more detailed case descriptions were developed to facilitate within and cross-case analysis which is the next step in the process.

The fourth step involves two parts. The first part is to analyse within-case data, and the second part involves searching for cross-case patterns. The overall objective of the within-case analysis is for the researcher "to become intimately familiar with each case as a stand-alone entity" (Eisenhardt 1989, p540). Furthermore,

Eisenhardt (1989, p540) suggests that the within-case analysis process “allows the unique patterns of each case to emerge before investigators push to generalize patterns across cases.” The within-case analysis sets the stage for the search for cross-case patterns. (Eisenhardt 1989) puts forward three strategies for searching for cross-case patterns, and she suggests that these strategies will help the researcher to go beyond his initial impressions by using structured and diverse lenses on the data. The first strategy suggested by Eisenhardt (1989, p540) is “to select categories or dimensions, and then to look for within-group similarities coupled with intergroup differences.” This strategy will be used to search for cross-case patterns by looking at high versus low performance international strategic alliances. The second tactic proposed by Eisenhardt (1989, p540) is “to select pairs of cases and then to list the similarities and differences between each pair.” As mentioned earlier in this chapter under data selection procedures, some of the cases were actually selected on a matched pair basis, so this strategy will also be used to analyse the case study data. A third strategy proposed by Eisenhardt (1989, p541) is “to divide the data by data source.” She says that one way of doing this is for one researcher to go over observational data while another reviews interviews. This strategy will not be utilised in this study since it does not appear to be well suited for the particular circumstances of this study. There are two reasons for this. First of all, there is only one main data source, namely interviews. Second, and probably of less importance, there is only one researcher involved in the study.

The fifth and final step in the case study analysis is development of conclusions and implications. It is envisioned that from the within-case and cross-case analysis tentative themes, concepts, and maybe relationships between variables will

emerge (Eisenhardt 1989). These emergent relationships between variables will have to be verified with the evidence from each of the 14 cases making up this study (Eisenhardt 1989). Moreover, Eisenhardt (1989, p542) says that “cases which confirm emergent relationships enhance confidence in the validity of the relationships. Cases which disconfirm the relationships often can provide an opportunity to refine and extend the theory.”

3.6 CHAPTER SUMMARY

This chapter has developed an appropriate research method for handling the hypotheses developed in the literature review. The chapter is divided into four sections. The first section reiterated the research questions. The second section developed an appropriate research method, while the two last sections discussed the adopted research method in detail.

The next chapter presents and discusses the results from the mail survey.

CHAPTER 4

SURVEY RESULTS AND DISCUSSION

4.1 INTRODUCTION

The main purpose of this chapter is to establish how partner asymmetries affect alliance performance. The chapter is divided into two main sections. The first section presents the results of the analysis of the data obtained by way of the mail survey. This will be done by testing the three hypotheses developed in chapter two of this thesis using the analytical procedures described in the previous chapter. The second section discusses the results of the analysis of the mail survey data.

4.1.1 MEASURES

In terms of hypotheses one and two, the dependent variable is strategic alliance outcome. There is no consensus in the literature on how to measure alliance success (Geringer and Hebert 1991). Various financial indicators including profitability, market share and sales have been used, as well as the more general measures such as survival and duration (Harrigan 1988). Others have used the subjective measure of perceived alliance success. Geringer and Hebert (1991) found a significant positive correlation between objective and subjective measures of international joint venture performance. The question of which party to sample - one partner, both/all partners or the alliance itself - was also addressed by Geringer and Hebert (1991). They found that there is a positive correlation (correlation coefficient .751, $p \leq 0.01$) between each partners' assessment of the venture's performance. On the basis of these findings, and due to resource constraints, we surveyed the New Zealand alliance partner only. The

survey-participants were asked to indicate on a 7-point Likert-type scale (1 being “much worse than expected” and 7 being “much better than expected”), to what extent their international strategic alliances had met expectations. We were aware from preliminary work that some New Zealand companies had a large number of alliances, particularly international licensing agreements. This caused two potential problems. First, if we assume that this handful of companies had most experience of international alliances, then their performance outcomes are likely to be better than the norm. In other words, to include all of their alliances would impart some company bias into our findings. Second, where there were a very large number of alliances, we felt that it would be unreasonable to ask the local partner to rank the performance of all of these and, moreover, seeking this amount of information may well have led to a higher non-response rate, something we wished to avoid. To address these matters, in those cases where there were more than two alliances, we only sought information on performance and partner size for those alliances involving the largest and the smallest partner. By concentrating our data in this way on the extremes of the size range, we have fewer observations but a more powerful test of the hypothesis relating to partner size differences and alliance performance. In other words, if partner asymmetry is shown not to be associated with best and worst performing alliances, then this particular hypothesis can be rejected with greater confidence because of the composition of the sample.

The independent variable for hypothesis one is alliance partner size differences. Respective partner size differences were measured in terms of the reported number of employees and so avoided problems involved with converting between exchange rates. This posed some difficulties in that some of the foreign companies

were private and their employment size could not be determined. For this reason this hypothesis was tested on a sample size of 52 alliances.

The independent variable for hypothesis two is the national cultures of the strategic alliance partners. Hofstede's (1984, 1991) four indexes of power distance, uncertainty avoidance, individualism and masculinity were used to measure national culture.

Power distance is the extent to which a culture accepts that power in organizations is distributed unequally. Low power distance cultures endorse egalitarianism while high power distance cultures endorse hierarchies.

Uncertainty avoidance is the degree to which members of a society feel uncomfortable with risk and uncertainty. High uncertainty avoidance cultures prefer rules and set procedures while low uncertainty avoidance cultures tolerate greater ambiguity and prefer more flexibility in their responses.

Individualism is the extent to which people are supposed to take care of themselves and be emotionally independent from others. High individualism cultures endorse self-sufficiency while low individualism cultures endorse interdependent roles and obligations to the group.

Masculinity is the value attributed to achievement, assertiveness, and material success as opposed to the stereotypical feminine values of relationships, modesty, caring and quality of life. High masculinity cultures endorse assertiveness, competition and individual success while low masculinity cultures endorse modesty, compromise and co-operative success.

Since we are not concerned with the direction in which such distance may exist, on each index we took the absolute value of the difference between Hofstede's

measure for a country and that for New Zealand. The data for national culture are set out in the appendix.

The dependent variable for hypothesis three is the number of international strategic alliances entered into by New Zealand companies with partners from a particular foreign country.

There are two independent variables for hypothesis three, and these are psychic distance and trade. Psychic distance is defined as the sum of factors preventing the flow of information from and to the market (Johanson and Vahlne 1977). Examples of such factors are differences in language, education, business practices, culture and industrial development. Some studies have used Hofstede's (1984, 1991) measures of culture as a synonym and proxy for psychic distance (O'Grady and Lane 1996).

We therefore used Hofstede's (1984, 1991) four indexes (power distance, uncertainty avoidance, individualism and masculinity) of national culture as a measure of psychic distance as well as a composite of the four. The composite variable (called D) was calculated as the sum of each absolute difference between New Zealand's score and each country's score across the four indexes. Since we are not concerned with the direction in which such distance may exist, on each index we took the absolute value of the difference between Hofstede's measure for a country and that for New Zealand.

As a measure of trade we used the sum of exports and imports for each country for the period 1991-1994 (Statistics New Zealand 1995). The data for both total trade and national culture are set out in the appendix.

4.1.2 ANALYTICAL PROCEDURES

Hypothesis one was tested using T-tests that compared the mean strategic

alliance outcomes experienced for three sub-samples which were based on the ratio of partner sizes for the 52 alliances in the sample. Regression analysis, in simple and semi-logarithmic form, was also carried out.

Hypothesis two was tested by simple regression analysis.

To test hypothesis three we regressed the number of alliances per country on trade flows and psychic distance (national culture) as independent variables.

4.2 RESULTS

This section is divided into five subsections. The first three sections (alliance involvement, alliance types and alliance objectives) are of a descriptive nature, while the four hypotheses developed earlier in the thesis will be tested in the last two sections.

4.2.1 ALLIANCE INVOLVEMENT

Of the 140 respondents completing the questionnaire, 55 (39.3%) firms were currently involved in one or more international strategic alliance. The majority of the respondent firms were not involved in any strategic alliances with foreign partners. Those companies currently not involved in any strategic alliances with foreign partners were asked why they were not currently involved in any international strategic alliances. The results are set out in Table 7 on the next page.

Table 7
Reasons for No International Strategic Alliance Involvement at Present

Reasons for No International Strategic Alliance Involvement at Present	Frequency	Percentage
No reasons why we should	39	57.4
All strategic alliances are handled by parent company overseas	8	11.8
No suitable foreign partners	8	11.8
Too busy with other matters	4	5.9
Focus is only on the domestic market	4	5.9
Focus on domestic alliances only	2	2.9
Risk of revealing company secrets too high	1	1.5
Lack of money	1	1.5
Do not require any partners	1	1.5
Total	68	100

As seen from the table above, more than half of the companies (57.4%) which are currently not involved in any international strategic alliances responded that they could see no reason for why they should enter into any such alliances.

4.2.2 ALLIANCE TYPES

The 55 firms currently involved in international strategic alliances represent 259 international strategic alliances in total. The breakdown of the 259 international strategic alliances by type is set out in Table 8 below.

Table 8
Types of Present International Strategic Alliances

Type of International Strategic Alliance	Number of Alliances	Percentage
Licensing Agreement	120	46.3
Joint Venture	85	32.8
R and D Agreement	33	12.7
Co-Marketing Agreement	15	5.8
Consortium	6	2.3
Total	259	100

As seen in the table above, licensing agreements (46.3%) are the most common form of international strategic alliances followed by joint ventures (32.8%). Of the licensing agreements, five companies accounted for some 66% of all such agreements.

The types of international strategic alliance for 70 terminated alliances are set out in the table below.

Table 9
Types of Terminated International Strategic Alliances

Type of International Strategic Alliance	Number of Alliances	Percentage
Licensing Agreement	40	57.1
Joint Venture	26	37.1
R and D Agreement	2	2.9
Co-Marketing Agreement	1	1.4
Consortium	1	1.4
Total	70	100

4.2.3 ALLIANCE OBJECTIVES

The survey respondents were asked to state the main objective for forming their international strategic alliances, and we obtained information on the main objective behind the formation of 59 alliances which are currently in operation. Even though the firms taking part in the survey represent 259 current international strategic alliances in total, the firms were asked to report in detail on two of their current international strategic alliances. We therefore received detailed information on only a portion of the 259 alliances. The data on alliance objectives is set out in Table 10 on the next page.

Table 10
Main Objectives for International Strategic Alliance Formation
(Alliances Currently in Operation)

Main Objective	Frequency	Percentage
Market access	32	54.2
Skills sharing	20	33.9
Industry rationalisation	2	3.4
Risk sharing	2	3.4
Cost sharing	1	1.7
Raw material access	1	1.7
Buying growth	1	1.7
Total	59	100

As seen from the table above, the most common main objective for international strategic alliance formation were market access followed by skills sharing.

The main objectives for international strategic alliance formation for terminated alliances are set out in the table below.

Table 11
Main Objectives for International Strategic
Alliance Formation for Terminated Alliances

Main Objective	Frequency	Percentage
Market access	17	68.0
Skills sharing	8	32.0
Total	25	100

4.2.4 ALLIANCE PERFORMANCE

The survey-participants were asked to indicate on a 7-point Likert-type scale (1 being “much worse than expected” and 7 being “much better than expected”), to what extent both their current and terminated international strategic alliances have

been meeting their expectations. The results for 71 current strategic alliances are set out in the table below.

Table 12
Extent Objectives are Being Met for Current Alliances

Extent Objectives are Being Met		Frequency	Percentage
Much better than expected	7	12	16.9
	6	11	15.5
	5	8	11.3
As expected	4	27	38.0
	3	10	14.1
	2	3	4.2
Much worse than expected	1	0	0
Total		71	100

As seen from the table, 81.7% of all current international strategic alliances are seen by the New Zealand partner as performing as expected or better.

The results for 26 terminated alliances are set out in the table below.

Table 13
Extent Objectives were Met for Terminated Alliances

Extent Objectives were Met Before the Alliance was Terminated		Frequency	Percentage
Much better than expected	7	3	11.5
	6	0	0
	5	2	7.7
As expected	4	6	23.1
	3	5	19.2
	2	0	0
Much worse than expected	1	10	38.5
Total		26	100

As seen from the table, 57.7% of the alliances performed worse than expected, while

42.3% performed as expected or better before being terminated.

To compare the alliance performance for current and terminated alliances we used a t-test that compared the mean alliance performance (extent objectives were met) experienced in current alliances to that experienced in terminated alliances. The difference between the two means was found to be significant at the .01 level. The test data are set out in the table below.

Table 14
Alliance Performance by Alliance Status

Alliance Status	N	Alliance Performance	
		Mean	Std. Dev.
Current International Strategic Alliances	71	4.70	1.45
Terminated International Strategic Alliances	26	3.08	2.02

T-test	T-value = 4.39	prob>T = .000
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Organisational learning theory holds that prior learning facilitates the learning and application of new related knowledge (Barkema et al. 1997). One would therefore expect that international strategic alliances formed by firms with experience from prior alliances will perform better than those alliances formed by inexperienced strategic alliance firms. To test this, we divided the alliance performance data for current alliances into two groups. The first group contains alliances formed by New Zealand firms with no prior international alliance experience prior to forming the current alliance, and the second group contains alliances formed by New Zealand companies with prior international alliance experience. In terms of alliance performance, the means for the two groups are 4.58 and 4.78 respectively. The two means were then

compared in the form of a t-test, and the difference between the two means was found not to be significant at the .05 level. The test data are set out in the table below.

Table 15
Alliance Performance by New Zealand Partner's Alliance Experience Level

New Zealand Partner's International Strategic Alliance Experience Level	N	Alliance Performance	
		Mean	Std. Dev.
No Prior International Strategic Alliance Experience	26	4.58	1.27
Prior International Strategic Alliance Experience	45	4.78	1.55

T-test	T-value = -.56	prob>T = .58
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4.2.5 PARTNER ASYMMETRIES

This section is divided into three subsections all dealing with different forms of partner asymmetries. The first subsection is concerned with partner differences in terms of size. For the purposes of this study, size refers to number of employees. The second subsection deals with partner asymmetries in terms of national culture. Finally, the last subsection is concerned with psychic distance and level of trade.

4.2.5.1 PARTNER SIZE

Hypothesis one states that the more similar in size the international strategic alliance partners are, the better the strategic alliance will perform. We measured respective partner sizes in terms of the reported number of employees, and the hypothesis was tested on a sample size of 52 alliances.

The basic statistics for this test are set out in Table 16 on the next page. Here the 52 alliances are grouped into three sub-samples based on the ratio of partner sizes.

The mean performance rating and its standard deviation are also reported. Using the Student's t test, none of the differences between the means were found to be statistically significant.

Table 16
Alliance Performance by Partner Size Asymmetry

Relative Partner Sizes	Number of Alliances	Mean Performance	Standard Deviation
0 - 3 times	12	5.25	1.22
4 - 15 times	14	4.43	1.78
16+ times	26	4.81	1.55

Note: Relative partner sizes in terms of employees

Grouping data in the manner of table 16 above does involve some loss of information. Therefore, in order to test the same hypothesis in a somewhat more rigorous manner we regressed alliance outcome (O_a) on the ratio of the larger to smaller partner in each alliance (R_a). If hypothesis one is true, the estimated regression coefficient will be negative, ie., as the ratio of partner sizes increases, alliance outcomes should decline. The regression was done in simple and semi-logarithmic form. In each case the estimated coefficient on the asymmetry variable had the expected negative sign but in neither case was this significant. The semi-logarithmic form produced the better results as follows:

$$O_a = 5.16 - 0.31 \log R_a \quad R^2 = 0.024; \quad R^2 = 0.005$$

$$(t \text{ value}) (14.69) (1.11) \quad F = 1.24 (1,50)$$

4.2.5.2 PARTNER NATIONALITY

Data on the nationality of the foreign partner were available for 202 international strategic alliances and extended to 41 countries. The data are set out in Table 17 on the next page.

Table 17 - Partner Nationality

Country	Number of Alliances	Percentage
United States of America	54	26.7
Australia	28	13.9
United Kingdom	23	11.4
South Africa	11	5.4
Netherlands	8	4.0
Germany	8	4.0
Malaysia	7	3.5
Japan	6	3.0
France	4	2.0
Chile	3	1.5
Switzerland	3	1.5
South Korea	3	1.5
Philippines	3	1.5
Singapore	3	1.5
Canada	3	1.5
Uruguay	3	1.5
Argentina	2	1.0
Thailand	2	1.0
Mexico	2	1.0
Egypt	2	1.0
Denmark	2	1.0
Indonesia	2	1.0
Hong Kong	2	1.0
Hungary	1	0.5
Papua New Guinea	1	0.5
Brazil	1	0.5
Norway	1	0.5
Ireland	1	0.5
Italy	1	0.5
Saudi Arabia	1	0.5
United Arab Emirates	1	0.5
Mauritius	1	0.5
Sri Lanka	1	0.5
Bangladesh	1	0.5
Jamaica	1	0.5
Venezuela	1	0.5
Malta	1	0.5
Greece	1	0.5
Peru	1	0.5
Guatemala	1	0.5
Taiwan	1	0.5
Total	202	100

As seen from the table, most alliance partners (26.7%) are from the United States of America followed by Australia (13.9%), the United Kingdom (11.4%), and South Africa (5.4%).

Hypothesis two states that the closer the country cultures of alliance partners, the better the alliance outcome. This hypothesis was, like hypothesis one, also tested by simple regression with O_a as the dependent variable and a composite of Hofstede's (1984, 1991) indices (please refer to the appendix) as the measure of cultural distance (D) from New Zealand. If hypothesis two were true, the estimated coefficient on D would be negative. In fact, as reported below, this coefficient is positive but not significant:

$$O_a = 4.47 + 0.005 D \quad R^2 = 0.025; \quad R^2 = 0.101$$

$$(t \text{ value}) (14.76) \quad (1.29) \quad F = 1.17 (1,64)$$

Hence we can reject hypothesis two on the basis of this evidence.

4.2.5.3 PSYCHIC DISTANCE AND TRADE

Hypothesis three states that the closer the psychic distance, and the higher the level of trade with a particular country, the more strategic alliances will be entered into with partners from that country. Hofstede's (1984, 1991) four indexes (power distance, uncertainty avoidance, individualism and masculinity) of national culture were used as a measure of psychic distance. Since we are not concerned with the direction in which such distance may exist, on each index the absolute value of the

difference between Hofstede's measure for a country and that for New Zealand was computed. As a measure of trade we used the sum of exports and imports for each country for the period 1991-1994 (Statistics New Zealand 1995). The data for both total trade and national culture are set out in the appendix.

To test hypothesis three we regressed the number of alliances per country on trade flows and psychic distance (national culture) as independent variables. To represent national culture we worked with Hofstede's (1984, 1991) four indexes (power distance, uncertainty avoidance, individualism and masculinity) separately, as well as a composite of the four. The composite variable (called D) was calculated as the sum of each absolute difference between New Zealand's score and each country's score across the four indexes. The results of the multiple regressions are set out in Table 18 on the next page.

Table 18
Country Analysis - Regression Results

Variables	1	2	3	4	5	7	8
Constant term	1.52 (1.39)	3.78 (1.53)	4.18 (2.37)	4.09 (2.00)	2.83 (1.80)	7.00 (2.64)	14.82 (4.30)
Total trade	1.15 (7.10)*	1.12 (6.53)*	1.13 (7.04)*	1.11 (6.71)*	1.17 (7.17)*	1.03 (6.40)*	
Power distance		-0.05 (1.04)					
Uncertainty avoidance			-0.12 (1.93)**				
Individualism				-0.07 (1.52)			
Masculinity					-0.10 (1.19)		
Composite index (D)						-0.04 (2.25)*	-0.09 (3.12)*
R ²	0.56	0.58	0.61	0.59	0.59	0.62	0.20
Adjusted R ²	0.55	0.56	0.59	0.57	0.56	0.60	0.18
F statistic	50.46 (1,39)	26.39 (2,38)	29.46 (2,38)	27.81 (2,38)	226.80 (2,38)	30.39 (2,18)	9.73 (1,39)

Note: Dependent variable is number of alliances per country. Total trade is measured in NZ\$ billions. Estimated coefficients are reported with t values in brackets. * or ** indicate coefficients significant at the 5% or 10% levels.

All the estimated coefficients in Table 18 have the expected signs although most of the Hofstede measures fail to reach the accepted levels of significance. As hypothesised, the value of total trade is a positive and consistently significant determinant of the number of alliances formed with each overseas country. In each case this number is reduced by the psychic distance from New Zealand although, of Hofstede's individual indexes, only that relating to uncertainty avoidance is significant. The composite of Hofstede's index is also significant, even when the total trade variable is included in the same regression, so there is some limited support for the psychic distance component of this hypothesis.

4.3 DISCUSSION

As the previous section on results, this section is also divided into four subsections. These are alliance involvement, alliance types, alliance objectives, and partner asymmetries.

4.3.1 ALLIANCE INVOLVEMENT

As mentioned earlier in this chapter, of the 140 firms completing the questionnaire, 55 (39.3%) firms were currently involved in one or more international strategic alliance. In terms of this level of involvement, we note that the Conference Board (1994)² found that about 30% of United States and Canadian firms engage in alliance activities outside North America, while about 25% of European firms are involved in alliances outside the European Union. It therefore appears that New Zealand companies, in comparison with companies from North America and Europe, are particularly active entering into strategic alliances with overseas partners. A contributing factor is likely to be the New Zealand's small domestic market and its geographical isolation from most major markets.

More than half (57.4%) of the companies which are currently not involved in any international strategic alliances responded that they see no reason for why they should enter into any such alliances. It is likely that most of these organisations are primarily concerned with serving the domestic market. Furthermore, eight (11.8%) companies stated that alliance formations were handled by the head office located overseas as the reason for why they were presently not involved in any international

² Strategic alliance activities were defined to include acquisitions, mergers, joint ventures, limited partnerships, marketing alliances, license agreements and technology exchanges

strategic alliances. Another eight companies (11.8%) said that they were unable to identify any suitable foreign partners. Only one company stated that the risk of revealing company secrets is too high as the reason for staying away from international strategic alliances. Some researchers (for example Reich and Mankin (1986)) have suggested that companies should stay away from strategic alliances for this reason.

4.3.2 ALLIANCE TYPES

It was established earlier in this chapter that, for both current and terminated alliances, licensing agreements are the most common form of international strategic alliances followed by joint ventures. This is in contrast with the literature where joint ventures tend to be mentioned as the most common alliance form (Bleeke and Ernst 1995). However, Lorange and Roos (1992, p4) hold that a firm might wish to start out in a less committed mode and then upgrade the type of cooperative relationship over time as mutual trust, confidence and commitment have been developed. In terms of conceptualizing trust, we can say that trust exists between two parties when each party has confidence in the other party's reliability and integrity (Morgan and Hunt 1994). In terms of conceptualizing commitment, we can say that a commitment exists between two parties when each party believes that an ongoing relationship with the other party is so important as to warrant maximum efforts at maintaining it (Morgan and Hunt 1994).

As we will show later in the thesis, relatively few international strategic alliances were entered into prior to 1986, so many of these companies have limited experience of international strategic alliances. This would also explain why licensing

agreements, which tend to require less commitment than other forms, are more common in the sample of New Zealand companies.

4.3.3 ALLIANCE OBJECTIVES

As mentioned in the earlier section on results, for both current and terminated alliances, gaining market access was found to be the most common objective behind international strategic alliance formations involving New Zealand companies. This is in contrast with El-Hajjar's (1991) findings of motivations behind British-foreign alliances. She concluded that technological complexity and development is the most important motivation behind British-foreign alliances. The reason for this difference in findings could be that the New Zealand domestic market is much smaller than that in the United Kingdom, and also that the physical distance to foreign markets are much larger for New Zealand companies than for British companies. According to Enderwick and Akoorie (1996, p55), New Zealand and Australia are the only OECD nations that do not enjoy immediate access to a market of at least 50 million people.

4.3.4 ALLIANCE PERFORMANCE

We found that 81.7% of current international strategic alliances are performing as expected or better. This seems to be in contrast with the alliance literature where high failure rates of alliances is reported. For example, Bleeke and Ernst (1991) hold that cross-border alliances have roughly a 50.0% rate of success. One reason for the high success rates could be that many New Zealand companies, due to the small domestic market, are heavily dependent on foreign markets. The international strategic alliances therefore become very important to these firms, and they are therefore likely

to invest considerable resources in the international alliances in order to make them work. Along similar lines, most New Zealand companies, being small, have limited resources and they are therefore dependent on alliance success to ensure their own survival. On the other hand, it could be that the New Zealand firms with positive international strategic alliance experiences are more likely to respond to an alliance survey than those New Zealand firms with negative alliance experiences.

That some international strategic alliances performed as expected or better before being terminated may indicate that alliance duration as a measure of venture performance, as used by some researchers (for example Harrigan 1988), may have limitations. It could very well be that some strategic alliances are meant to be in operation for a limited period of time only, for example to undertake a specific task, and thereafter to be terminated. The termination of such an alliance is therefore not a sign of alliance failure.

Current international strategic alliances were found to perform better than terminated alliances. This would be expected since many terminated alliances are terminated due to poor performance. However, it is important to point out that not all terminated alliances suffer from poor performance. Some alliances are terminated because they have fulfilled their objectives or because they have come to the end of their useful life. As an illustration, of the 26 terminated alliances we obtained data on, three alliances performed "much better than expected" prior to termination.

We found no difference in alliance performance comparing alliances formed by New Zealand firms with no prior international strategic alliance experience with those alliances formed by New Zealand firms with prior international strategic alliance experience. One reason for this finding could be that there are obviously a number of

factors, other than international alliance experience, that influence alliance performance, and we were not able to control for any of these factors. However, our findings are in line with those of Barkema et al. (1997, p426) who concluded that “experience with domestic joint ventures and with international wholly owned subsidiaries contributed to the longevity of international joint ventures, but prior experience with international joint ventures did not.”

4.3.5 PARTNER ASYMMETRIES

This section is divided into three subsections all dealing with different forms of partner asymmetries. The first subsection is concerned with partner differences in terms of size. For the purposes of this study, size refers to number of employees. The second subsection deals with partner asymmetries in terms of national culture. Finally, the last subsection is concerned with psychic distance and level of trade.

4.3.5.1 PARTNER SIZE

Hypothesis one, stating that the more similar in size the international strategic alliance partners are, the better the strategic alliance will perform, was not supported by the data. This result is in contrast with most previous strategic alliance research which has suggested that partner differences in terms of partner size has negative implications for alliance performance. Our findings indicate that asymmetry between alliance partners may not always have negative implications for alliance outcomes. This view is in line with Parkhe’s (1991) suggestion that there are two types of interfirm diversity present among the partners in international strategic alliances. Type I diversity includes the interfirm differences that international strategic alliances are

specifically formed to take advantage of. On the other hand, type II diversity refers to the differences in partner characteristics that may have a negative effect on strategic alliance performance. It follows that in strategic alliances where the benefits from type I diversity outweigh type II diversity, partner differences may have a positive influence on performance.

Finally, since most prior research has shown that partner asymmetries have a negative impact on alliance outcomes, it is suggested that future research in this area is warranted. Case study research could be an appropriate research methodology for such future research since, according to Eisenhardt (1989, p548), case study research is appropriate “to provide freshness in perspective to an already researched topic.” The next chapter will attempt to do exactly this, to provide a fresh perspective on this issue.

4.3.5.2 PARTNER NATIONALITY

Hypothesis two, stating that the closer the country cultures of alliance partners, the better the alliance outcome, was not supported by the data. As for hypothesis one, this result is in contrast with most previous strategic alliance research which has suggested that partner differences in terms of partner nationality has negative implications for alliance performance. In line with the findings on partner size, these findings indicate that asymmetry between alliance partners may not always have negative implications for alliance outcomes. Therefore, as before, this view is in line with Parkhe’s (1991) suggestion that there are two types of interfirm diversity present among the partners in international strategic alliances. Type I diversity includes the interfirm differences that international strategic alliances are specifically formed to

take advantage of. On the other hand, type II diversity refers to the differences in partner characteristics that may have a negative effect on strategic alliance performance. It follows that in strategic alliances where the benefits from type I diversity outweigh type II diversity, partner differences may have a positive influence on performance.

Finally, in line with the discussion on partner size above, since most prior research has shown that partner differences have a negative impact on alliance outcomes, it is suggested that future research in this area is warranted. Case study research could be an appropriate research methodology for such future research since, according to Eisenhardt (1989, p548), case study research is appropriate “to provide freshness in perspective to an already researched topic.” The next chapter will attempt to do exactly this, to provide a fresh perspective on this issue.

4.3.5.3 PSYCHIC DISTANCE AND TRADE

The foreign country involved in New Zealand international strategic alliances was explained by psychic distance and the total trade flow with New Zealand. In this respect New Zealand is a useful test case because of its predominant Western culture and its trading association with a large number of Asian countries. This enabled us to test Hofstede's (1984, 1991) indices of psychic distance using alliances formed per country as the dependent variable. Generally, while a number of the individual indices were not significant, we did find greater psychic distance to be associated with fewer alliances. In other words, for the same level of total trade, the greater the psychic distance the fewer the number of alliances. To this limited extent, Hofstede's (1984, 1991) work is endorsed by the findings of this study.

The main findings of this section can be divided into two parts. First, New Zealand companies have a high level of alliance involvement with licensing agreements being the most common international alliance type. Gaining market access tend to be the most important alliance objective, and New Zealand international alliances seem to perform, on average, somewhat better than other international alliances.

There are several explanations for these findings. Contributing factors to the high level of alliance involvement are likely to be New Zealand's small domestic market and its geographical isolation from most major markets. The high number of licensing agreements are likely to be a result of New Zealand's relatively low level of research and development spending. By entering into licensing agreements with foreign companies local companies gain access to foreign technology. As New Zealand's domestic market is small, getting access to international markets becomes important and this explains why gaining market access is the most important alliance objective. Finally, one reason for the high success rate could be that many New Zealand companies, due to the small domestic market, are heavily dependent on foreign markets. The international strategic alliances therefore become very important to these firms, and they are therefore likely to invest considerable resources in the international alliances in order to make them work. Along similar lines, most New Zealand companies, being small, have limited resources and they are therefore dependent on alliance success to ensure their own survival.

The second set of findings involves partner asymmetries. We found that partner differences in terms of firm size does not have negative implications for alliance performance. At the same time, similarity or closeness in terms of alliance

partners' country culture does not necessarily lead to better alliance performance.

Finally, in terms of partner nationality, the foreign country involved in New Zealand international strategic alliances was explained by psychic distance and the total trade flow with New Zealand.

The first two findings are in line with Parkhe's (1991) suggestion that there are two types of interfirm diversity present among the partners in international strategic alliances. Type I diversity includes the interfirm differences that international strategic alliances are specifically formed to take advantage of. On the other hand, type II diversity refers to the differences in partner characteristics that may have a negative effect on strategic alliance performance. It follows that in strategic alliances where the benefits from type I diversity outweigh type II diversity, partner differences may have a positive influence on performance.

The third finding supports Hofstede's (1984, 1991) work on national culture.

4.4 CHAPTER SUMMARY

The main purpose of this chapter is to establish how partner asymmetries affect alliance performance. Three hypotheses were tested in order to achieve this.

Hypothesis one, stating that the more similar in size the international strategic alliance partners are, the better the strategic alliance will perform, was not supported by the data. This result is in contrast with most previous strategic alliance research which has suggested that partner differences in terms of partner size has negative implications for alliance performance.

Hypothesis two, stating that the closer the country cultures of alliance partners, the better the alliance outcome, was not supported by the data. As for hypothesis one,

this result is in contrast with most previous strategic alliance research which has suggested that partner differences in terms of partner nationality has negative implications for alliance performance.

Hypothesis three, stating that the closer the psychic distance and the higher the level of trade with a particular country, the more strategic alliances will be entered into with partners from that country, was only partially supported by the data. However, we did find greater psychic distance to be associated with fewer alliances. In other words, for the same level of total trade, the greater the psychic distance the fewer the number of alliances.

PART 2

The following two chapters present and discuss the results from the case studies. These chapters consider detailed data from selected firms while the previous chapter considered general data from a large number of firms.

The table below gives an overview of the 14 case study firms.

Table 19
Overview of the Case Study Firms

Firm	Number of Employees	Industry	Number of Current International Alliances	Number of Past International Alliances
VE1	4,100	Automotive Parts Ship Repairs Food Products	1	2
VE2	50	Medical Equipment	5	3
VE3	1,500	Fishing and fish processing	10	0
VE4	500	Medical Equipment Plastics Food Products	14	2
VE5	600	Engineering Services	2	1
VE6	6,000	Dairy Products	18	17
UF1	20	Electrical Equipment	4	0
UF2	520	Skin Tanning	1	0
UF3	450	Trading of Agricultural Products and Services	1	0
MF1A	580	Cement	1	0
MF1B	3,600	Brewing	3	0
MF2A	5	Agricultural Seeds	1	0
MF2B	23	Agricultural Seeds	5	1
MF2C	50	Agricultural Seeds	27	11
		TOTAL	93	37

Of the firms in the table, VE1-VE6 belongs to the varied experience group. These

firms have experience from at least two international strategic alliances where at least one alliance is performing better than expected, and at the same time, at least one other alliance is performing worse than expected. UF1, UF2 and UF3 belong to the unattached firms group. Of these three firms, one firm has experience from two international strategic alliances performing much better than expected while the two other firms each has experience from one international strategic alliance performing worse than expected. Finally, MF1A/B-MF2A/B/C belong to the matched firms group. These firms form two matched firm groups, one group including two firms and the other group including three firms. The first group is made up of two firms that formed joint ventures in China at about the same time. One of these joint ventures is performing better than expected while the other is currently performing worse than expected. The second group is made up of three firms from the agricultural seed industry. Collectively, these three firms have experience from a high number of international strategic alliances. Some of these alliances are performing better than expected while others are performing worse than expected.

Some of the case studies concentrate on partner asymmetries and learning while others are devoted mainly to alliance objectives and contracts. However, the full case profile of all the case studies are in the appendices, and we suggest that the reader reviews these appendices before proceeding with chapters five and six.

<p style="text-align: center;">CHAPTER 5 PARTNER ASYMMETRIES AND ALLIANCE OUTCOMES</p>
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5.1 INTRODUCTION

This chapter addresses the question of why international alliances between well-intentioned partners are unsuccessful. These cross-border alliances are now a common facet of the strategic development of companies all over the world and they are likely to remain so (Ohmae, 1993, p 36). Most research in this area has concentrated on the large corporates of North America, Europe and Japan. New Zealand is a small open economy heavily dependent on the success of its international businesses. The domestic market is very competitive, a consequence of the substantial liberalisation that has taken place since the mid-1980s. This compels growth-oriented firms to find ways of either moving into foreign markets without all the cost economies that scale can provide or enhancing their domestic offerings to more effectively combat imports. Against this background there are two sets of reasons why international alliances should be of particular importance to New Zealand companies. First, even the largest businesses operating from New Zealand are small by international standards. Hence, on their own, New Zealand firms are unlikely to achieve the volumes required to produce product at the world price. Second, New Zealand is a low technology country in terms of its ratio of R&D to GNP and so the locally-owned companies do not benefit as much as they might from ready access to the highest high technology that is available. The importance of technology for sustained competitive strategy again leads New Zealand firms to look favourably at

the benefits of international strategic alliances with more sophisticated foreign companies. However, internationally at least half of all alliances fail to meet the expectations of all partners (Bleeke and Ernst, 1991) and there are no *a priori* grounds for expecting the situation to be any better in New Zealand. The rest of the chapter is in four sections. In the next we review briefly the literature on alliance outcomes and justify our particular focus on the 'why' question. Then we explain the particular multi-case study design used to address this question. Case analysis follows and the chapter ends with our conclusions and suggestions for further research.

5.2 ALLIANCE OUTCOMES

It is generally accepted that a large number of successful, well-managed companies have great difficulty in maintaining successful international alliances to the mutual benefit of the partners involved. In their more recent study, Bleeke and Ernst (1995, p 97) claim that "the median life span for alliances is about seven years, and nearly 80% of joint ventures - one of the more common alliance structures - ultimately end with one partner selling out to the remaining partner(s)." Spekman et al. (1995) indicate that 60% of all alliances fail. The main cause of this high rate of failure has been attributed to a range of asymmetries between partners. In her major study of alliance outcomes, Harrigan (1988) studied cross-section data on 895 alliances in 23 industries and issued a general caution against forming alliances with partners where there were marked asymmetries in cultures, asset sizes, and venturing experiences. Such findings are then construed into prescriptive advice to managers concerning their search criteria for alliance partners. There are two points to be made here. First, if asymmetries were so detrimental for alliance outcome, why would so many

experienced managers continue to consummate such alliances? It is indeed something of a paradox of large cross-section studies such as Harrigan's can only reach their prescriptive conclusions because a sufficiently large number of these managers act counter to these prescriptions. Second, it is difficult indeed to envisage how asymmetries can be removed from international alliances. In the case a the New Zealand firm seeking to ally itself with a technologically superior company, the desired asymmetry (technology) can only be gained if other asymmetries (e.g., culture, asset size, and venturing experience) are accepted.

This dual role of asymmetries within international alliances has recently been developed by Parkhe (1991). The basis of Parkhe's argument is that there are indeed two types of interfirm asymmetry which he labels as Type I and Type II. A Type I asymmetry includes those differences international alliances are formed to take advantage of. While these positive asymmetries need not be the same for all partners to an alliance, it is reasonable to presume that there will be some Type I advantage for all partners. On the other hand Type II asymmetries are differences that will have some negative effect on alliance outcome but which are accepted in order to gain the Type I advantages. Acceptance of competing sets of alliance effects also brings aspects of timing and learning into the balancing act. Clearly if Type II effects are large and allowed to dominate the Type I effects for an extended period of time, then the alliance outcome would be disappointing for at least one of the parties. The key to avoiding this outcome centres on the identification of the Type II effects and the instigation of an effective learning process which not only transmits the Type I effects but also enables two parties to overcome the Type IIs at the same time.

Lyles (1988) studied four firms with extensive joint venture experience. She

found that what the firms learned from their joint venture experiences is both unique and at the same time general. It is unique in that each firm has its own unique characteristics and histories, and it is general in that there exists some pattern to the learning. Lyles (1988) suggests that this pattern is generalizable across the firms.

The related issues of timing and intra-alliance learning are also dealt with in the recent conceptual paper by Khanna et al. (1998). These authors ascribe alliance failure to a poor understanding of the learning dynamics taking place within an alliance. In effect, Khanna et al. are seeking to shift the focus of alliance failure away from Parkhe's Type II asymmetries. The real cause is the different rate of learning that one partner can bring to assimilating the perceived Type I benefits of the alliance. Such benefits can be technology-based but could also include the understanding of a particular market segment or territory. As these authors point out, "significantly greater benefits might accrue to the firm that finishes learning from its partners before the latter can do the same" (Khanna et al., 1998, p 194). The faster learner can then quit the alliance and deny its ally the opportunity to learn from it. The incentive to learn fast depends on the proportion of a firm's trading activities that are 'private' i.e., not included in the activities that are 'common' to the alliance. It follows that the greatest likelihood of disappointing outcomes is when parties to an alliance each have a high proportion of their business outside of the alliance. Here each partner has the scope to apply what they can learn from the alliance: they each have a strong incentive to be the faster learner (at the expense of the other). The least likelihood of disappointment arises when most of the benefits of an alliance are 'common' to the alliance. This means that the benefits can only accrue to all parties once they have each learned enough to synthesise their knowledge bases. So learning in pursuit of

common benefits is a joint process with the same rewards for all and no special prize for the winner.

This points to learning behaviour being the main determinant of alliance outcomes. Those involved must learn how to assimilate Type I effects whilst working together to learn how to overcome or circumvent Type II effects. In addition, as we have just noted, the incentive to assimilate the Type I effects will itself vary across and within alliances. This is the case because the opportunity set of each partner outside of a particular alliance does affect its learning behaviour within the alliance and hence alliance outcome. All of this bears on the central question of this research: why are so many international alliances deemed unsuccessful by at least one of the parties?

5.3 RESEARCH METHODOLOGY

This study employs a mixed research methodology consisting of survey research followed by case study research. There are two main reasons for this. First, by combining the more general data from a large number of firms with the more detailed data from a few firms, a richer picture of the phenomena under investigation can be drawn. Second, by doing the investigation in stages, the first research stage assists the second stage. By analysing the data obtained from stage one before entering stage two, the results from stage one can be used as a basis for selecting information-rich cases relative to the phenomena being studied.

In order to build maximum partner asymmetry into the study, alliance managers were asked in the mail survey to report in detail on two of their current international alliances, those with the largest and the smallest (in terms of turnover) foreign partners. Extreme cases (Patton, 1990, p 169) were selected for follow-up

study. Extreme cases are cases that are likely to be rich in information because they are distinctive in ways consistent with the research question. First we sought to include companies with current varied experience with international alliances, i.e., they each had contemporaneously at least one alliance performing “better than expected” and one “worse than expected” (“success” and “fail” respectively). This group of three firms is of interest because they bring variation in alliance outcome while controlling for size of the New Zealand partner, composition and experience of the senior management, and the form of international alliance (joint venture). A second group of firms were selected where neither size, senior management nor alliance type would be constant. This group of firms, four in all, comprised two firms who have recently formed international alliances with Chinese partners. These ventures are in very different industries (cement and brewing) and appear to have different outcomes. The final pairing was two firms in the same industry, international seeds, where each has a current international agreement (not joint venture) but again with different outcomes apparent. In this way we created a multiple case study design within which there is as much variation as possible in the dependent variable (alliance outcome) and a number of controls (firm, management, overseas country, alliance type and industry) to help isolate the causes of these different outcomes. The firms, none of whom wished to be named in this study, and their alliances are described in the table on the next page. (The full case profile of each of these firms are in the appendices.)

Table 20
Alliance Outcome and Type I and Type II Effects

Firm Code	Size (NZ Employees)	Industry	Alliance Type/Country	Type I Effects	Type II Effects	Alliance Outcome
VE1	4,100	Ship repair	JV/UK	MK, T	CC, NC	Fail
		Auto parts	JV/Australia	MK	CC	Success
		Food stuff	JV/S'pore	MK, T	CC, NC, S	Success
VE2	50	Medical	JV/Switz.	MK, T	CC, NC	Fail
		Equipment	JV/UK.	MK, T	NC	Success
VE3	1,500	Fishing and	JV/Japan	MA	NC, S	Fail
		Processing	JV/Japan	MA	NC, S	Success
MF1-A	580	Cement	JV/China	MK, T	NC	Fail
MF1-B	3,600	Brewing	JV/China	MK, T	NC	Success
MF2-B	23	Agri seeds	License/ Holland	MK, T	NC, S	Fail
MF2-A	5	Agri seeds	R&D/ Holland	MK, T	NC	Success

Note: Type I and Type II effects follow Parke (1991). They are as follows: market access (MA), market knowledge (MK), technology (T), corporate culture (CC), national culture (NC), partner size (S), business ethics (BE).

5.4 CASE ANALYSIS

The purpose of this analysis is to provide insights into why some of these alliances failed when other contemporary alliances fared better. In addressing this question we use the case study evidence in what Yin (1994, p5-6) describes as explanatory mode, i.e., in producing valid explanations of how and why the different outcomes (fail/success) arose in each case. The first point to note is that the alliance outcome does not appear to be linked with the number or nature of the Type I and Type II effects evidenced during the field interviews. In this sense we cannot associate outcome with what we might refer to as the 'content' of the individual alliances. This means that the main independent variables are those related to the learning environment within the alliance and the potential for private opportunistic

gain outside of the alliance. Thus, following Yin (1994, p108-109) we use a pattern match of these independent variables to explain the different known alliance outcomes. The ultimate objective is to obtain literal replication among multiple cases with the same outcome and theoretical replication between cases where the outcomes are different.

VE1 alliances

The New Zealand firm had a 30% stake in the failed JV with the UK-based ship repair business but sold this to its partner after only one year of operation. The UK company continues to operate the ship repair business in New Zealand on its own. There appear to be three aspects to the apparent failure of this alliance. First there were marked differences in corporate culture. The New Zealand partner had a history of buying and selling companies and had a short-term orientation to performance. This style of doing business was not shared by the UK partner. This led in turn to a second aspect: disagreement on how the JV should be run on a day-to-day basis, a conflict situation which was greatest between the CEO of VE1 and the Managing Director of the JV (on secondment from the UK). The consequent breakdown of trust meant that no learning process could get underway that might have resolved the differences stemming from the Type II culture differences. The third aspect is the rapid rate which the UK partner was able to assimilate the Type I benefit (local market knowledge) and continued to operate on its own in New Zealand.

In both of its more successful JVs this New Zealand company had at the outset at least a 50% interest and a clear 'hands off' approach to the daily management of these operations. The auto parts venture was with the only Australian firm

manufacturing the product (suspension rings). The motivation for two competitors to form a JV was to increase their bargaining power against large customers and large suppliers. In other words there were common benefits available to the alliance which would not be available to the individual parties. This mutual dependence held the alliance venture together for six years. The New Zealand partner has recently (1997) sold its 50% share of the JV to a large US auto equipment company.

The foodstuff JV centred on the business supplying all of New Zealand's domestic and industrial needs for salt. The New Zealand had been the 50.1% owner of this JV since 1981. The minority owner was a large Singaporean company that had (a) links to extensive business interests in New Zealand and (b) a separate JV with the Australian firm that supplied the NZ operation with about half of its salt. The basis of this JV seems to be product and market access. The Singaporean company had been involved in the salt JV since 1961 and can have had little left to learn about either the simple technology or the local market. The New Zealand firm recently sold out its controlling interest to its Australian supplier.

The New Zealand manager involved in all three of these JVs sums up his experience as follows:

A joint venture is not the cleanest thing to get involved in. I would rather control what I have got myself or get rid of it, and somebody else can worry about it. In a joint venture you always have to be diplomatic and communicate with your partner. Understand what the partner wants and where he wants to go. It is more hard work generally, unless it is [the salt JV] which operates itself.

VE2 alliances

The Managing Director of the New Zealand firm explained why they become

involved in international JVs as follows:

Probably in all our JVs we have tried to find partners who already have a good knowledge in the market. That is probably the primary goal of our JVs, so we are: (a) tapping into all that market knowledge, and (b) hopefully because of ownership we are getting commitment from the partner to make this JV company go.

The failed JV was set up with a small Swiss partner in 1993. It did not fit with this rationale. The Swiss company was owned and operated by one person. Its role was to act as agent for the NZ company's products throughout Europe. In this capacity the Swiss partner, with 50% control of the JV, was empowered to support, hire and fire distributors. The Swiss partner was not himself involved in distribution. There were three problems here. First, the European market knowledge was probably over-stated and so the NZ partner did not obtain the learning needed to create the common benefits of the alliance. Second, conflicts of interest developed as the Swiss partner began to pursue private benefits to the detriment of the NZ firm's sales into Europe. Third, since the same Swiss national was in effect owner, managing director and employee, there was little the NZ partner could do to correct any weaknesses and retain the JV. The alliance was terminated in 1995.

There are a number of clear differences between this Swiss experience and the successful UK JV set up in 1992. First, the UK company was already a successful distributor and willing to share its market knowledge to provide benefits to its NZ partner. Second, a competent person was hired to manage the JV. Third, even though the UK company did have commercial interests in the same field, i.e., scope to exploit private benefits from the alliance, this was never allowed to interfere with the

development of the JV. This UK JV has recently become a wholly owned subsidiary of the New Zealand company.

VE3 alliances

Both of these JVs centre on fishing access to New Zealand territorial waters and to the lucrative Japanese market for quality fish. Access to the New Zealand fishery requires quota and it is this that the New Zealand partner contributed to these alliances. The Japanese company ensures access to the market and some provision of deep-sea trawlers. The main problem with the unsuccessful venture is that the Japanese company had much greater scope to extract private benefits through its knowledge of and control over entry into the market. The point at issue was the continued lack of openness or understanding of the transfer prices paid by the Japanese partner to the JV for the fish supplied.

The second JV between the same partners was approached differently by the New Zealand company who currently view it as a “major success”. In a sense what has happened between the two JVs is that in the second one the New Zealand firm has been much more explicit on what it expects as common benefits from the alliance. As the New Zealand manager pointed out:

We spent a lot of time on things like transfer price which was an issue with the first one, on feeling the compatibility of our objectives, looking at what would happen with the costs in the whole operation, the openness and so on. Spent a lot of time before we agreed to formalise that one, to make sure that the rules were very very clear and well documented.

MF1 A and B alliances

Both New Zealand companies entered into JVs with Chinese partners in the

same region of China at about the same time. MF1A is in the cement industry and, in comparison with MF1b, engaged in a very limited partner selection process. A significant problem with this JV is that the extent of the learning that the New Zealand partner believes to be necessary (to obtain common benefits) is not happening. As the Managing Director pointed out:

We have put in some very modern reporting on quality and production controls, and that is completely foreign to them [the Chinese partner]. It is a slow process getting the Chinese managers to accept that they are useful tools for managing the business.

Another facet of this problematic situation is that the New Zealand partner owns only 25% of the JV but it does have responsibility for the day-to-day management of the cement plant owned by the JV partners.

In very direct contrast MF1B spent around two years evaluating possible brewing partners in China. The company carefully evaluated 45 separate breweries including meetings with owners and managers, technical assessment of the facilities, and market evaluations of the regions being supplied. This company now controls 60% of a successful operation:

We are perceived by our partners to be a good partner, and we see them as a good partner. The joint venture is profitable, and we have avoided any conflict or we have avoided the need for any conflict. We have good management, we are investing in buildings and in the quality of the management. So there are few things today we would have changed.

The final feature to note in MF1B is this reference to the avoidance of conflict. Given the size of the Chinese beer market and the difficulties in operating in that due

to culture differences, the Chinese partner does have considerable potential for extracting private benefits from the JV. That this is recognised as a potential problem and so far been avoided is testimony to the care applied in the early stages of alliance formation.

MF2 B and A

These alliances involve a failed licensing agreement and a successful R&D agreement between New Zealand seed producers (MF2 B and MF2 A respectively) and similar firms based in Holland. The failed agreement, set up in 1988, gave the Dutch party the right to produce and sell a New Zealand proprietary seed variety throughout the whole of Europe. It is now conceded with the benefit of hindsight that this was not a wise move. In effect this gave the foreign partner huge potential for extracting private benefits from the agreement. In addition it emerged that the Dutch party also had some competing product of its own of which the New Zealand firm was unaware at the outset. All in all this was one alliance that does appear to have been destined to fail.

The R&D agreement involving the other New Zealand seed firm (MF2 A) has so far been judged a success. The two other parties are a scientific agricultural research organisation in New Zealand and a Dutch seed distributor. The research organisation will develop seed varieties suitable for the climates in northern and southern Europe. When complete in several years time, the seed company will produce the seeds in New Zealand and the Dutch company will sell them throughout Europe. No separate legal entity exists for this agreement. The ownership of the jointly developed seed varieties will be covered by international patents held equally

by the three parties to the agreement. At the time of the fieldwork, the technical development is one year ahead of schedule. The success to date of this agreement has much to do with the technical development required. All parties seem to recognise the primacy of common benefits at this stage. This is recognised by the Managing Director of MF2 B:

The product is now in the development stage. Later on the product will be available in the market, and probably the cheaper the product is, the easier it will be to market. Against that we will be looking to get a price level that can ensure that we can get production here with New Zealand farmers in competition to other products that those farmers can grow. So perhaps when you interview us in five years time some of the answers may be slightly different, but right now the single minded [common] objective is to produce a clover and sell that in volume.

The final point here is to note that MF1 B and MF1 A are similar in so many respects except that they are at very different stages in terms of the market readiness of the product at the centre of the respective agreements.

5.5 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

The purpose of this chapter has been to move beneath the 'content' level of cross-section analysis to discover more about the processes associated with the success or failure of international strategic alliances. Any alliance will involve some combination of the Type I and Type II asymmetries introduced by Parkhe (1991). Parkhe (p580) suggests that "Type II differences may be overcome by iterative cycles of learning that strengthen the partnership" and we have no argument with this. However other authors (e.g., Reich and Mankin, 1986) have pointed to the importance that needs to be attached to the rate at which partners can learn and internalise the

available Type I benefits. The firms who can learn the fastest may then either neglect or terminate the alliance and proceed to compete directly with former partners. This emphasis on the rate of learning of Type I effects and the scope for their exploitation outside the agreed scope of the alliance is the important contribution of Khanna et al. (1998).

The case study evidence we have presented here seeks to isolate factors influencing alliance outcomes whilst 'other factors' are held constant. Our findings in general confirm the dichotomy of asymmetries introduced by Parkhe (1991). They also show how ongoing conflict between senior executives from the different sides of an alliance can inhibit the learning needed to overcome the Type II asymmetries in an alliance. Finally we have presented a number of examples in which the unsatisfactory outcome from the New Zealand partner's point of view has been due to the predominance of private benefit available to the foreign partner. In this situation the foreign partner will seek to maximise that rate of their learning and then neglect the alliance. Generally, the rate at which learning occurs with respect to both Type I and Type II asymmetries will be influential for the outcome of the alliance. Our research has produced many cases in which the New Zealand partner appeared to underestimate (a) the rate at which foreign partners could learn from the Type I asymmetries and/or (b) the scope of the private benefits available to the foreign partners in which to exploit their new learning. The successful alliances tended to be those in which the attention of the parties was focused on objectives and outcomes common to all involved in the alliance.

Two avenues for further research are suggested by this analysis. The first is to expand on the study by Lyles (1988) to investigate why learning may not occur within

some strategic alliances and relate this learning dysfunction to alliance outcome.

Second, given the presence of Type I effects, differential rates of learning, and the scope for a predominance of private benefits, there is a clear risk of self-seeking opportunism for some parties to an alliance. This lends itself to an agency theory formulation and a focus on how best to structure or manage the alliance to minimise such behaviour.

CHAPTER 6

ALLIANCE OBJECTIVES AND CONTRACTS

6.1 INTRODUCTION

The previous chapter found that in some cases the failure of an international alliance to meet expectations was due to a lack of basic agreement at a senior management level on how the alliance should be managed. Two important facets of alliance management are the setting of the objectives and, bearing in mind the opportunity for self-seeking behaviour by alliance members, the establishment and nature of the contracts which underpin the relationship. Neither of these has received the attention they deserve from academic researchers in part no doubt to the difficulties of both access to data and measurement. This chapter compares findings from the case studies with recent prescriptive management writing on strategic alliances. The chapter is divided into four sections. In the first six recent books on strategic alliances, published between 1990 and 1996, are summarised. These books are mainly targeted at the strategic alliance practitioner rather than at the academic. This is followed by detailed case histories of 3 of the 14 case study firms. The firms have been chosen to represent the full range of experience and practice on alliance objectives and contracts. The third section develops two general propositions and seeks to confirm these in an analysis of other firms involved in the study. The chapter concludes with an integrated discussion of the findings of the management literature and the multiple case studies evidence on alliance objectives and alliance contracts.

6.2 THE MANAGEMENT LITERATURE ON STRATEGIC ALLIANCES

Six books on strategic alliances published between 1990 and 1996 are summarised and while we do not claim this to be an exhaustive review, it does provide a fair overall picture of the contemporary prescriptive literature on the management of strategic alliances. Brief details on each of the six books are set out in Table 21 below.

Table 21
Recent Management Literature on Strategic Alliances

BOOK TITLE	AUTHOR(S)	AUTHOR'S OCCUPATION	SAMPLE
Partnerships for Profit: Structuring and Managing Strategic Alliances	Jordan D. Lewis (1990)	Management Consultant	About 36 case studies.
Strategic Alliances: Formation, Implementation and Evolution	Peter Lorange and Johan Roos (1992)	Academics	29 case studies.
Collaborating to Compete: Using Strategic Alliances and Acquisitions in the Global Marketplace	Joel Bleeke and David Ernst (editors) (1993)	Management Consultants	Case studies, number unknown. Estimate 5-50.
International Strategic Alliances: Co-operating to Compete	David Faulkner (1995)	Academic	10 case studies and survey data from 57 alliances.
Strategic Alliances: An Entrepreneurial Approach to Globalization	Michael Y. Yoshino and U. Srinivasa Rangan (1995)	Academics	Case studies, number unknown. Estimate 25-30.
The Alliance Revolution: The New Shape of Business Rivalry	Benjamin Gomes-Casseres (1996)	Academic	40 case studies

Four of the books are by academic authors who also do a considerable amount of management consulting. The authors of the remaining two books are full-time management consultants. The book edited by Bleeke and Ernst (1993) is considered to represent the well known management consulting company McKinsey & Company's "collective best thinking on how to succeed in cross-border alliances and acquisitions"

(Bleeke and Ernst 1993, pxiii). The books are mainly based on findings from case studies. However, none of the authors set out their analytical procedures in detail.

The practitioner studies and the academic studies tend to focus on different aspects of strategic alliances. As an example, partner asymmetries have received considerable attention in the academic literature, but very little is said about it in the practitioner studies. The practitioner studies seem to strive for a practical blueprint for alliance managers.

6.2.1 ALLIANCE OBJECTIVES

Lewis (1990, p218) stresses that the alliance partners must share a common objective. In terms of defining a joint venture, he goes on to say (Lewis 1990, p129) that “it isn’t possible or even wise to address each contingency, but every major function, policy, and outside relationship should be discussed, as well as issues likely to affect venture performance.” Lewis’ (1990, p218) view on the importance of a common alliance objective is shared by Lorange and Roos (1992, p106) who use the term goal congruence:

Because a number of firms can participate in an alliance, it is crucial that the objective-setting process allows for a sharing of outlooks regarding goals; that a common information base is established; and that the process is highly interactive, based on broad representation among all the relevant focal parts of the organizations. This ensures buy-in regarding the pursued strategy, establishes goal congruence and avoids information asymmetry.

Bleeke and Ernst (1993, p18) look at the issue of alliance objectives from a slightly different angle. They stress that it is important to let alliance objectives evolve. The two authors state that “the hallmark of successful alliances that endure is

their ability to evolve beyond initial expectations and objectives. This requires autonomy for the venture and flexibility on the part of the parents.” Furthermore, Faulkner (1995, p89) has a view similar to those of Lewis (1990, p218) and Lorange and Roos (1992, p106) in saying that:

The potential problem of conflicting objectives is everpresent in alliances, since, perhaps, the partners wish to obtain the advantages of joint activity while retaining their individual autonomy. As individual autonomy inevitably presents the potential for the development of conflicting objectives, a substantial contribution to success must therefore depend upon the quality of ‘mutual forbearance’.

Furthermore, Faulkner (1995, p90) contributes to the discussion on alliance objectives by saying that “congruent goals are indeed important, but the area is frequently left as ambiguous between the partners.”

Yoshino and Rangan (1995, p198) promote what they refer to as boundaryless management. Boundaryless management considers the strategic interests of the alliance partners, and thereby addresses the issue of alliance objectives. In the words of Yoshino and Rangan (1995, p198):

The boundaryless management Welch [CEO, General Electric] is calling for considers the strategic interests of both parties and tries to ensure that alliance structures achieve a balance between the needs of cooperation and competition. It eschews the not-invented-here syndrome, promoting instead a climate that fosters organizational learning. It permits firms confronted with problems to devise win-win strategies and to enjoy the fruits of cooperation without compromising core technological and managerial competencies. Boundaryless management enables firms to retain their independence even as they leverage one another’s strengths to compete effectively in their respective markets.

However, the two authors do not seem to address the issue of how to go about putting

boundaryless management into practice. Finally, Gomes-Casseres (1996, p160) is primarily concerned about alliance objectives relating to situations where multinational and local partners form alliances. However, he recognises that the issue of alliance objectives is not unique to those situations alone:

The role of coordination costs as a constraint on alliance formation surfaced in the earliest studies of international joint ventures. Coordination costs expressed themselves in these studies as a problem of geographic rationalization - the coordination of a firm's global activities to achieve higher total profits. As a general matter, multinational firms aim to maximize global profits, while local partners aim to maximize local profits. Because these two objectives are not always congruent, ... the interests of the partners are often at odds. Local alliances and joint ventures may thus effectively block the global firm from rationalizing its operations worldwide. This argument is not limited to joint ventures between multinationals and local partners. Conflicts of interest can occur whenever the objectives of partners differ.

Gomes-Casseres (1996, p160) goes on to say that "these coordination problems are often difficult to recognize and manage. The problems do not surface in all alliances, simply because not all alliances involve serious trade-offs between partner interests." However, he makes no attempts to offer any suggestions on how to manage the problems he has identified.

In summary, the six management books on strategic alliances all agree that it is important for the alliance partners to agree on alliance objectives. Some authors point out that to do so is not easy. However, none of the authors seem to offer any suggestions on how the problem can be managed. Table 22 on the next page summarises the findings from the management literature.

Table 22
Summary of Management Literature Findings on Alliance Objectives

Author	Findings on Alliance Objectives
Jordan D. Lewis (1990)	<p>(p218) You must be sure an arrangement is really an alliance - mutual need, shared risks, and a common objective.</p> <p>(p129) It isn't possible or even wise to address each contingency [in terms of defining a joint venture], but every major function, policy, and outside relationship should be discussed, as well as issues likely to affect venture performance.</p>
Peter Lorange and Johan Roos (1992)	<p>(p106) Because a number of firms can participate in an alliance, it is crucial that the objective-setting process allows for a sharing of outlooks regarding goals; that a common information base is established; and that the process is highly interactive, based on broad representation among all the relevant focal parts of the organizations. This ensures buy-in regarding the pursued strategy, establishes goal congruence and avoids information asymmetry.</p>
Joel Bleeke and David Ernst (editors) (1993)	<p>(p18) (written by Bleeke and Ernst) The hallmark of successful alliances that endure is their ability to evolve beyond initial expectations and objectives. This requires autonomy for the venture and flexibility on the part of the parents.</p>
David Faulkner (1995)	<p>(p89) The potential problem of conflicting objectives is everpresent in alliances, since, perhaps, the partners wish to obtain the advantages of joint activity while retaining their individual autonomy. As individual autonomy inevitably presents the potential for the development of conflicting objectives, a substantial contribution to success must therefore depend upon the quality of "mutual forbearance."</p> <p>(p90) It may be concluded, then, that congruent goals are indeed important, but the area is frequently left as ambiguous between the partners.</p>

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Table 22
(continued)

Author	Findings on Alliance Objectives
Michael Y. Yoshino and U. Srinivasa Rangan (1995)	<p>(p198) The boundaryless management Welch [CEO, General Electric] is calling for considers the strategic interests of both parties and tries to ensure that alliance structures achieve a balance between the needs of cooperation and competition. It eschews the not-invented-here syndrome, promoting instead a climate that fosters organizational learning. It permits firms confronted with problems to devise win-win strategies and to enjoy the fruits of cooperation without compromising core technological and managerial competencies. Boundaryless management enables firms to retain their independence even as they leverage one another's strengths to compete effectively in their respective markets.</p>
Benjamin Gomes-Casseres (1996)	<p>(p160) The role of coordination costs as a constraint on alliance formation surfaced in the earliest studies of international joint ventures. Coordination costs expressed themselves in these studies as a problem of geographic rationalization - the coordination of a firm's global activities to achieve higher total profits. As a general matter, multinational firms aim to maximize global profits, while local partners aim to maximize local profits. Because these two objectives are not always congruent, ... the interests of the partners are often at odds. Local alliances and joint ventures may thus effectively block the global firm from rationalizing its operations worldwide. This argument is not limited to joint ventures between multinationals and local partners. Conflicts of interest can occur whenever the objectives of partners differ.</p> <p>(p161) These coordination problems are often difficult to recognize and manage. The problems do not surface in all alliances, simply because not all alliances involve serious trade-offs between partner interests.</p>

6.2.2 ALLIANCE CONTRACTS

Lewis (1990, p128) refers extensively to the American company Corning's

alliance practices in his book. He holds that Corning “may be the most successful joint venturer in the world.” According to Lewis (1990, p225) Corning actively uses the alliance negotiations process to learn about their potential partner’s style. This learning process then becomes one element in concluding whether or not they can work comfortably with this particular potential partner. From the within-case analysis, we remember that VE3, the deep sea fishing, processing and marketing company, also actively uses the alliance negotiations process to learn about their potential partner’s style.

Lewis (1990, p231) also suggests that “managers who will have day-to-day responsibility for an alliance should negotiate it” rather than top level executives or legal experts. The reason for this is that these people are more likely to bring up relevant issues, and at the same time, partner bonds are formed early among the people who will be working together if the alliance is formed. From the within-case analysis, we remember that VE6, the producer board, also let alliance managers negotiate alliance contracts.

In terms of the contents of the alliance contract, Lewis (1990, p231) referring to Corning’s practices, suggests that “all issues of concern to either party should be included” and that “nothing should be taken on trust that can be reasonably formalized.” However, the alliance contract should include a clause on termination of the alliance so that “each partner can leave if it must” (Lewis 1990, p128). Furthermore, according to Lewis (1990, p128), Corning “wants termination to be difficult.” By doing so, they hope that their partner is more likely to talk to them about any issues which are bothering them rather than to just walk away.

In contrast to Lewis (1990), Lorange and Roos (1992) spend very little space

on alliance contracts in their book. The authors (Lorange and Roos 1992, p183) limit themselves to point out that cross cultural differences have an impact on negotiations. For example, Japanese companies tend to spend a longer time on contract negotiations than do American companies. In terms of time and timing, Ohmae (1993) (as reported in Bleeke and Ernst 1993, p45) is concerned about the static dimension of timing and alliance contracts. The author points out that a contract only reflects the situation at a specific point of time:

Contracts-even at their best-can only reflect an understanding of costs and markets and technologies at the moment companies sign them. When things change, as they always do, the partners don't really try to compromise and adjust. They look to the contract and start pointing fingers. After all, managers are human. They are sweet on their own companies and tolerant of their own mistakes. Tolerance goes way down when partners cause mistakes.

In other words, it is important for the alliance partners to remain flexible and to adjust as things change. Furthermore, in line with the findings of Lewis (1990, p231), Krubasik and Lautenschlager (1993) (as reported in Bleeke and Ernst 1993, p62) suggest that "in successful negotiations, problems do not get swept under the carpet, conflicts get addressed early, and balanced solutions get found." Further, Faulkner (1995, p187), along the lines of Lorange and Roos (1992) spend very little space on alliance contracts in his book. However, he (Faulkner 1995, p187), agrees with Lewis (1990, p231) in that "alliance negotiations heavily attended by corporate lawyers set a bad atmosphere for a subsequent trusting operation." Yoshino and Rangan (1995, p86) also spend little effort on alliance contracts by limiting themselves to pointing out that negotiating, monitoring and enforcing contracts can be costly. Finally, Gomes-Casseres (1996, p33) looks at alliance contracts briefly from a transaction cost

perspective by stating that “to the extent that contracts are costly to negotiate, monitor, and enforce, transactions will be carried out within firms.” Transaction cost theory (Williamson 1975, 1985) is discussed in the literature review chapter of this thesis.

Table 23 below summarises the findings from the management literature on alliance contracts.

Table 23
Summary of Management Literature Findings on Alliance Contracts

Author	Findings on Alliance Contracts
Jordan D. Lewis (1990)	<p>(p225) Corning learns about a firm’s style before and during negotiations to conclude whether they can work together comfortably.</p> <p>(p231) Managers who will have day-to-day responsibility for an alliance should negotiate it and write the business plan.</p> <p>(p231) The contents of an alliance agreement depend on firms’ knowledge of each other. Corning believes nothing should be taken on trust that can reasonably be formalized. All issues of concern to either party should be included. But details of implementation, monitoring, penalties, and control should be held to a minimum.</p> <p>(p128) As with all alliances, plans for joint ventures should include understandings about termination. This way, each partner can leave if it must. Yet Corning, which may be the most successful joint venturer in the world, wants termination to be difficult. Corning tries to create the attitude: “If you are unhappy, let’s sit down and talk about it; don’t just walk away.”</p>
Peter Lorange and Johan Roos (1992)	(p183) Cross cultural differences have an impact on negotiations, for example, the Americans and the Japanese tend to use time differently.

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Table 23
(continued)

Author	Findings on Alliance Contracts
Joel Bleeke and David Ernst (editors) (1993)	<p>(p45) (written by Ohmae (1993)) Contracts-even at their best-can only reflect an understanding of costs and markets and technologies at the moment companies sign them. When things change, as they always do, the partners don't really try to compromise and adjust. They look to the contract and start pointing fingers. After all, managers are human. They are sweet on their own companies and tolerant of their own mistakes. Tolerance goes way down when partners cause mistakes.</p> <p>(p62) (written by Krubasik and Lautenschlager (1993)) In successful negotiations, problems do not get swept under the carpet, conflicts get addressed early, and balanced solutions get found.</p>
David Faulkner (1995)	(p187) Alliance negotiations heavily attended by corporate lawyers set a bad atmosphere for a subsequent trusting operation.
Michael Y. Yoshino and U. Srinivasa Rangan (1995)	(p86) Among the costs of managing an alliance are those associated with negotiating, monitoring, and enforcing contracts. Contracts that must cover a multitude of contingencies or accommodate disagreements between partners regarding relative values of contributions are difficult to write and hence costly.
Benjamin Gomes-Casseres (1996)	(p33) To the extent that contracts are costly to negotiate, monitor, and enforce, transactions will be carried out within firms.

6.3 WITHIN-CASE ANALYSIS

This section presents a detailed within-case analysis of three of the 14 case study firms. Due to the limited space available, it is not practical to bring more than three detailed cases into the main text of the thesis. The firms featured here were selected on the basis that they provide considerable insight into the wide variation which exists in the degree of formality involved in the setting of alliance objectives and the nature of any alliance contract. The first case (VE6) has the most formal

systems and procedures in place. The final company (UF1) has the most informal and MF2C sits in between the two extremes.

The within-case analysis is of a descriptive nature, and the purpose is to generate insight (Eisenhardt 1989) by demonstrating how the issues of alliance contracts and alliance objectives arise in the firms. The three cases form a basis for the development of the theoretical propositions used to guide the case study analysis later in the chapter. The two main themes to note in the three case descriptions are risk and trust.

Case One - Firm Code VE6

The New Zealand organisation, a producer board (hereafter referred to as the Board), is responsible for the export marketing of all New Zealand dairy products on a global basis. It has an annual turnover in excess of NZ\$5 billion, and based on turnover, it is the second largest company in New Zealand. The Board employs more than 6,000 people, and it has established a network of over eighty subsidiary and associate companies around the world. Its two major competitors throughout the world are Kraft and Nestlè. More than 90 percent of all dairy products produced in New Zealand are exported.

The Board is controlled by New Zealand dairy farmers. They own, on a cooperative basis, dairy companies which own the Board's total capital of NZ\$750 million. Each cooperative's ownership share is calculated as the proportion of qualifying milkfat that it produces. Generally speaking, the Board's net profit is paid to the dairy cooperatives that pay their net profit to the dairy farmers.

The Board is probably the most experienced organisation in New Zealand in

terms of international strategic alliances. All its past and present international strategic alliances are joint ventures, and the first was formed in 1963 with a partner from Malaysia. This particular joint venture is no longer in operation. The Board has formed some 35 international joint ventures in total. Of these, 18 are still in operation as joint ventures. Of the 17 joint venture relationships which have been terminated, eight have become wholly owned subsidiaries of the Board, six have been sold and the remaining three joint ventures have been wound up. The Board's ownership share in each joint venture varies, but it is at least 30 percent. The joint ventures have been formed with partners from all over the world.

The development of most of their joint venture relationships have been done incrementally. Explains the Group General Manager Marketing of the Board:

It is very much like a whole development pattern all around the world, we move from a liaison office to small scale trading company, and we move to either ingredient operation or food service or consumer depending on how that market is developing. We have taken incremental exposure right around the world. It depends on the scale of the development of the marketplace, infrastructure development, government regulations, and what we can and can't do.

The Board has found that it is important for the alliance partners to agree on alliance objectives:

You have to agree where the joint venture is going. One of the things is really definition of individual and mutual objectives. It must be clear, don't hide the fact that you want to actually get a higher transfer price for your ingredients going in for example. You may have to offset some arrangements in markets against that, but you are better off with these things out in the open, rather than having hidden agendas. So that is pretty critical. Individuals' objectives are always different. You can't have a partner who says that it is my objective to increase the wealth of the New Zealand

dairy farmer. It is our objective. Or the other way around, it is his objective to increase the wealth of his shareholders, it may be himself or his family or a whole group of public shareholders. It is our objective to increase the wealth of our shareholders. You need to do that right up front rather than say that we will fix it later on, none of these things are fixed later on, they fall over.

As far as alliance contracts are concerned, the Board sees contracts as being important, particularly in terms of defining terminations. At the same time, they try to keep the contracts simple and to be flexible. In the words of the Group General Manager Marketing: "if it is in America, it is sky high, right down to a handshake, it depends where you are." They also feel that it is important that alliance contracts reflect the fact that things change: "you have to build some flexibility into a joint venture in case things change, or exit clause which allow you to exit. They [joint ventures] are never fixed entities and they can not be because corporations mature at different rates." Furthermore, the Board maintains that the strategic alliance managers should negotiate alliance contracts rather than lawyers.

Finally, the Manager stresses the importance of preparing your own draft agreement as soon as possible during the negotiation process:

The other trick is of course to get your agreement done first. Have a good legal team and get your understanding down on paper first. So everyone is working off your agreement, not off theirs. That is a big advantage, it is like a home court advantage. Because of familiarity.

Case Two - Firm Code MF2C

The company, a seed company, is part of New Zealand's largest agriculture servicing company. The agriculture servicing company is listed on the New Zealand

stock exchange, and it has an annual turnover in the region of NZ\$600 million. The seed company, which has been in operation for more than 125 years, is involved in the research and development, production and marketing of agricultural, horticultural and turf seeds. It has an annual turnover of about NZ\$50 million. A substantial portion of the company's turnover comes from sales overseas. New Zealand companies have long traditions in the research and development, production and marketing of agricultural, horticultural and turf seeds, and these companies have been and are extensively involved in international strategic alliances.

The seed company has much experience with international strategic alliances dating back to the late 1970's. The first alliances were entered into with partners from countries in Europe, and the company has since then teamed up with companies from all parts of the world. It has formed 38 international strategic alliances since 1981. Of these, 28 are licensing agreements, 9 are research and development agreements, and one is a joint venture. Of the 38 alliances formed, 27 are still in operation. Several of the strategic alliances, particularly some of the licensing agreements, are with the same partners. Most international strategic alliances have been formed with partners from the United States, the United Kingdom and the Netherlands with 12, 6 and 4 alliances respectively.

Many agricultural plants are proprietary and therefore protected by patents. A licensing agreement gives the licensee the right to produce the seeds of a particular proprietary plant and to sell them in a certain market. The production of seeds are normally done under contract by farmers rather than by the seed company itself. The New Zealand company is involved in licensing agreements with international partners both as a licensor and as a licensee.

Agricultural plants suitable for the southern hemisphere are usually not suitable for the northern hemisphere and vice versa. This means that new plant varieties developed by the company for New Zealand farmers are usually not suitable for European farmers. A new and separate plant variety will therefore have to be developed for northern hemisphere conditions, and this fact forms the backbone for the research and development agreements. The General Manager explains how it works:

The alliance is that our material at an early age goes to the Dutch company [an alliance partner]. They work on it and change it. It is like a recipe, they may say that it needs a bit of this or that. Their material comes to us, and we see that it does not work particularly well in New Zealand, it has got disease and this and that. So we fiddle around with it. In the end we may come to varieties that work very well in the northern hemisphere and very well in the southern hemisphere. We share royalties. The alliance is working two ways, we are opening up the southern hemisphere to them, and they open up the northern hemisphere to us.

The development of new plant varieties are long term projects. It may take as long as ten to fifteen years from start to finish.

The company has implemented a system whereby they review the performance of each alliance with their partner once or twice a year. They have found that this helps to drive the performance of their alliances, particularly the research and development agreements which are long term projects.

The seed company sees a role for alliance contracts, but stresses the importance of trust and goodwill:

It [an alliance contract] is not a very binding agreement, people can walk out of the alliance if they want to, because there

is no point in having an alliance if you have to run the alliance by a document. The alliance is to run on trust and goodwill.

However, the company ensures that they have a clause in their alliance agreements giving them the right to terminate the alliance should their partner not perform as agreed. They have not terminated any agreements due to non-performance yet, but they think it will happen in the near future. As an example, the company is involved in a research and development agreement with a Dutch firm, and this agreement covers all the national markets in Europe. The company has some material for the development of a new plant variety for the European markets. Upon discussing this project with their partner in the Netherlands, their partner responded that they are unable, for a number of reasons, to proceed with the project. The New Zealand partner therefore has the right, under the agreement, to enter into an agreement with another partner in Europe for this particular plant development project, and it is likely that they will do so.

Case Three - Firm Code UF1

The company is an importer and distributor of electrical equipment. It was established in 1912, and it has some 20 employees. The Managing Director of the company has extensive business interests outside of the company, and he sits on the Board of Directors of several corporations. He is also active in different business interest groups.

The company has experience from four international strategic alliances, and these are two joint ventures, one co-marketing agreement and one consortium. All alliances are still in operation, and the first was established in 1989. The company's

partners are all from countries in Asia including Malaysia and Singapore, and the Managing Director was born and grew up in Malaysia.

In terms of alliance performance, all the strategic alliances are meeting or exceeding the company's objectives. The Managing Director contributes the good performance of the alliances to two major factors involving the formation and the day to day running of the alliances. First of all, the fact that the Managing Director has a very good knowledge of the markets and business practices in Asia, as well as an extensive network of business contacts. These contacts are often personal friends of the Managing Director. This means that the New Zealand company is able to get involved in commercially viable ventures with partners who have got both the resources and the commitment to see the venture through.

The second factor involves the day to day running of the alliances. The alliances are obviously meeting various challenges like any other business venture. However, since the Chief Executives involved often are personal friends, there is a strong incentive for the parties to address and resolve problems as and when they occur. One example is an alliance in Malaysia involving technical expertise from the New Zealand company. Whenever the New Zealand engineers encounter any problematic situation with regard to their Malaysian colleagues, they will make a detailed verbatim report for the Managing Director in New Zealand. He will then interpret the situation, particularly with regard to non-verbal or hidden meanings, and decide what the appropriate action should be.

The Managing Director holds that it is important to be flexible to your partner's needs and wants. This is how he describes his experiences relating to alliance contracts:

Most of my Asian ... most of my Asian dealings, I do not have any agreement at all, you know, but I have a handshake. Whereas, you see, my American counterpart and my British counterpart, they will send me, you see, half an inch thick of agreement verifying you shall do this, I shall do that.

As far as the strategic alliances between Asians are concerned, there seems to be a connection between the lack of legal contracts and the personal friendships involved.

Said the Managing Director:

In Asia, the best reason you see for me to buy from him and do business with him is because he's my friend. Because if anything goes wrong, he's got to fix it for me, and he's got to give me a fair deal, not the cheapest deal, but he's got to give me a fair deal because he's my friend. And my friend will also recognize that hey, you know, because we are friends we are there, you see, to do business.

Ring and Van De Ven (1992) discuss what effect the level of risk in a deal and reliance on trust between organisations which cooperate have on governance structure. Varying combinations of risk and reliance on trust will direct the organisations to choose different forms of governance structures. In terms of the three cases above, it appears that the attitude of VE6 (case one) reflects high risk and low trust. On the other hand, MF2C (case two) seems to have lower risk and higher trust. Finally, UF1 (case three) is the most 'informal' because it confronts low risk with high trust.

The management texts are, to some extent, being applied by these three firms. It was pointed out earlier that Lewis (1990, p218) stresses that the alliance partners must have a common objective. This view is in line with that of the first case study firm, VE6. VE6's view is also similar to that of Bleeke and Ernst (1993, p18) who

suggest that it is important to let alliance objectives evolve. Specifically, the two authors hold that “the hallmark of successful alliances that endure is their ability to evolve beyond initial expectations and objectives. This requires autonomy for the venture and flexibility on the part of the parents.”

Lewis (1990, p128) suggests that the alliance contract should include a clause on termination of the alliance so that “each partner can leave if it must.” This view is similar to that of the seed company, MF2C, as seen in the within-case analysis. Furthermore, Ohmae (1993) stresses that a contract only reflects the situation at a specific point of time. It is therefore important for the alliance partners to remain flexible and to adjust as things change. This view is similar to those of both the producer board, VE6, and the electrical equipment company, UF1, as seen in the within-case analysis.

6.4 CASE STUDY FINDINGS

This section presents the findings on alliance objectives and alliance contracts from the other case studies.

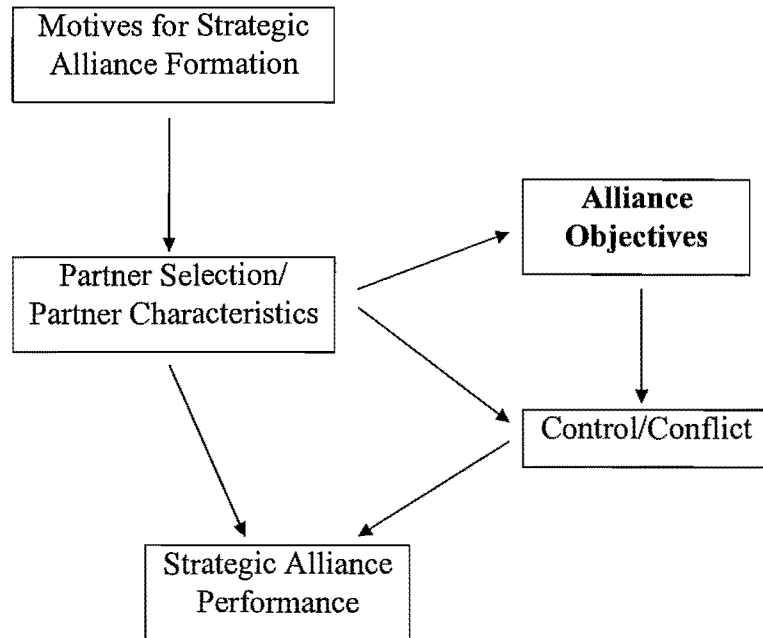
6.4.1 ALLIANCE OBJECTIVES

Based on the above discussion, the theoretical proposition used to guide the case study analysis (Yin 1994, p104) on alliance objectives is:

Strategic alliances formed by partners who agree on alliance objectives will perform better than alliances formed by partners who do not agree on alliance objectives.

Even though the main focus of this chapter is on managerial aspects of strategic alliance formation, rather than on theoretical dimensions of strategic alliance research, Figure 7 on the next page shows how alliance objectives fit in with the core theoretical dimensions of strategic alliance research.

Figure 7
Core Theoretical Dimensions of Strategic Alliance Research and Alliance Objectives



Adapted from Parkhe (1993a, p230).

Company VE2

VE2, the designer and manufacturer of technology for people who are visually impaired, links the satisfactory performance of one of their international joint ventures to the ability of the alliance partners to agree on the objectives of the alliance:

The UK joint venture was very successful because it was a stand alone entity, it was not in any way being influenced or manipulated for any other purpose, it had a pretty clear role, and it had complete freedom to act within the scope the board gave it. There were no conflicts of interest, even though the partner had another business in this field, he was happy to stand back and say you guys develop the business as strongly as you can even though at times we would take some business away from his other company. Even though there was a potential for conflict, it never happened because of the way our partner chose to approach the thing. He never wanted to say, you guys can't go after that, this is my other company's domain. There were never any attempts to

manipulate the situation.

Company VE3

This major fishing company has experience from several international joint ventures and other forms of strategic alliance with both domestic and international partners. Some of its alliances have performed better than expected while others have done worse than expected. The company has found that it is most important for alliance partners to agree on alliance objectives:

That's one of the things that joint ventures have got to spend a lot of time on in the early stages to make sure that your objectives are compatible

Company VE5

VE5, the multi-disciplinary consulting practice, has similar experiences relating to the relationship between alliance partners' objectives and alliance performance:

The primary reason why the [name] joint venture has performed better than the other two co-operative relationships is that the parent companies and their senior management were aligned. It is important that there was an understanding between the Chief Executives. So that when things went wrong in the early stages, there could be a brief, simple, high level discussion that would quickly sort out the strategies in the applications that were getting a little bit complicated and off the rails. Certainly both companies' personnel needed reminders on occasion what the modus operandi of the joint venture was, and the strategic objective of the parents.

Company UF2

Some strategic alliance partners have to address the issue of transfer pricing as

part of their alliance activities. One of the case study firms, the sheepskin tanner, code UF2, describes such an issue relating to their joint venture in Australia as a head-on conflict:

Well, their [the Australian partner] core business is different from ours, significantly different. They are a skin dealer so our business is to take raw skin, raw sheep skins and to process, tan them and dye them and then sell them to a market. And so the company, this joint venture partner is a skin dealer so his core business is to buy skins from the ... from the sale yards and through the meat companies. They're a skin dealer, we're a purchaser of skins. He wants to sell skins to us at as high a price as he can and we want to buy skins at as low a price as we can. So there's a head-on conflict there. We knew there was a conflict. And we knew that it was going to be difficult to resolve but we did that quite knowingly and completely with open eyes. We kept the supplier-customer relationship at arm's length and so that's just the normal negotiating that goes on and so we resolve that conflict, I suppose you can say, with difficulty but at the end of the day, we come to a final price point just the same as we do with any other supplier.

Company UF3

UF3, the diversified group, has, like UF2, also experienced conflicting alliance objectives although the conflict seems to be less severe. This is how the Managing Director of the New Zealand company describes the conflict and its effect:

Our objective has been to expand our business in Hungary, to take the expertise which we have developed here into another market where that expertise is needed and via that when the base is secured, potentially get an opening into the EEC. On the other hand, our partners were looking for a passive investment providing a good return, and also growing their banking operation being involved with a western company. The state farm partner was hoping to get a greater return from their farming operation and their investment in the development of the farm. For the state farm it has been a long term investment, and for the banks it has been a shorter term investment. One bank has pulled out now, the joint venture did not perform as they had expected. It may not have resulted in running the operation better, it may have resulted in a greater input from the partners, if the partners had felt that their objectives were being met because they ended up being passive investors.

Companies MF1 (A&B)

The two case study companies with joint ventures in China (MF1A and MF1B) seem to have handled the issue of alliance partner objectives somewhat differently. The cement company, (MF1A), whose joint venture performance so far has been unsatisfactory, seem to have accepted that their own alliance objectives are different compared to those held by their Chinese partner. This is how the Managing Director of the New Zealand company sees the situation:

They [the partners' alliance objectives] are not mutually exclusive but they are not necessarily parallel. I ... I think that we will ... I think we will come to a point where ... where they diverge significantly enough, something will be done about it.

On the other hand, the brewing company, (MF1B), whose joint venture operation in China is profitable and meeting their expectations, entered into an extensive partner selection process in order to make sure, among other things, that they formed a joint venture with a Chinese partner having compatible alliance objectives:

The new management is seeing two shareholders who are both profit motivated. That is not always the case in China. Quite often in China you see [that] they want to keep a large base of employment. For us it was important to find a partner who wanted to drive the performance of the brewery. They wanted to drive it so that they could get cash out and invest it in other economic activities in their district. We wanted to drive it to increase market share and build volume and brand in the business in the region.

In summary, this case study evidence tends to provide some literal replication in support of the general proposition that strategic alliances formed by partners who

can agree on alliance objectives will perform better than alliances formed by partners who do not agree on alliance objectives. Table 24 below summarises the findings.

Table 24
Summary of Case Study Findings on Alliance Objectives

FIRM	EXPERIENCE WITH ALLIANCE OBJECTIVES
VE2	Agreement on alliance objectives contributed to alliance success.
VE3	Worth spending time to get compatible objectives
VE5	Agreement on alliance objectives contributed to alliance success.
UF2	Different alliance objectives made the operation of the alliance more complicated.
UF3	Different alliance objectives resulted in reduced input from some of the alliance partners.
MF1A	Different alliance objectives seen as a potential source of future conflict.
MF1B	Agreement on alliance objectives contributed to alliance success.

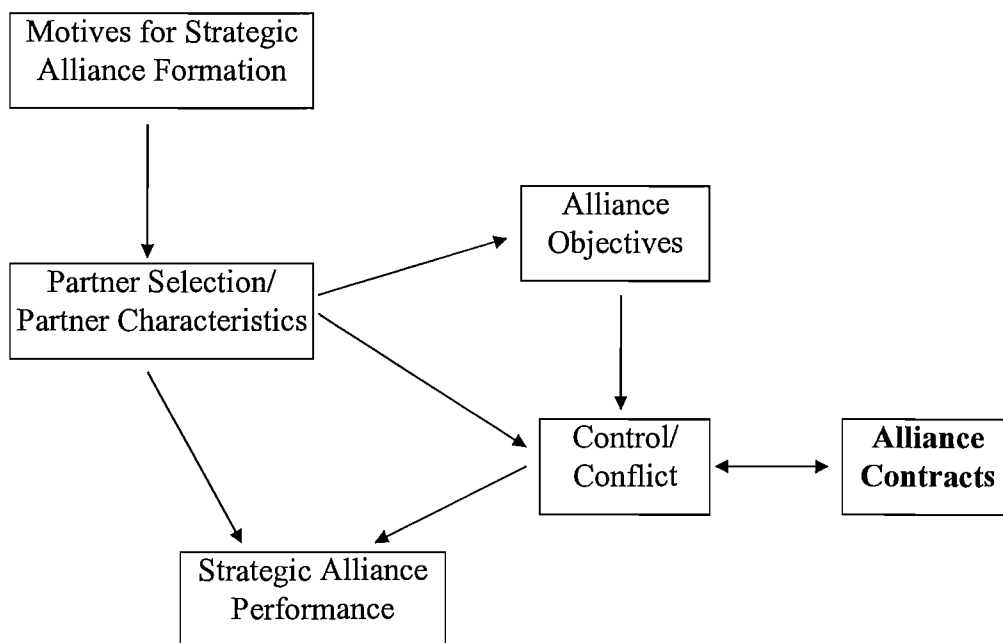
6.4.2 ALLIANCE CONTRACTS

Based on the above discussion, the theoretical proposition used to guide the case study analysis (Yin 1994, p104) on alliance contracts is:

Formal strategic alliance contracts are not necessary for alliance success.

Even though the main focus of this chapter is on managerial aspects of strategic alliance formation, rather than on theoretical dimensions of strategic alliance research, Figure 8 on the next page shows how alliance contracts fit in with the core theoretical dimensions of strategic alliance research.

Figure 8
Core Theoretical Dimensions of Strategic Alliance Research and
Alliance Contracts



Adapted from Parkhe (1993a, p230).

Companies VE1 and VE3

Both of these companies have had extensive experience in international alliances and both place considerable store on the establishing an alliance contract. VE1 holds that the management should negotiate alliance contracts rather than lawyers. The role of lawyers would then be “to translate commercial principles into legal contracts.” Furthermore, the company feels that “it is important to put down 10-12 points on the deal, so you can always come back to it and say this is what we agreed you know, we are getting off the rails here.”

For firm VE3, once the objectives of its international fishing ventures are

agreed upon, these are then incorporated into a legal contract between the partners.

The contract is also fulfilling another important function, that of developing a better understanding of the partner:

But, why do we spend so much time on these agreements? Really, not to have them sitting on the drawer but to understand what the expectations of the other party are, how they will approach things, you know, what is the way they think, what are they looking to get out of this, how will they approach a problem. That is the real value in it. Because once you have done it, hopefully you never pull that out of your drawer again. You have understood the party.

Companies VE4 and VE5

On the other hand, two other firms with experience of international alliances have found little value in alliance contracts. This is how the Chief Executive Officer of VE4 puts it:

If it [a strategic alliance] needs a long contract, then I think you are on the wrong track. So my final principle there is that the agreements are almost worthless, they [strategic alliances] really only work when both parties have a mutual benefit and shake hands and the principals are actively supporting it.

This sentiment is shared by the multi-disciplinary consulting practice (VE5):

If you don't have trust between the partners, you can have a whole lot of shareholders' agreements, operating agreements and so on, but it is an absolutely waste of time.

In summary, the companies are divided in their views on the importance of contracts to alliance outcome. There is clearly no basis here for any literal replication in the case evidence sufficient to challenge the proposition that formal strategic

alliance contracts are not necessary for alliance success. Table 25 below summarises the findings.

Table 25
Summary of Case Study Findings on Alliance Contracts

FIRM	EXPERIENCES WITH ALLIANCE CONTRACTS
VE1	Keep lawyers out of negotiations, use lawyers to translate commercial principles into legal contracts. It is important to put down 10-12 points on the deal, so you can always come back to it and say this is what we agreed you know, we are getting off the rails here.
VE3	The preparation of legal contracts provides an opportunity to learn about the other party. The development of understanding is the real value of the time spent in producing such agreements.
VE4	If it [a strategic alliance] needs a long contract, then I think you are on the wrong track. So my final principle there is that the agreements are almost worthless, they [strategic alliances] really only work when both parties have a mutual benefit and shake hands and the principals are actively supporting it.
VE5	If you don't have trust between the partners, you can have a whole lot of shareholders' agreements, operating agreements and so on, but it is an absolutely waste of time.

6.5 BEST PRACTICES ON ALLIANCE OBJECTIVES AND CONTRACTS

The objective of this section is to develop strategic alliance best practices on alliance objectives and contracts. Overall, both the management literature and the strategic alliance practitioners consider it important for the strategic alliance partners to agree on alliance objectives. Some practitioners said that agreement on alliance objectives contributed positively to the performance of their strategic alliances. In the words of one alliance manager: "the primary reason why the [name] joint venture has performed better than the other two co-operative relationships is that the parent companies and their senior management were aligned." However, there seems to be

some subtle differences between the views of the management literature and the strategic alliance practitioners. First of all, the management literature does not touch upon how alliance partners can actually go about agreeing on alliance objectives. Why is this so? Could it be that the authors consider the answer to be obvious, or is it that the answer is complex? From the case study evidence it appears that it is more likely to be the latter rather than the former. The alliance practitioners seem to regard the issue as complex and therefore not something that can be resolved over a short period of time. It takes time and effort from all the partners involved in order to agree on alliance objectives which all partners can live with. Nor should the issue be forced through. As an example, the brewing company, (MF1B), spent a considerable amount of time, and other resources, on the formation process of its joint venture in China.

The second subtle difference between the views of the management literature and the strategic alliance practitioners is that even though both groups agree that it is important for the alliance partners to agree on alliance objectives, the point seems to be stressed harder by the alliance practitioners. As an example, one alliance practitioner (VE5) states:

The primary reason why the [name] joint venture has performed better than the other two co-operative relationships is that the parent companies and their senior management were aligned.

The above discussion leads us to two best practices on strategic alliance objectives. First, obtaining a clear agreement on alliance objectives is very important as this does contribute to alliance success. Second, while reaching agreement on alliance objectives may often be a lengthy process, it should not be forced. Rather it

should be regarded as an important period for learning as much as possible about the other party.

Only one of the management books on strategic alliances (Lewis 1990) covers the topic of alliance contracts to any extent. It is therefore likely that the other authors see alliance contracts as having little impact on alliance success since they pay so little attention to the topic. This can be seen as support for the proposition that formal strategic alliance contracts have no effect on the success of an alliance. The data from two of the three case studies support this proposition. The first best practice on strategic alliance contracts will therefore be that formal strategic alliance contracts have no effect on the success of an alliance.

Both Lewis (1990, p225) and VE3, one of the most experienced strategic alliance firms, (as established in the within-case analysis) hold that strategic alliance contract negotiations should be viewed as a learning process. This is the second best practice on strategic alliance contracts.

The managers who are going to run the strategic alliance on a daily basis should negotiate all alliance agreements. The role of lawyers is to translate commercial principles into legal contracts. This becomes the third best practice on strategic alliance contracts. There is support for this best practice from company VE1 and from Lewis (1990, p231) and Faulkner (1995, p187).

Two of the case study firms (VE4 and VE5) stress the need for trust among the alliance partners. Says the Chief Executive of the multi-disciplinary consulting practice, VE5:

If you don't have trust between the partners, you can have a whole lot of shareholders' agreements, operating agreements and so on, but it is an

absolutely waste of time.

Two of the management books (Faulkner 1995 and Yoshino and Rangan 1995) deal with trust among alliance partners on a general basis, and not specifically related to alliance contracts. Faulkner (1995, p37) holds that “it is one thing to set up systems and devise organizations, but if mutual trust does not exist there is not likely to be a successful alliance.” Along similar lines, Yoshino and Rangan (1995, p124) suggest that “in the absence of trust, alliance partner’s expectations are likely to go unfulfilled, exacerbating suspicion and disappointment and leading to a vicious cycle.” The fourth best practice on strategic alliance contracts is therefore that a strategic alliance can not be run by contracts alone. It has to be run on a combination of contractual agreements and trust.

6.6 CONCLUSIONS

Two important facets of alliance management are the setting of the objectives and, bearing in mind the opportunity for self-seeking behaviour by alliance members, the establishment and nature of the contracts which underpin the relationship. Neither of these has received the attention they deserve from academic researchers in part no doubt to the difficulties of both access to data and measurement. This chapter compares findings from the case studies with recent prescriptive management writing on strategic alliances.

Overall, both the management literature and the strategic alliance practitioners consider it important for the strategic alliance partners to agree on alliance objectives. Some alliance practitioners said that agreement on alliance objectives contributed

positively to the performance of their strategic alliances. Hence, obtaining a clear agreement on alliance objectives is very important as this does contribute to alliance success. In addition, while reaching agreement on alliance objectives may often be a lengthy process, it should not be forced. It should rather be regarded as an important period for learning as much as possible about the other party.

Only one of the management books on strategic alliances (Lewis 1990) covers the topic of alliance contracts to any extent. It is therefore likely that the other authors see alliance contracts as having little impact on alliance success since they pay so little attention to the topic. This can be seen as support for the proposition that formal strategic alliance contracts have no effect on the success of an alliance. Two of the three case studies also support this proposition.

Both Lewis (1990, p225) and VE3, one of the most experienced strategic alliance firms, (as established in the within-case analysis) hold that strategic alliance contract negotiations should be viewed as a learning process.

The managers who are going to run the strategic alliance on a daily basis should negotiate all alliance agreements. The role of lawyers is to translate commercial principles into legal contracts. There is support for this view from company VE1 and from Lewis (1990, p231) and Faulkner (1995, p187).

Two of the case study firms (VE4 and VE5) stress the need for trust among the alliance partners, and two of the management books (Faulkner 1995 as well as Yoshino and Rangan 1995) share this belief. Hence, a strategic alliance can not be run by contracts alone. It has to be run on a combination of contractual agreements and trust.

CHAPTER 7 CONCLUSIONS

7.1 INTRODUCTION

This study has focused on international strategic alliances involving New Zealand companies. A rich and growing literature exists on both international and domestic strategic alliances, but most of these studies focus on larger firms from the United States, Europe and Japan. Even the largest companies in New Zealand are, by United States, European or Japanese standards relatively small. New Zealand is also of interest because of its Western culture and close trading relationship with Asia. International strategic alliances as a research area offers a high number of interesting and relevant research questions, and no study can cover all of these in a proper manner. This thesis addresses three research questions, and these are how partner asymmetries, alliance objectives and formal alliance contracts influence alliance performance.

This research contributes to the strategic alliance literature in three areas. First, it contributes by offering a New Zealand perspective on international strategic alliances. Second, the study contributes by employing a mixed research methodology, the combination of survey and case studies, to address the issue of partner asymmetries. Finally, this research contributes to the strategic alliance literature by considering how alliance objectives and formal alliance contracts can affect alliance performance.

There are several implications of the three contributions to the alliance literature of this research. First, New Zealand companies have a high level of alliance

involvement with licensing agreements being the most common international alliance type. Gaining market access tend to be the most important alliance objective, and New Zealand international alliances seem to perform, on average, somewhat better than other international alliances. These implications are useful for understanding the role of New Zealand companies in international trade.

Contributing factors to the high level of alliance involvement are likely to be New Zealand's small domestic market and its geographical isolation from most major markets. The high number of licensing agreements are likely to be a result of New Zealand companies' relatively low level of research and development spending. As New Zealand's domestic market is small, getting access to international markets becomes important and this explains why gaining market access is the most important alliance objective. One reason for the relatively high success rate could be that many New Zealand companies, due to the small domestic market, are heavily dependent on foreign markets. The international strategic alliances therefore become very important to these firms, and they are therefore likely to invest considerable resources in the international alliances in order to make them work.

The major implication of the contribution to the literature on partner asymmetries is that managers cannot take for granted that an alliance with a firm different from their own firm will perform badly, or the other way around, that an alliance with a similar firm will perform well.

Finally, there are two implications of the contribution to the strategic alliance literature on alliance objectives and formal alliance contracts. First, the strategic alliance partners should as far as possible agree on alliance objectives. Second, the managers who will be responsible for an alliance on a daily basis should be involved

in the negotiation of the alliance agreements.

This study employs a mixed research methodology consisting of survey research followed by case study research. There are two main reasons why this methodology was chosen. First, by combining the more general data from a large number of firms with the more detailed data from a few firms, allows a more extensive picture of the phenomena under investigation to be created. Second, by doing the investigation in stages, the first research stage assists the second stage. By analysing the data obtained from stage one before entering stage two, the results from stage one can be used as a basis for selecting information-rich cases relative to the research questions being studied. In particular, stage one involved a mail survey of 300 New Zealand companies, and 140 (47%) useable responses were received. Based on these responses, a total of 17 firms were approached and asked to participate in stage two of the study, the case studies. Of the 17 firms approached, 14 were willing to be interviewed. In order to facilitate the data analysis, these 14 firms were divided into three separate groups, and these were varied experience firms, unattached firms and matched firms.

7.2 OVERALL FINDINGS

This section presents the overall findings of this study. The findings on partner asymmetries follow first.

7.2.1 PARTNER ASYMMETRIES

This subsection presents the findings on partner asymmetries. There are seven findings on partner asymmetries, and these are set out below.

(i) The statistical tests found that partner differences in terms of partner size has no implications for alliance performance. This finding is in contrast with most previous strategic alliance research (see for example Killing (1983), Doz (1988) and Harrigan (1988)) which has suggested that partner differences in terms of partner size has negative implications for alliance performance.

(ii) The statistical tests found that partner differences in terms of partner nationality has no implications for alliance performance. This finding is in contrast with most previous strategic alliance research (see for example Killing (1983), Doz (1988) and Harrigan (1988)) which has suggested that partner differences in terms of partner nationality has negative implications for alliance performance.

(iii) The statistical tests found that for two or more countries with equal level of total trade with New Zealand, the greater the psychic distance with any particular country, the fewer the number of international strategic alliances entered into with companies from that country will be.

(iv) The case study evidence suggests that every international strategic alliance exhibits both Type I and Type II asymmetries. Type I includes the asymmetries that international strategic alliances are specifically formed to exploit. Type II includes the asymmetries that may have a negative effect on strategic alliance performance. This finding is in line with that of Parkhe (1991).

(v) Generally, the rate at which learning occurs with respect to both Type I and Type II asymmetries (Parkhe 1991) will be influential for the outcome of the alliance. Our research has produced many cases in which the New Zealand partner appeared to underestimate (a) the rate at which foreign partners could learn from the Type I asymmetries and/or (b) the scope of the private benefits available to the foreign partners in which to exploit their new learning.

(vi) We have presented a number of examples in which the unsatisfactory outcome from the New Zealand partner's point of view has been due to the predominance of private benefits (Khanna et al. 1998) available to the foreign partner. In this situation the foreign partner will seek to maximise that rate of their learning and then neglect the alliance.

(vii) The case study evidence suggests that ongoing conflict between senior executives from the different sides of an alliance can inhibit the learning needed to overcome the Type II asymmetries (Parkhe 1991) in an alliance.

7.2.2 ALLIANCE OBJECTIVES

This subsection presents the findings on alliance objectives. There are two findings on alliance objectives, and these are set out below.

(i) To agree on alliance objectives is very important as it contributes to alliance success.

(ii) To reach an agreement on alliance objectives is often a lengthy process, and it should not be forced.

7.2.3 ALLIANCE CONTRACTS

This subsection presents the findings on alliance contracts. There are four findings on alliance contracts, and these are set out below.

(i) Formal strategic alliance contracts have no effect on the success of an alliance.

(ii) Strategic alliance contract negotiations should be viewed as a learning process.

(iii) The managers who are going to run the strategic alliance on a daily basis should negotiate all alliance agreements. The role of lawyers are to translate commercial principles into legal contracts.

(iv) A strategic alliance can not be run by contracts alone. It has to be run on a combination of contractual agreements and trust.

The next section presents the managerial implications which can be drawn from this study.

7.3 MANAGERIAL IMPLICATIONS

This section presents the managerial implications of this study. Managerial implications related to the three areas of partner asymmetries, alliance objectives and

alliance contracts are proposed:

(i) Managers cannot take for granted that an alliance with a firm different from their own firm will perform badly, or the other way around, that an alliance with a similar firm will perform well. Partners which are different from each other may be able to contribute more unique resources to an alliance. However, at the same time, these same differences could also have a negative impact on aspects of the alliance relationship like trust and communication processes. Awareness of the potential problems rooted in partner differences is the first step in the process of addressing these problems.

(ii) The strategic alliance partners should as far as possible agree on alliance objectives even though many firms have experienced that this is easier said than done. This may particularly be so in situations where international strategic alliance partners come from different national cultures. To be able to agree on alliance objectives, managers should plan on spending considerable time with their alliance partners and thereby get to understand them and develop trust. Alliance objectives should be addressed early in the alliance formation process and not left as something to be resolved later on.

(iii) The managers who will be responsible for an alliance on a daily basis should be involved in the negotiation of the alliance agreements. These negotiations should be viewed as a learning process, and all issues of concern to either alliance partner should be addressed. At the same time, managers must appreciate that strategic alliances can not and should not be run by contracts alone. It is not possible or practical to regulate

all aspects of an alliance by contracts, and alliance contracts must allow for some flexibility as things will always change. Trust between the alliance partners therefore plays an important part in strategic alliances alongside contractual arrangements.

7.4 RESEARCH LIMITATIONS

There are two main research limitations of this study. First of all, data were obtained from only one partner in each international strategic alliance. There could be situations where one alliance partner considers the alliance to be successful while the other, assuming that there are only two alliance partners, considers the alliance to be less successful. However, obtaining data from all partners to an international strategic alliance may entail some confidentiality concerns as some of the case study participants indicated that they were not keen to involve their foreign partners in the study.

The second research limitation involves generalisability. This study focuses on international strategic alliances involving New Zealand companies. Even the largest companies in New Zealand are, by United States, European or Japanese standards, relatively small. It is therefore possible that the results from this study are less relevant to large multinational companies.

7.5 FUTURE RESEARCH

Research on international strategic alliances is very relevant since more and more companies are entering into such arrangements, and at the same time, the reported success rates for strategic alliances are low (Harrigan 1988, Bleeke and Ernst 1995). Furthermore, international strategic alliances are particularly relevant to a small

isolated country like New Zealand with a small domestic market and long physical distances to all foreign markets. Here are two suggestions for future research:

(i) Future research could expand on the study by Lyles (1988) to investigate why learning may not occur within some strategic alliances and relate this learning dysfunction to alliance outcome.

(ii) Given the presence of Type I asymmetry effects, differential rates of learning, and the scope for a predominance of private benefits, there is a clear risk of self-seeking opportunism for some parties to an alliance. This lends itself to an agency theory formulation and a focus on how best to structure or manage the alliance to minimise such behaviour.

APPENDIX A MAIL SURVEY COVER LETTER
--

30 October 1995

«Company»

Attn.: «Title» «FirstName» «LastName»

«JobTitle»

«Address1»

«Address2»

«City» «PostalCode»

Dear «Title» «LastName»

Strategic alliances involving New Zealand companies

Strategic alliances are becoming more common as a means of conducting international business. We are embarked on a study of such alliances involving New Zealand companies and seek your help in providing some key data.

We would be very grateful indeed if you or one of your senior colleagues could spend 5 or 10 minutes answering the enclosed questions. Note the questionnaires are numbered to facilitate any follow-up that may be needed. However, we alone will have access to the replies and only aggregate data will be presented in our report.

Please try to return the survey to us by **Friday 10 November**. A reply-paid envelope is enclosed. If you would like to receive a copy of our report, please attach your business card.

Yours sincerely

J. N. Berg
PhD Student

R. T. Hamilton (Supervisor)
Professor of Management

APPENDIX B
MAIL SURVEY QUESTIONNAIRE

QUESTIONNAIRE

DEPARTMENT OF MANAGEMENT
UNIVERSITY OF CANTERBURY

SECTION 1: DEFINITIONS

The term international strategic alliance is used throughout this questionnaire. By “international” we mean that your partner in the alliance is from a country other than New Zealand. Strategic alliance is any of the following cooperative arrangements:-

- Joint Venture - A company separate from the parent companies (partners) is established.
- Co-Marketing Agreement - No separate company is established. The partners market each others products/services in their respective home markets.
- Licensing Agreement - One firm sells to another firm the right to use the first company’s patents or manufacturing processes.
- Research and Development Agreement - No separate company is established. The partners undertake joint research and development.
- Consortium - A separate company is sometimes established, but not always. It usually involves a joint undertaking of a large project, often in the construction or public sector.

SECTION 2: QUESTIONNAIRE ITEMS

1. Is your company currently involved in any strategic alliances (see above definitions) with foreign partners? Please tick the appropriate box.

Yes No

If Yes, please go on to next question.

If No, please go to question 12.

2. Please give the number of each type of international strategic alliance you are currently involved in and the year of formation of each alliance:-

Type of international strategic alliance	Number of such alliances	Year of formation of each alliance (state for each one)			
Joint Venture					
Co-Marketing Agreement					
Licensing Agreement					
R and D Agreement					
Consortium					

**If you are involved in only one alliance, go on to the next question.
If you are involved in more than one alliance, please go to question 7.**

3. In what country does your partner have their head office?

Please state country:.....

4. What is the size of your partner company in terms of:

- a. Sales per year (in NZ\$ millions):..... (Note approximate answers will be sufficient.)
- b. Number of employees:.....

5. What was your main objective for the international strategic alliance when it was formed? (If more than one objective, please identify the most important.)

- Risk sharing
- Cost sharing
- Skills sharing
- Market access
- Others, please specify below

.....

.....

.....

6. To what extent is the international strategic alliance meeting the most important objective (identified in question 5)? Please circle the appropriate number.

- | | |
|---------------------------|---|
| Much better than expected | 7 |
| | 6 |
| | 5 |
| As expected | 4 |
| | 3 |
| | 2 |
| Much worse than expected | 1 |

After answering question 6, please go to question 12.

Questions 7 - 11

Please answer these questions in terms of two of your international strategic alliances, those with the largest and smallest (in terms of turnover) foreign partners.

7. When were your international strategic alliances formed, and of what type are they?

	Alliance with Smallest Partner	Alliance with Largest Partner
Year formed	<input type="text" value="19"/>	<input type="text" value="19"/> (Insert year)

Type of alliance	(Please tick)	(Please tick)
Joint Venture	<input type="checkbox"/>	<input type="checkbox"/>
Co-Marketing Agreement	<input type="checkbox"/>	<input type="checkbox"/>
Licensing Agreement	<input type="checkbox"/>	<input type="checkbox"/>
R and D Agreement	<input type="checkbox"/>	<input type="checkbox"/>
Consortium	<input type="checkbox"/>	<input type="checkbox"/>

8. In what countries do your partners have their head offices? Please fill in the table below.

Size of Partner	Home Country
Smallest Partner	
Largest Partner	

9. What are the sizes of your partner companies in terms of sales and number of employees? Please fill in the table below. (Note approximate answers will be sufficient.)

	Alliance with Smallest Partner	Alliance with Largest Partner
Sales per year (in NZ\$ millions)		
Number of employees		

10. What were your main objective for each international strategic alliance when they were formed? (If more than one objective, please identify the most important.) Please tick.

Alliance with Smallest Partner	Objectives	Alliance with Largest Partner
	Risk sharing	
	Cost sharing	
	Skills sharing	
	Market access	
	Others, please specify	

11. To what extent are the international strategic alliances meeting the most important objectives (as identified in question 10)? Please tick the appropriate box for each partner.

Alliance with Smallest Partner	Extent objectives are being met		Alliance with Largest Partner
	7	Much better than expected	7
	6		6
	5		5
	4	As expected	4
	3		3
	2		2
	1	Much worse than expected	1

12. How many international strategic alliances has your company terminated in the last ten years? Please state the number:.....

If zero, please go on to the next question. If one or more, please go to question 14.

13. Why have you not entered into any strategic alliances with foreign partners?

- No reasons why we should
- No suitable foreign partners
- Lack of money
- Too busy with other matters
- Risk of revealing company secrets is too high
- Other reasons , please specify below

.....

If you answered question 13, you have completed the questionnaire. Please return it to us in the enclosed reply envelope. Thank you for your help with this project.

14. How many of each type of international strategic alliances, have been terminated during the last ten years, and how long were these alliances in operation before being terminated? Please complete the table below.

Type of international strategic alliance	Number of alliances terminated during the last ten years	Age of each alliance when terminated
Joint Venture		
Co-Marketing Agreement		
Licensing Agreement		
R and D Agreement		
Consortium		

15. What were the expectations you had for the international strategic alliances when they were formed? Please tick the appropriate boxes.

Expectations	1st Alliance	2nd Alliance	3rd Alliance	4th Alliance
Risk sharing				
Cost sharing				
Skills sharing				
Market access				
Others, please specify				

16. To what extent did the international strategic alliances meet your main objectives before they were terminated? Please allocate the number of terminated alliances across the range of outcome options given in the table below.

Number of international strategic alliances being terminated	Extent objectives were met before the alliance was terminated
	7 Much better than expected
	6
	5
	4 As expected
	3
	2
	1 Much worse than expected

Thank you for taking the time to complete this questionnaire. Please return it to us in the enclosed reply envelope.

APPENDIX C MAIL SURVEY FOLLOW UP LETTER
--

20 November 1995

«Company»

Attn.: «Title» «FirstName» «LastName»

«JobTitle»

«Address1»

«Address2»

«City» «PostalCode»

Dear «Title» «LastName»

Strategic alliances involving New Zealand companies

We refer to the questionnaire you have received recently regarding the above.

We would be very grateful indeed if you or one of your senior colleagues could spend 5 or 10 minutes answering the questions, and returning the questionnaire to us. A reply-paid envelope was enclosed with the questionnaire.

Even if you are not involved in any international strategic alliances, we would still be very interested in receiving this information as it is valuable data for our research.

If the questionnaire has been misplaced, we would be pleased to forward another to you. We look forward to your response with great interest.

Yours sincerely

J. N. Berg
PhD Student

APPENDIX D
SURVEY OF NON-RESPONDENTS TO THE MAIL SURVEY

12 December 1995

«Company»
 Attn.: «Title» «FirstName» «LastName»
 «JobTitle»
 «Address1»
 «Address2»
 «City» «PostalCode»

Dear «Title» «LastName»

Strategic alliances involving New Zealand companies

We refer to the questionnaire you received recently regarding the above.

We have not received a response from your company. Could you please let us know why you have not responded by ticking the appropriate boxes below and returning this letter to us in the enclosed reply-paid envelope.

Never been involved in a strategic alliance	<input type="checkbox"/>	Lack of time	<input type="checkbox"/>	Other	<input type="checkbox"/>
				Please describe	
Have been involved in alliance(s) in the past, but not at present	<input type="checkbox"/>	Company policy not to take part in surveys	<input type="checkbox"/>		

Thank you for your help with our research.

Yours sincerely

J. N. Berg
 PhD Student

APPENDIX E
CASE STUDY INTERVIEW QUESTIONS GUIDE

Date:
 Company name:
 Number of employees:
 When established:
 Interviewee:

ALLIANCE DATA (EXTRACTED FROM POSTAL SURVEY):

Type:	Formed:	Partner nationality:	Performance:
Main alliance objective:	Partner size (employees):		

Type:	Formed:	Partner nationality:	Performance:
Main alliance objective:	Partner size (employees):		

I am particularly interested in your experiences with the above ventures (describe them), so could you please keep these co-operative ventures in mind during our conversation.

PART 1 - PARTNER ASYMMETRIES

1a.) In which ways do you see yourself as a) similar to and b) different from your alliance partner? (one obvious difference is the difference in partner nationalities).

1b.) In what ways have these differences affected the alliance?

Probes:

- 1.) Different nationalities (national culture)?
- 2.) Different business (management) cultures?
- 3.) Different sizes (number of employees)?
- 4.) Different alliance experience levels?
- 5.) Different core (main) businesses?
- 6.) Different time (long or short) perspective?
- 7.) Difference in financial position (strong vs weak)?

2.) What kind of relationship did you have with your alliance partner prior to the alliance formation?

Is there anything else you would like to add before we go on to the next topic?

PART 2 - TIMING OF ALLIANCE FORMATION

1.) I am particularly interested in the role that timing plays in the start-up of alliances. Could you please share with me any thoughts you may have on how and why timing influenced your decisions concerning these joint ventures?

Probes:

1.) Age of company when alliance was formed?

(NB: Unit of analysis - firm, sbu or product).

2.) Was the alliance formed to take advantage of a particular opportunity available only at that time (strategic window)? Why was time limited? How long was the window? What or who was causing the limit? What about your partner?

3.) Did you bring a particular product or service into the alliance, and if so, at what stage of the product life cycle (introduction, growth, maturity, decline) was the product or service when the alliance was formed? In what way did the product's stage in the life cycle influence the decision to enter the alliance? What about your partner?

4.) How would you describe (growth, maturity, decline) the domestic market for your main product or service at the time when the alliance was formed? What about your partner?

5.) Did you enter into the alliance before or after your main competitors?

6.) Why did you enter into these alliances at the particular time you did, why not a year earlier or a year later? In terms of alliance performance, do you think it would have made any difference if the alliance had been formed earlier or later than it was actually formed?

7.) At the time when the alliance was formed, what was your opinion of the general business situation in New Zealand? Did this opinion in any way influence the decision to go ahead and form the alliance?

8.) Having them draw a timeline and talking through important events in the formation/operation of the alliance. Draw a timeline? (see separate notes).

Is there anything else you would like to add before we go on to the next topic?

PART 3 - ALLIANCE PERFORMANCE

1a. What did you want from this alliance, and what did your partner want?
(See next question.)

1b. If what you wanted were different (see prior question), why is this so?

2. Has the alliance performance (relative to your expectations) varied during the period the alliance has been in operation?

Is there anything else you would like to add?

APPENDIX F
COUNTRY TRADE AND CULTURAL DISTANCE DATA

Country	Trade 1991-1994 (NZ\$ mill.)	Hofstede's (1984, 1991) Indexes of Culture			
		Power Distance	Uncertainty Avoidance	Indivi- dualism	Masculinity
United States	20,767	40	46	91	62
Australia	28,506	36	51	90	61
United Kingdom	8,770	35	35	89	66
South Africa	229	49	49	65	63
Netherlands	1,215	38	53	80	14
Germany	4,637	35	65	67	66
Malaysia	2,399	104	36	26	50
Japan	21,289	54	92	46	95
France	2,049	68	86	71	43
Chile	200	63	86	23	28
Switzerland	975	34	58	68	70
South Korea	4,339	60	85	18	39
Philippines	786	94	44	32	64
Singapore	2,185	74	8	20	48
Canada	2,281	39	48	80	52
Uruguay	7	61	100	36	38
Argentina	275	49	86	46	56
Thailand	1,220	64	64	20	34
Mexico	915	81	82	30	69
Egypt	165	80	68	38	53
Denmark	452	18	23	74	16
Indonesia	1,322	78	48	14	46
Hong Kong	2,341	68	29	25	57
Hungary	17	76	88	27	21
Papua New Guinea	494	78	48	14	46
Brazil	450	69	76	38	49
Norway	361	31	50	69	8
Ireland	303	28	35	70	68
Italy	2,510	50	75	76	70
Saudi Arabia	2,645	80	68	38	53
United Arab Emirates	994	80	68	38	53
Mauritius	121	77	40	48	56
Sri Lanka	265	77	40	48	56
Bangladesh	61	77	40	48	56
Jamaica	93	45	13	39	68

continued on next page

Country	Trade 1991-1994 (NZ\$ mill.)	Hofstede's (1984, 1991) Indexes of Culture			
		Power Distance	Uncertainty Avoidance	Indivi- dualism	Masculinity
Venezuela	357	81	76	12	73
Malta	21	50	75	76	70
Greece	321	60	112	35	57
Peru	254	64	87	16	42
Guatemala	42	95	101	6	37
Taiwan	3,557	58	69	17	45
New Zealand		22	49	79	58

Notes:

- 1) The source for trade figures (value of exports plus imports) is Statistics New Zealand (1995a, 1995b)
- 2) The following substitutions have been used in terms of Hofstede's (1984, 1991) indexes due to lack of data:

- a) Yugoslavia's data has been used for Hungary
- b) Indonesia's data has been used for Papua New Guinea
- c) India's data has been used for Sri Lanka, Bangladesh and Mauritius
- d) Italy's data has been used for Malta

APPENDIX G CASE VE1

The New Zealand partner is a diversified industrial company located in Auckland. It was until recently listed on the New Zealand Stock Exchange. Prior to being taken private via a management buyout, the company was organised in four trading divisions with 11 people employed at the headquarters, and a further 4,100 people employed throughout the group's divisions. Many of the divisions' business units have well-known names in New Zealand and market high profile brands. Some business units can trace their origins back to New Zealand's early industrial days, and some were previously listed on the New Zealand Stock Exchange in their own right. Some business units have been sold since the company was delisted.

The group had a turnover of more than NZ\$800 million in the 1995 financial year, and the profit exceeded NZ\$44 million. Most of the group's revenue is earned in New Zealand.

The group has experience from three joint ventures with foreign partners. The joint ventures were in food products, automotive products and ship repair services. All the joint ventures operations are located in New Zealand, with the exception of the automotive products joint venture which has got one manufacturing plant in New Zealand, and one in Australia.

The food products joint venture sells some 120,000 tonnes of salt annually, most for domestic table and industrial consumption while a small proportion is exported to Pacific countries. About half of the company's salt requirement is produced at the Lake Grassmere salt works on the south island of New Zealand, while most of the other half is imported from Australia. The company is the only salt

producer in New Zealand. The company was established in 1949 in a joint venture between the New Zealand government and a company controlled by the person who pioneered salt production in New Zealand. The company is currently owned by the New Zealand partner (50.1%) and a Singapore listed company (49.9%) which again is controlled by a large Japanese food conglomerate which extensive business interests in New Zealand. The Singapore company became an equity partner in 1965, while the New Zealand company invested in the company in 1981. Interestingly, within a week of this interview taking place, the New Zealand company sold their share in the business to the Australian company which supplies most of the salt which the company imports. The other partner in the joint venture, the Singapore company, already has a packaging joint venture with the Australian company. The 50.1% share controlled by the New Zealand company was reportedly sold for NZ\$36 million.

The New Zealand partner is very satisfied with the performance of the joint venture, and they are not involved in the day to day running of the company. The person interviewed with the New Zealand partner held that "it is almost run by itself."

The automotive products joint venture was formed in 1991 with an Australian partner. Each partner owns 50% of the joint venture which has two manufacturing plants making automotive suspension springs. The plants are located in Wellington and Sydney. The operation in Wellington was established in 1939 and has an annual turnover in the region of NZ\$14 million and employing about 70 people.

The initiative and drive for the joint venture formation was taken by the New Zealand partner who saw the need to create a larger entity in order to strengthen their position with regard to both their main raw material suppliers and their customers. Also, the two companies were the only two competitors in Australia and New

Zealand. Both companies exported some of their output. Their customers are the automobile manufacturers which are known to negotiate hard with their suppliers. On the other hand, their main raw material suppliers are the large steel companies like the Broken Hill Proprietary Company (BHP) of Australia and Nippon Steel of Japan which are also known as hard negotiators.

The New Zealand partner has been satisfied with the performance of the joint venture, and they have come to a point where they feel that they can add little additional value to the operation. The 50% share of the joint venture owned by them has recently been sold to a large auto equipment company in the United States.

The third joint venture is a ship repair and engineering facility located in Auckland. The shipyard does work for the New Zealand navy as well as for private commercial customers. It employs about 500 people, and was established in 1994. The venture was owned 30% by the New Zealand partner and 70% by an industrial group with extensive ship repair and ship building experience from the United Kingdom. The idea behind the joint venture was for the New Zealand partner to provide local knowledge and for the United Kingdom partner to provide ship repairing skills as well as credibility as a ship repair company. The day to day running of the operation was left to the United Kingdom partner, and they seconded a Chief Executive and some other key people from their United Kingdom operations to lead the shipyard.

The venture performed much worse than the New Zealand partner had expected, and this led to the New Zealand partner selling their 30% ownership share to their partner after about one year. Their partner continued to run the business on their own.

The New Zealand partner contributed the poor performance of the joint venture

to two main factors. First of all, their own homework was not done well in the sense that they relied too much on their partner's knowledge. With homework they meant detailed implementation plans, knowledge of the industry and markets, knowledge of production processes and knowledge of "what you can do and what you can't do." The New Zealand partner had no prior experience from the ship repair industry. Secondly, they feel that the Chief Executive seconded from their partner's operation in the United Kingdom was not performing well. The New Zealand partner summarised this particular joint venture experience as follows: "In retrospect we should not have gone in, or not accepted the management they put in."

In terms of their overall experience with joint ventures with international partner, the Manager from the New Zealand company said that:

A joint venture is not the cleanest thing to get involved in. I would rather control what I have got myself or get rid it, and somebody else can worry about it. In a joint venture you always have to be diplomatic and communicate with your partner. Understand what the partner wants and where he wants to go. It is more hard work generally, unless it is [the salt joint venture] which operates itself.

APPENDIX H CASE VE2

The New Zealand company is a designer and manufacturer of leading edge technology for people who are visually impaired. The product range includes speech synthesisers, computer programs and talking notebook computers for blind individuals and closed-circuit (CCTV) reading systems for partially sighted individuals. The company is located in Christchurch, and it was established in 1976. It has close research links with several universities in New Zealand. About 85 percent of the company's revenue comes from overseas sales to over 20 countries. The company has roughly a 10 percent share of its international niche markets. It employs about 50 people in New Zealand.

The company established its first wholly owned overseas subsidiary in the United States in 1980, and it has experience from several international joint ventures, the first was established in 1989 with a Dutch partner. It is interesting to note that the company's first foreign direct investment was a wholly owned subsidiary rather than a joint venture or any other form of international strategic alliance like for example a licensing agreement.

The Managing Director described the rationale for their involvement in international joint ventures as follows:

Probably in all of our joint ventures we have tried to find partners who already have a good knowledge in the market. That is probably the primary goal of our joint ventures, so we are: a) tapping into all that market knowledge, and b) hopefully because of ownership we are getting commitment from the partner to make this joint venture company go. I think if we had found the right independent distributor who we believed was going to make the commitment and was capable of doing the job,

that would probably be our first choice because there is far less risk in that. But we have found it very very difficult to find that sort of partner. So we have really come to a joint venture relationship because that is the only way we think we can achieve our objectives.

The company have had experiences with both joint ventures which have met or exceeded their expectations as well as with joint ventures which have failed to meet their expectations.

Two joint ventures which failed to meet their expectations were established in Mexico and Switzerland. Both of these joint ventures were terminated after a short period of time. The venture in Switzerland was established with a Swiss individual as partner, and this individual also became the Managing Director of the company. Each of the two partners owned 50 percent of the venture. The company was not a distributor as such, but rather set up to manage the overall distribution of the New Zealand partner's products in Europe. In other words, the idea was for this company to support, hire and fire distributors in Europe.

In terms of the performance of the joint venture, the experience of the New Zealand partner was as follows:

The reason it failed was really that we could not control the company the way we felt it needed to be controlled. If we were totally satisfied with its performance, we would not have been concerned about controlling it, but it did not perform well, and we found that it was extremely difficult to change things. It was a 50/50 joint venture, and the guy we employed had his own priorities in that they did match ours. It did not perform well enough in our view to continue it so we wound it up. There was no conflict of interest at the outset, but they developed and we were not able to keep the focus on the priorities which we saw for the company. So it did not work, and we exited from it.

A complicating factor was that the Managing Director and the partner were the same person. It was therefore very difficult, if not impossible, to replace the Managing Director. In the words of the New Zealand partner:

We were greatly limited by the fact that the Managing Director was the shareholder and employee. When we no longer wanted him as an employee, we could not continue to have him as a shareholder, so I guess there is a lesson in that. If the management of the company is completely separate from the two partner shareholders, then there is a possibility of fixing the company without burning the bridges with the partner.

The company was established in 1993 and terminated in 1995.

The venture in Mexico was set up as a distributor for the Mexican market. It was established in 1994 and terminated in 1995. According to the New Zealand partner:

The one in Mexico which only lasted very briefly was killed by the peso devaluation, it lost 50% of its value during the very early days of the company, and it was clear that funding from government organisations were going to disappear for a year or two. We decided to end the joint venture on mutual agreement. The opportunity was killed.

The joint venture in the United Kingdom was established with a partner from that country in 1992. The United Kingdom partner is a distribution company in the same field as the New Zealand company. In terms of performance, it has exceeded the New Zealand partner's expectations:

The United Kingdom joint venture was very successful because it was a stand alone entity, it was not in any way being influenced or manipulated for any other purpose. It had a pretty clear role, and it had

complete freedom to act within the scope the board gave it. There were no conflicts of interest, even though the partner had another business in this field, he was happy to stand back and say you guys develop the business as strongly as you can even though at times we would take some business away from his other company. So he was able to take a very hands off approach and yet be a provider of good market knowledge and so on. So that worked well, and probably even more important than any of those factors would be that we were able to bring in a very competent person to run the company. He is very committed, and we also brought him in as a shareholder some time later. We allowed him to buy some shares in the company, and that would give him a lot of commitment. So we ended up with a company with a very committed Managing Director, and a partner who was very committed to making the company succeed by informing us of market developments. If we were doing it as a wholly owned subsidiary, doing it on our own, it would have been much more difficult because a) we are at the other side of the world, and b) we would not have that much knowledge of the United Kingdom market.

The United Kingdom partner has recently been bought by one of their principals, and that lead the New Zealand partner to buy their share of the joint venture company. The United Kingdom joint venture company has therefore recently become a wholly owned subsidiary of the New Zealand company.

The company is in favour of partner differences in international strategic alliances. Their experience is that too much partner similarity can possibly be a source of conflict. The Managing Director elaborates on this point:

The way you described it there with having a closely similar size, culture and core also raises the strong possibility that their business interest will conflict with yours at some point. That is what happened with the Dutch company. We were both manufacturing products, technology type products. When we started out there was not really much conflict between the products, a little bit, but we could live with that. As time went by, we increased our activities in an area which overlapped a lot more with them. That was a move we decided we needed to take even though in the joint venture in the United States, we could have said it is being provided with adequate products from Holland, why do we need to develop it? We felt this was a technological direction where new product development were going even though we knew it was going to mean an increase in the level of conflict with our partner. We

were not only interested in the United States, we were interested in Canada, Europe, the United Kingdom, Australia and so on. We ended up in a position where there was a very strong conflict of interest, so we proposed that we should buy them out. It turned out that they were a lot keener to buy us out than we were to buy them, so we sold out our shares and set up a new company.

However, the Managing Director has some reservations on partner differences in terms of size, particularly when the difference in size between the partners are considerable:

Like the joint venture we had in the United States with the Dutch company. That company was probably twice the size of ours, but I don't think that was ever a particular factor, we are not so far apart, but had it been a company that was five times the size of ours, then I can imagine that they probably would not have wanted to be in a joint venture, but if they were, they would have had a lot more muscle than us and that could have been a problem.

The Managing Director of the company summed up their experiences with international joint ventures as follows:

Our track record has not been too great in terms of successful joint ventures although I still believe that it is a very good formula for accessing a market of which you have no great knowledge. I think in the instances where we have failed, not where we have failed but where we have eventually given up on a joint venture, it has really had nothing to do with the structure of the joint venture really. We obviously believe that this is a good formula, we have just set up another one in Germany. We are not disappointed by occasional failure.

APPENDIX I CASE VE3

The New Zealand company is a deep sea fishing, processing and marketing company. It is the largest such company in New Zealand, and it owns 25 percent, or 160,000 tonnes, of the fishing quota in the New Zealand 200 mile exclusive economic zone. This exclusive economic zone is the fourth largest in the world. Over 70,000 tonnes of the fishing quota is hoki, the most abundant New Zealand deep water species. Hoki is recognised internationally as a prime white fish.

The company had sales of NZ\$296 million with a net profit of NZ\$15.5 million in the 1996 financial year. Over 90 percent of sales comes from exports to more than 30 countries. Seafood prices are mainly commodity driven.

The company has experience from several joint ventures and other types of strategic alliances both with domestic and international partners. In terms of performance, to what extent these strategic alliances have met their objectives range from much better than expected to somewhat less than expected.

A joint venture which has failed to meet expectations so far is a joint venture with a large Japanese seafood company. The Japanese partner has an annual turnover of about NZ\$2 billion and employs about 20,000 people. The joint venture was formed in 1993, and it is still in operation. The Japanese partner has provided a deep sea factory stern trawler to the joint venture, and the vessel is fishing in New Zealand waters using the New Zealand partner's fishing quota. It is an older vessel, and it has earlier been used for the Japanese partner's fishing operations in Japanese waters. Prior to the formation of the joint venture, the vessel had become surplus to the Japanese partner's requirements for their own fishing operations. It would not be

possible for the Japanese company to fish in New Zealand waters without a New Zealand partner. The capture from the vessel is bought by the Japanese partner and marketed in Japan. At the time when the joint venture was formed, the New Zealand partner saw the joint venture as a vehicle for expanding their catching capacity at minimal cost.

The joint venture has not met the performance expectations of the New Zealand partner for a number of reasons. First of all, the catch productivity of the vessel has been less than what was expected at the formation of the joint venture, and the vessel's operating costs have been higher than initially anticipated since the vessel is old. Second, an openness or understanding of the transfer prices paid by the Japanese partner to the joint venture for the fish has not been achieved. According to the Chief Executive of the New Zealand partner:

There has not been the openness that we would have expected to verify that the prices being paid to the joint venture are fair and reasonable.

Another factor having a negative impact on the performance of the joint venture has been the strengthening of the New Zealand dollar against the Japanese yen and other major currencies. The risk profile of the venture is relatively low since the availability of the fish species concerned is known with some certainty, but it is not a high value species. In other words, the chance of either a big success or a huge failure was low.

The New Zealand partner has more recently entered into a second joint venture with the same Japanese partner, and this strategic alliance had probably not been formed had it not been for the first joint venture. The second joint venture is, according to the New Zealand partner, unlike the first, a success:

By having that venture [the first joint venture with the Japanese partner], it has led us into another joint venture with them which is a major success, and which has got nothing to do with the first venture.

Having learned from the first venture with the Japanese partner, the New Zealand partner approached the second venture somewhat differently:

We spent a lot of time on things like transfer price which was an issue with the first one, on feeling the compatibility of our objectives, looking at what would happen with the costs in the whole operation, the openness and so on. Spent a lot of time before we agreed to formalise that one, to make sure that the ground rules were very very clear and well documented.

A joint venture which, in the eyes of the New Zealand partner, has performed much better than expected, is a venture with a partner from South Africa. The venture is located in Namibia, and the partners also have a similar joint venture in South Africa. The South African partner is a very small firm with 2 employees and an annual turnover of about NZ\$0.5 million. The Namibian joint venture was formed in 1994, and it is still in operation. According to the New Zealand partner "it is early days yet." The South African partner is providing various fishing licenses as well as some engineering expertise to the joint venture as well as obviously local expertise, while the New Zealand partner provides expertise in terms of seismographic work, fishing skippers and crew, fishing vessel management, fish processing and engineering expertise that complement their partner's expertise. The New Zealand partner has a 30 percent ownership of the joint venture, but they are a much more active partner than the ownership share could indicate. They have sold one of their fresh fish trawlers to

the venture. The Namibian joint venture company which is involved in fishing and processing of the catch employs about 300 people at present, and a processing factory has recently been built. The processed fish from the joint venture is sold to the New Zealand partner.

In contrast with the endeavour in New Zealand with the Japanese partner, the New Zealand partner describes the venture in Namibia as high risk. No major deep sea fishing operations had been undertaken in the country prior to the formation of the joint venture, so there were uncertainty with regard to both species and quantities. The operation has been able to find commercial quantities of a high value species, orange roughy. It was not known that they would find this species prior to the formation of the joint venture.

As mentioned earlier, the processed catch from the joint venture is being sold to the New Zealand partner. These transactions are being made with as much openness as possible. Says the New Zealand partner:

We made very sure that the joint venture partner can see the full transparency of the whole transaction trail, what is going on, who it is being sold to, why this is happening, why that is happening.

The New Zealand fishing company prefers to establish international strategic alliances with firms that differ from themselves. In other words, they are in favour of partner asymmetries in strategic alliances. With particular reference to the size of the alliance partner, the Chief Executive of the company says that:

What I have found that always works quite well in joint ventures is big guy - little guy and not big guy - big guy or little guy - little guy. I mean, a company like us, that has 350 million dollars turnover, can easily have a very successful

joint venture with a person, a one to five million dollar organisation. There is respect for each other because you both bring skills. But two companies both making 50 million dollars getting together often will have a lot of problems because you have both got your systems, your bureaucracy, your policies, procedures and so on and they will just rub up against each other. And lead to all sorts of conflicts. And so I have got more respect for the ones that are disproportionate in size, the parties are very different in their magnitudes.

APPENDIX J CASE VE4

The New Zealand company is a diversified group operating predominantly in four business segments. These are processed and packaged foods, seafoods, scientific (manufacturing and distribution of scientific equipment and consumables as well as wheelchairs) and plastics and brushware. The group had a turnover of NZ\$ 153 million and a net profit of NZ\$ 2 million for the 1995 financial year. It has recently been bought by an investor group from South East Asia and delisted from the New Zealand Stock Exchange. Subsequent to this event, the group is being restructured. The group has its headquarter in Auckland.

The group has extensive experience from international strategic alliances. The Managing Director considers that they have three different groups of international strategic alliances. The first group relates to the manufacturing of plastics and brushware. The Managing Director says:

At the manufacturing level, our plastics and brushware group has licenses with overseas affiliates where for a license fee, we get access to their technology, to manufacturing-dies, to in fact producing either brushwares or plastic goods.

Those sorts of relationships tend to be very much in favour of the original licensee or designer because they can pull it from you any time, and they only use you when they see this market as not big enough for them to come in on their own. And you always recognise that you are building market share, and if you get to a significant volume, they can pull it off you and do it themselves and therefore get additional profit or margin from it. These are fairly straight forward, and what I would call technical relationships.

The second group relates to the use of more advanced technology than

described above. The Managing Director declares:

In the case of advanced technology such as our scientific group and salmon companies, at times we have had strategic alliances there because we bought technology, paid for it with a lump sum at the front end, and then had a royalty stream as we used it. For example, [name of company] company who is involved in transgenic research using DNA principles to enhance the growth of salmon through breeding programs. So we paid for the technology, we had the exclusive use in Australasia, and as it is delivered into the marketplace we pay a royalty based on each dollar of sales. That works quite well because it is locked up long term, and if it is beneficial, both parties win from it. And those are the sort of license agreements of technology that we would tend to look at in the future. The supplier of that technology is not actually a competitor, it is a technology based company. It is not a retail or consumer driven company.

The third type of international strategic alliances are being described by the New Zealand company as extensions of agency agreements, and they currently have about 10 of these in operation. The Managing Director explains how they recently entered into such an alliance with an international partner:

We paid a royalty and we have exclusive access to the formulas [for the production of branded jam] and can manufacture or buy from them or relabel. And that is a purely commercial arrangement. But in this instance it was long term, unlike the earlier agreements that was purely driven just on the supplier side. The company this time was smart enough to say we will not go into this unless we have a contract which gives us exclusivity for five years, and at the end of the five year period, there is a formula that if they don't renew it, then they have to pay a premium to buy us out of it. That is, they have to pay some of the goodwill that we have generated by our own marketing activities back to us as a loser of the licensing.

In terms of their overall experience, the Managing Director pronounces:

We have had a number of joint venture relationships offshore that have gone bad, but we have had more that worked out to our positive advantage, so we are certainly not adverse to it. The nineteen companies in the [name of group] group have about twenty major associations. Beyond just sales agreements. At least half of them are working very satisfactory.

APPENDIX K CASE VE5

The New Zealand company is a major privately owned multi-disciplinary consulting practice, and it offers a wide range of engineering, project management, planning, surveying, valuation, economics and computer services. The company is active all over New Zealand as well as in Australia and in several South East Asian countries. It employs some 600 people. The company won a New Zealand export award (the Governor General's supreme award for excellence in export achievement) in 1991.

The company has experience from three international strategic alliances with foreign partners. Two of these alliances are joint ventures, while the third is a co-marketing agreement. The co-marketing agreement was terminated after being in operation for six years. According to the New Zealand partner, the relationship was terminated due to the unsatisfactory performance of their foreign partner. Says the Chief Executive:

As an example of their performance, we were required to advise them if we wished to terminate the agreement, and we never received a response to our termination advice. So you can see that the co-marketing agreement was most unsatisfactory from our point of view.

The company found the performance of their foreign partner to be more satisfactory early on in the relationship.

The two joint ventures were established in 1984 and in 1990, and both of these ventures are still in operation. The first venture was established with a partner from Canada and the second with a partner from the United States. The Canadian company

has some 3,000 employees while the American partner employs more than 16,000 people. The main objectives behind the formation of both of these joint ventures were skills sharing and market knowledge (Type I asymmetries). Both joint ventures are equally owned by the partners.

The performance, in terms of meeting the New Zealand partner's objectives, of these two joint ventures have been notably different. In the eyes of the New Zealand partner, the venture with the Canadians has consistently performed better than expected, while the alliance with the partner from the United States has consistently performed worse than expected. The Chief Executive explains why this is so:

The primary reason why the [name of the joint venture with the Canadian partner] joint venture has performed better than the other two co-operative relationships is that the parent companies and their senior management were aligned. Even though there were some initial teething problems, the senior management insisted on the joint venture operating in a particular manner, both in [name of New Zealand partner] and [name of Canadian partner]. This continues throughout the life of the joint venture. There are other reasons, but they are secondary.

In terms of the background to the formation of the joint venture with the Canadian partner, the Canadians were fairly well known to the New Zealand company because the two had already worked together on various projects. As to the selection of that particular overseas partner, the Chief Executive elucidates:

We asked the two principal clients in the [the industry the joint venture is targeting] that we perceived as likely to use the services of a joint venture company, which overseas organisation they would recommend that we approached, that was the first question. And the second question was if they would be interested, if we did form a joint venture, in using the services of that joint venture. And after that small client survey, we were of the opinion that we should approach [the

name of their Canadian partner].

The Chief Executive has the following to say about the motivation behind the formation of their international strategic alliances:

It is very very hard for any one company to cover the whole range of skills, and it is also very hard for a company like [name of company] to even try to cover the full range of skills. And we should not do that, we should look to add complementary services together rather than trying to take things that they have got and then drop them off. Because we would rapidly ourselves get out of date.

In this particular case skills (technology) can be considered as a Type I asymmetry.

APPENDIX L CASE VE6

The New Zealand organisation, a producer board (hereafter referred to as the Board), is responsible for the export marketing of all New Zealand dairy products on a global basis. It has an annual turnover in excess of NZ\$5 billion, and based on turnover, it is the second largest company in New Zealand. The Board employs more than 6,000 people, and it has established a network of over eighty subsidiary and associate companies around the world. Its two major competitors throughout the world are Kraft and Nestlè. More than 90 percent of all dairy products produced in New Zealand are exported.

The Board is controlled by the New Zealand dairy farmers. They own on a cooperative basis dairy companies which own the Board's total capital of NZ\$750 million. Each cooperative's ownership share is calculated by the proportion of qualifying milkfat that it produces. Generally speaking, the Board's net profit is paid to the dairy cooperatives which again pay their net profit to the dairy farmers.

The Board is probably the most experienced organisation in New Zealand in terms of international strategic alliances. All its past and present international strategic alliances are joint ventures, and the first was formed in 1963 with a partner from Malaysia. This particular joint venture is no longer in operation. In total the Board has formed some 35 international joint ventures. Of these, 18 are still in operation as joint ventures. Of the 17 joint venture relationships which have been terminated, eight have become wholly owned subsidiaries of the Board, six have been sold and the remaining three joint venture operations have been wound up. The Board's ownership share in each joint venture varies, but it is at least 30 percent. The joint ventures have been

formed with partners from all over the world.

An example of a joint venture where the Board has bought out their partner is a joint venture in Hong Kong established in 1982 with a local partner. They bought their partner out in 1991, and the Group General Manager Marketing of the Board explains why:

We joint ventured in Hong Kong with a trading organisation and as we got into development of China, the big goal, they were not prepared to reinvest the profit. They wanted them out year on year. And they kept stripping the cash out of the joint venture which meant that there was no money to develop the market in China, so we ended up funding the development of China externally to the joint venture which became ridiculous because the joint venture would then make profits from the investments we were making without itself making any investments. So we decided that the best thing to do would be to buy out our partner, which we did. So we bought them out and took over the management ourselves.

An example of a joint venture where the Board sold their share of the venture to their partner is a joint venture formed in Singapore in 1989 and subsequently sold to their local partner in 1994. The Board also at the same time had other operations in Singapore that were not competing with the joint venture. The partner they sold out to was not the same partner they formed the joint venture with, as this company was taken over by another joint venture company formed by a large food company and a Singapore brewing company. The brewing company was already involved in the dairy industry, although it is not one of their core businesses, and they brought this business into the original joint venture between the Board and their local partner. The brewing company then took over the day to day operation of the joint venture, and the Board became a supplier of raw materials to the venture. In the eyes of the Board, the joint

venture was not run well, and they discussed this with their partner. The Board saw four options: a) For their partner to continue to manage the business but with close guidance of the Board, or b) for the Board to manage the business alone, or c) For the partner to buy out the Board, or d) For the Board to buy out their partner. Out of the four, the Singapore partner preferred to buy out the Board. The Board got a price they were satisfied with, they still have their other operations in Singapore, and the two former partners remain friends.

One of their ongoing joint ventures is located in Malaysia, and this particular joint venture is very successful. It was formed in 1989, and it is totally unrelated to the earlier joint venture in Malaysia mentioned earlier. Here is some of the background to the formation of the joint venture in terms of the partner selection process:

I was introduced to him [the joint venture partner] by a mutual friend, we had lunch together, we got on well together, we talked about development possibilities and we just developed a relationship. When the time came for us to do something, I said to him are you interested, and he said sure, I will come in as an investor. And he is very well connected so you know, the culture thing, ultimately joint ventures are about people.

Based on this statement, both national culture and market knowledge can be considered as Type I asymmetries.

The joint venture company, which is owned 49 percent by the Board, is a property owning company which owns the land and buildings where the Board's milk powder packing plant is located. Due to the local laws, it would not be possible for the Board to own these assets by themselves. The local laws restrict market access which is a Type I asymmetry. The milk powder packing plant is owned and operated by a

wholly owned subsidiary of the Board, and they also have another wholly owned subsidiary which markets and distributes New Zealand dairy products in Malaysia. Their joint venture partner is the individual person and his wife. He is a successful businessman in his own right, but none of his business interests outside of the joint venture are in the dairy industry.

The development of most of their joint venture relationships have been done incrementally. Explains the Group General Manager Marketing of the Board:

It is very much like a whole development pattern all around the world, we move from a liaison office to small scale trading company and we move to either ingredient operation or food service or consumer depending on how that market is developing. We have taken incremental exposure right around the world. It depends on the scale of the development of the marketplace, infrastructure development, government regulations, and what we can and can't do.

They also see it as very import not to rush into a joint venture relationship:

Take the time. Don't take the first bus that comes along, you don't know where it is going. Find out the bus route first. Then choose the right bus. Take your time, understand the culture. It is very important, and once you get to that, understand and learn about each other, only then can you start to move towards how you want to structure this.

APPENDIX M CASE UF1

The New Zealand company is an importer and distributor of electrical equipment. The company was established in 1912, and it has some 20 employees. The Managing Director of the company has extensive business interests outside of the company, and he sits on the Board of Directors of several corporations. He is also active in different business interest groups.

The company has experience from four international strategic alliances, and these are two joint ventures, one co-marketing agreement and one consortium. All alliances are still in operation, and the first was established in 1989. The company's partners are all from countries in Asia including Malaysia and Singapore, and the Managing Director of the New Zealand company was born and grew up in Malaysia.

In terms of the performance, the strategic alliances are meeting or exceeding all the New Zealand company's objectives. The Managing Director contributes the performance of the alliances to two major factors concerning the formation and the day to day running of the ventures. First of all, the fact that the Managing Director has very strong knowledge of the markets (a Type I asymmetry) and business practices in Asia as well as an extensive network of personal friends and business contacts. This means that the New Zealand company is able to get involved in commercially viable ventures with partners who have got both the required resources and the required commitment to see the venture through. In other words, the New Zealand company is able to undertake extensive information gathering and partner selection processes at a relative low cost.

The second factor concerns the day to day running of the strategic alliances.

These ventures are obviously meeting various problems or challenges like any other business venture. However, since the Chief Executives involved are personal friends, there is a strong incentive for the parties to address and resolve problems as and when they occur. One example is a project in Malaysia involving technical expertise from the New Zealand company. Whenever the New Zealand engineers encounter any problematic situation with regard to their Malaysian colleagues, they will make a detailed verbatim report for the Managing Director in New Zealand. He will then interpret the situation, particularly with regard to non-verbal or hidden meanings, and decide what the appropriate action should be.

The Managing Director holds that it is important to be flexible to your partner's needs and wants. This is how he describes his experiences relating to alliance contracts:

Most of my Asian ... most of my Asian dealings, I do not have any agreement at all, you know, but I have a handshake. Whereas, you see, my American counterpart and my British counterpart, they will send me, you see, half an inch thick of agreement verifying you shall do this, I shall do that.

APPENDIX N CASE UF2

The New Zealand company is the world's largest sheepskin tanners with tanneries in both New Zealand and Australia. It has sales offices around the world, and products include baby and floor rugs, rugs for medical use and car seat covers. The company also sells to manufacturers of bedding, interior decorator items, footwear, clothing, paint rollers and souvenir items. Tannery operations first started in 1881, and the company currently employs some 520 people. It has received two Governor General Exporter Awards for export performance.

The company has experience from one international joint venture. The venture was established in Australia in 1981 with a local partner, and it is still in operation. The joint venture is a tannery operation, but it only performs part of the whole tanning process, and the remaining parts of the process are done by the New Zealand company's wholly owned tannery in Australia. The local partner is a skin dealer. A skin dealer buys sheepskins from sale yards and meat companies, temporarily preserves the skins, and then sells the skins to tanners like the New Zealand company. The two partners had a trading relationship with each other for about ten years before the joint venture was formed.

The New Zealand company's main motivation behind entering into the joint venture with the skin dealer was to gain improved access to raw materials (a Type I asymmetry) both in terms of increased supply and increased security of supply. This would then form the base for the company to increase their growth internationally. It was obvious from the very beginning that the two partners would have some conflicting objectives since one partner is a raw materials supplier, and the other

partner is a buyer of those raw materials. The Managing Director of the New Zealand company explains how this conflict has been resolved:

We kept the supplier-customer relationship at arm's length. So that is just the normal negotiating that goes on and so we resolve that conflict, I suppose you can say, with difficulty, but at the end of the day, we come to a final price point just the same way as we do with any other supplier.

It is important to note that the joint venture company does not buy all its raw materials from the partner who is a skin dealer.

In terms of the performance of the joint venture, it exceeded the expectations of the New Zealand partner for the first four or five years, but it has failed to meet expectations over recent years. The Managing Director of the New Zealand company elucidates:

It [the performance of the joint venture] has varied, and to an extent relating to the personalities involved. Personalities from our side haven't changed a lot. The other side has. The previous Manager or Managing Director of the company has retired. Someone has taken over, and he is a different character from his father, so the performance has varied with the differences in these people.

We can conclude from this statement that corporate culture is a Type II asymmetry.

The Managing Director summarises their international joint venture experience as follows:

It has been an interesting exercise, one from which we have learned a lot. It was the first step of internationalising our production facilities. That was very valuable. If we do the same thing again, in another country for example, we would do it on our own. I think we would anyway, and we would engage outsiders to advise us in the areas where we used the joint venture partner to advise us.

APPENDIX O CASE UF3

The New Zealand company is a diversified unlisted company with interests in rural servicing, stock and station agency, financial services and electricity. For the 1995/1996 financial year the group had a turnover of NZ\$228 million and after tax profit of NZ\$ 16 million. The group has long traditions, particularly in the agricultural business.

The company has experience from one international joint venture in agriculture. It was established in Hungary in 1989, and the group currently owns 72 percent of the venture.

The background to the joint venture is as follows. The company has for many years exported large quantities of seed to various countries in Europe including Hungary. This trading relationship enabled the company to become involved as consultants to assist in the development of large state owned farms in Hungary. The joint venture was established in 1989 as a continuation of the consultancy business. Beside the New Zealand partner, who would provide agricultural expertise (a Type I asymmetry), there were three other partners. These were a state owned farm providing market knowledge (a Type I asymmetry) as well as two banks. Soon after the joint venture was established, the communist system was abandoned and a market economy gradually introduced in Hungary. This effectively meant that the whole basis for the joint venture business was more or less eroded since the funding for the development of the large state run farms and agricultural cooperatives dried up. The joint venture therefore shifted its focus to the trading of agricultural products and providing services

to the rural sector similarly to the New Zealand company's agricultural business in New Zealand.

The joint venture company is being managed by an expatriate from New Zealand, but the partners are currently considering to let a local person take over this role since the venture is close to having developed people locally with the required skills and expertise. It is also costly to have an expatriate from New Zealand stationed in Hungary.

As would be expected, the New Zealand company has found that their Hungarian partner has a different view of commercial activities than what they have. This is how the Managing Director explains this difference and its effect:

Their attitude to business was, as you would expect from a state bureaucracy, totally different from our own. It gave us enormous frustration just getting people to look at what we wanted to get done.

The Hungarian joint venture company is currently trading profitably, and it is to some extent meeting the New Zealand partner's expectations. They say the following in their annual report for the 1995/1996 financial year:

We have still to build a business of sufficient scale and stability but a profitable operation has been established and opportunities for growth are being pursued.

However, one of the original partners, one of the banks, have sold their share in the joint venture because they felt that the business was not growing as fast as they would have liked to see happening.

The Managing Director of the New Zealand partner says the following about

the future of the joint venture:

We are at the stage now where we will have to decide if we will stay in this joint venture. One of the disappointments with this joint venture is the lack of input from the partners, and the other reason is the distance from New Zealand. Despite improved communications it is at the other side of the world. It would have been nice if it was closer to home.

APPENDIX P CASE MF1A

The New Zealand company is a listed company involved in the production and marketing of cement, concrete, aggregates and related products. The group operates one of New Zealand's two cement manufacturing plants. Its largest shareholder is an international leader in the cement, concrete and aggregate industries with operations in over 35 countries worldwide. The company achieved a turnover of NZ\$171 million and a net profit after tax of NZ\$ 23 million for the 1995 financial year. The major proportion of the turnover is from domestic sales. The group employs some 580 people.

The company has experience from one international joint venture. The venture was established at Suzhou in China (100km from Shanghai) in February 1995 with three other partners. These three partners are a Chinese so called town and village enterprise with a 50 percent ownership share, a funds manager with 15 percent and a large Singaporean industrial group with 10 percent. The New Zealand company owns the remaining 25 percent, and they are responsible for the day to day management of the joint venture cement plant in Suzhou. The New Zealand company did evaluate a few other potential partners in China before they decided to form a joint venture with these partners. Both the funds manager and the industrial group has experience from other ventures in China, and the New Zealand partner saw this as an advantage since they were new to China. The New Zealand company's parent company has had some limited exposure in China, but this venture through their New Zealand subsidiary is their first major project there.

The Chinese partner owned and operated the cement plant prior to the

formation of the joint venture. The plant capacity was expanded soon after the joint venture was formed, and it now stands at 1,700,000 tonnes per annum which makes the plant one of China's five largest cement works. The joint venture company has embarked on a strategy of becoming a low cost supplier to the markets it services in the greater Shanghai area.

The performance of the joint venture in China has so far been unsatisfactory to the New Zealand partner. Specifically, for the financial year ended 31 December 1995 the joint venture was unprofitable, and the New Zealand partner's share of the loss was NZ\$ 2.5 million. This has been contributed to two main reasons:

- Commissioning and bringing a new one million tonne plant up to the desired production performance has taken longer and has been more costly than anticipated;
- Government restrictions on credit in China has resulted in reduced demand for cement and therefore increased competition on price.

The financial performance of the joint venture has also been unprofitable for the first six months of the 1996 financial year. The New Zealand partner's share of the loss for the period was NZ\$ 2.2 million. During this period the joined venture had to face the facts that cement prices remained depressed, and raw material and distribution costs increased.

In terms of the operational aspects of the plant, the New Zealand partner has introduced modern production and quality control systems which were not in place

previously. The Managing Director of the New Zealand company explains:

We have put in some very modern reporting on quality and production controls, and that is completely foreign to them [the Chinese partner]. It is a slow process getting the Chinese Managers to accept that they are useful tools for managing the business.

In general, they have found that their Chinese partner's approach to operating a business is substantially different from their own approach. In particular, the most marked differences are seen in areas like management structures, production control processes and strategic planning processes. The Managing Director explains to what extent these differences are seen as a problem:

I guess that as a problem, it is one that is manageable but it takes time to manage it and it ... it detracts ... it pulls away from the focus of where we should be. So it is a continual time consumer to deal with and try to get people sighted on where we want to be and what are the specific actions we are taking over the next period of time.

The New Zealand company considers the Chinese joint venture to be a long term investment, and they do not rule out the possibility that they will increase their equity share in the business over time.

APPENDIX Q CASE MF1B

The New Zealand company is a listed company involved in brewing of beer and bottling of softdrinks in New Zealand and Australia. For the financial year ended 31 August 1996, the group achieved a turnover of NZ\$2.6 billion and net earnings of NZ\$150 million. It has about a 50 percent beer market share in New Zealand and Australia.

The company is involved in several international strategic alliances, including a licensing agreement with a Swedish company allowing them to brew the company's premium beer in Sweden. Another strategic alliance is a joint venture with a Chinese partner established in April 1995.

After evaluating the Chinese beer market and deciding to enter into a joint venture with a Chinese brewery, the New Zealand company undertook a comprehensive partner selection process. The first part of this process involved talking to a number of multinational companies operating in China about their experiences. These companies were not necessarily in a joint venture in China nor in the brewing business. Based on the information gathered, they developed a list of ten essential prerequisites for a joint venture involvement in China. The next step involved evaluating potential joint venture partners based on these prerequisites. There is about 800 breweries in China, and 400 of these are of some size. The New Zealand company evaluated 45 breweries before they could find one that met all the ten criteria on the list. Each evaluation would include meetings with owners and management of the Chinese brewery, a technical evaluation of the brewery itself and market evaluations of the region the brewery was trading in. The whole process took about two years and

obviously involved considerable expenses. The company reported as follows in their 1995 annual report:-

In the four months since acquisition in April to 31 August 1995, the Wuxi brewery made a profit of NZ\$1.2 million. However, NZ\$ 4.8 million of costs associated with the Wuxi acquisition and the investigation of other brewing opportunities resulted in an overall loss of NZ\$3.6 million for [name of company] Chinese operations.

The New Zealand company paid US\$21.5 million for a 60 percent share of the joint venture when it was established in April 1995, and in January 1996 they bought an additional 20 percent share from their Chinese partner. The New Zealand partner manages the brewery which is situated at Wuxi. Wuxi is located in the Yangtze river delta area, about 120km west of Shanghai. Upon formation of the joint venture the brewery has been upgraded and expanded to double its capacity. This has brought gains in production efficiency and quality benefits.

The New Zealand partner is very pleased with the performance of the joint venture and with the working relationship with their partner:

We are perceived by our partners to be a good partner, and we see them as a good partner. The joint venture is profitable, and we have avoided any conflict or we have avoided the need for any conflict. We have good management, we are investing in buildings and in the quality of the management. So there are few things today we would have changed.

In terms of financial performance, for the period April to August 1995 the joint venture achieved sales of NZ\$8.1 million and earnings from operations of NZ\$1.2 million. The figures for the period September 1995 to August 1996 were NZ\$19.2

million and NZ\$2.3 million respectively.

The company is currently building a brewery on a greenfield site in the Wuxi-Singapore Industrial Park in Suzhou, China (100km from Shanghai). The new brewery which will represent an investment of some NZ\$ 200 million will be wholly owned by the New Zealand company. It will be operational in 1998, and the brewery will be capable of producing as much beer as the company sells throughout all of New Zealand.

APPENDIX R CASE MF2A

The New Zealand company is a private company with five employees established in 1990. It is a seed company, and this means, in a simplified way, that the company contracts with farmers to grow certain varieties of agricultural seeds which the company markets and sells worldwide. The seeds are all produced in New Zealand and mainly exported overseas. The largest markets are found in countries in Europe and Asia as well as South Africa. These markets count for more than 75 percent of the company's turnover. The company sees their location as a strength. They are situated on the south island of New Zealand in a location within a 50km radius of over 60 percent of the country's arable production. New Zealand has long traditions in the production and export of agricultural seeds.

The company has experience from one international strategic alliance formed in 1992. It is a research and development agreement involving two other parties. The two other parties are a scientific agricultural research organisation in New Zealand and a Dutch agricultural seed distributor. The research organisation will develop (breed) white clover seed varieties suitable for the climates in northern and southern Europe. Upon completion of this work, which will take several years, the seed company will produce the seed varieties in New Zealand, and the Dutch company will sell the seeds in Europe. Hence, the Type I asymmetries included in this alliance are market knowledge and technology, while the Type II asymmetry is national culture.

No separate legal entity has been established for this venture, and the ownership of the jointly bred seed varieties, which will be covered by patents, will be held equally by the three partners.

The partners in the research and development agreement are very pleased with the performance of the strategic alliance so far:

One year ahead of schedule we have two cultivars presently under National List testing in the United Kingdom and in France. To be at this stage less than four years from signing the agreement is a considerable achievement and augers well for the success of the whole programme.

However, it is still relatively early in the development process of the strategic alliance, and this is recognised by the company:

The product is now in the development stage. Later on the product will be available in the market, and probably the cheaper the product is, the easier it will be to market. Against that we will be looking to get a price level that can ensure that we can get production here with New Zealand farmers in competition to other products that those farmers can grow. So perhaps when you interview us in five years time some of the answers may be slightly different, but right now the single minded objective is to produce a clover and sell that in volume.

APPENDIX S CASE MF2B

The New Zealand company is a private company with 23 employees established in 1987. It was formed as a management buyout of a division of a large company. The company is a seed company, and this means, in a simplified way, that they are involved in the research and development, production and marketing of agricultural seed varieties. A large portion of the company's turnover comes from sales overseas. New Zealand companies have long traditions in the research and development, production and marketing of agricultural seeds, and these companies have been and are extensively involved in international strategic alliances.

The company has experience from several international strategic alliances dating back to the formation of the company in 1987. One such international strategic alliance is a licensing agreement entered into with a company from Australia allowing the Australians to produce and sell one of the company's proprietary seed varieties in Australia. After some time the New Zealand company bought an equity share in the Australian company, and again after some time they bought the whole company.

An international strategic alliance which have failed to meet the expectations of the seed company ever since it was formed in 1988 is a licensing agreement entered into with a Dutch partner. At the same time as the licensing agreement was entered into, the two parties also entered into a research and development agreement, and the Dutch company bought a 25 percent equity share in the New Zealand company. The licensing agreement allows the Dutch company to produce and sell not only in the Netherlands, but all over Europe, one of the company's proprietary seed varieties.

Furthermore, the Type I asymmetries included in this licensing agreement are market knowledge and technology, and the Type II asymmetries are partner size and national culture.

MF2B's Managing Director explains why this international strategic alliance has failed to meet their expectations:

I think there are two reasons. The way they do business in Europe is different from the way we do it here, and their ability to sell the benefits of the product are much less than what they are in the New Zealand system, as the agricultural system is so different. They essentially are selling on price based upon the performance on a recommended list somewhere. Whereas we are selling on price to some extent, but more on the benefits of our product to the farmer. The second point is that they had some competing product which we were unaware of at the time we entered into the licensing agreement. They make more money out of this product because they don't have to pay us royalty.

The New Zealand partner also considers in hindsight that it might have been wise not to let one partner alone have the rights for the whole of Europe. However, they did not have a strong knowledge of other potential partners other than the Dutch at the time.

The company has recently established a joint venture in Argentina, and they are looking at alliance opportunities in Peru and Mexico. The agricultural countries in South America are interesting markets for the company since these countries have a similar climate to that of New Zealand.

APPENDIX T CASE MF2C

The company, a seed company, is part of New Zealand's largest agriculture servicing company. The agriculture servicing company is listed on the New Zealand stock exchange, and it has an annual turnover in the region of NZ\$600 million. The seed company, which has been in operation for more than 125 years, is involved in the research and development, production and marketing of agricultural, horticultural and turf seeds. It experiences a turnover of about NZ\$50 million per year. A substantial portion of the company's turnover comes from sales overseas. New Zealand companies have long traditions in the research and development, production and marketing of agricultural, horticultural and turf seeds, and these companies have been and are extensively involved in international strategic alliances.

The seed company has very extensive experience from international strategic alliances dating back to the late 1970's. The first alliances were entered into with partners from countries in Europe, and the company has since then teamed up with companies from all parts of the world. It has formed 38 international strategic alliances since 1981. Of these, 28 are licensing agreements, 9 are research and development agreements, and one is a joint venture. Of the 38 alliances formed, 27 are still in operation. Several of the strategic alliances, particularly the licensing agreements, are with the same partners. Most strategic alliances have been formed with partners from the United States, the United Kingdom and the Netherlands with 12, 6 and 4 international strategic alliances respectively.

Many agricultural plants are proprietary and therefore protected by patents. The licensing agreements give the licensee the right to produce the seeds and market

them in certain markets. The production of seeds are normally done under contract to farmers rather than by the seed company itself. The New Zealand company is involved in licensing agreements with international partners both as a licensor and as a licensee.

Agricultural plants suitable for the southern hemisphere are usually not suitable for the northern hemisphere and vice versa. This means that new plant varieties developed by the New Zealand company for New Zealand farmers are generally not suitable for European farmers. In other words, a new and separate plant variety will have to be developed for northern hemisphere conditions, and this fact forms the backbone for the research and development agreements. The General Manager of the New Zealand seed company explains how it works:

The alliance is that our material at an early age goes to the Dutch company [their alliance partner]. They work on it and change it. It is like a recipe, they may say that it needs a bit of this or that. Their material comes to us, and we see that it does not work particularly well in New Zealand, it has got disease and this and that. So we fiddle around with it. In the end we may come to varieties that work very well in the northern hemisphere and very well in the southern hemisphere. We share royalties. The alliance is working two ways, we are opening up the southern hemisphere to them, and they open up the northern hemisphere to us.

The development of new plant varieties are long term projects. It may take as long as ten to fifteen years from start to finish.

The New Zealand company has implemented a system whereby they review the performance of each alliance with their partner once or twice a year. They have found that this helps drive the performance of the various alliance relationships, particularly with regard to the research and development agreements which tend to be long term projects. Furthermore, they ensure that they have a clause in their research

and development agreements giving them the right to terminate the alliance should their partner not perform as agreed for whatever reason. They have not terminated any agreements due to non-performance yet, but they think it will happen in the near future. As an example, the company is involved in a research and development agreement with a Dutch firm, and this agreement covers all the national markets in Europe. The company has some material for the development of a new plant variety for the European markets. Upon discussing this project with their partner in the Netherlands, their partner responded that they are unable, for a number of reasons, to proceed with the project. The New Zealand partner therefore has the right, under the agreement, to enter into an agreement with another partner in Europe for this particular plant development project, and it is likely that they will do so.

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