Towards a Multidimensional View on Alliance Evolution: A Case Study of an International Alliance Formation between two SME's

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Identifying Relational Capabilities in Alliance Formation in a Social System Perspective

We find that the new title is more appropriate to the theory and the case

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Categorie 1: Research Based Papers

Towards a Multidimensional View on Alliance Evolution: A Case Study of an International Alliance Formation between two SMEs

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Abstract

Nowadays, strategic alliances are the most popular and widely accepted type of inter-organizational arrangement. Unfortunately, many alliances fail for a variety of reasons. A frequently mentioned reason is the inability of organizations to integrate the resources necessary to establish an efficient and effective governance structure. In this article, we explain through which dimensions an alliance evolution can be assessed and propose that, during each stage of alliance evolution, firms should consider how their strategic, economic, cultural, and social dimensions influence alliance performance. We applied this multidimensional approach in a case study of a strategic alliance between firms based in the USA and in the Netherlands, and demonstrate how the different processes that support these dimensions affect the effectiveness of alliances and consequently the prospect of a positive outcome in terms of equity and efficiency.

Introduction

Despite the rapid proliferation of strategic alliances, many alliances still fail (Bleeke and Ernst 1991; Gulati et al. 2008; Harrigan 1988; Park and Ungson 2001). The causes of alliance failure are rather diverse. Two of the reasons identified are a lack of adaptable inter-organizational exchange processes (Zajac and Olsen 1993) and a lack of organizational fit in terms of compatible cultures, decision-making processes, and systems (Kale et al. 2000). Some argue that firms that benefit from building alliance capabilities do so by structuring alliance experience and thus realizing greater success with alliances (Kale et al. 2001; Schilke 2007). Acquiring such capabilities requires a firm to have the ability to solve problems within inter-organizational relationships, such as alliances, that

facilitate such capabilities (McEvily and Marcus 2005). Institutionalizing such capabilities within the basic routines of an organization (Nelson and Winter 2002) requires dynamic capabilities guided by the well-known learning mechanisms of an organization (Eisenhardt and Martin 2000; Teece et al. 1997). Some see alliance routines as relational capabilities (Dyer and Singh 1998; Gulati 2007; Kale et al. 2001) that encompass the implementation of knowledge sharing routines, investment mechanisms, effective integration and exchange of resources, and making the changes necessary to the partnership as it evolves. Others argue that alliances face difficulties in doing this because they are inferior to organizations in the sense that they lack so-called "higher-order organizing principles" which normally reside within organizational routines (Grant and Baden-Fuller 2004). Some alliance typologies may require less relational capabilities than others. Some alliances are explorative in nature (with a desire to discover new opportunities), and others can be characterized as exploitative, that is involving firms who jointly maximize complementary assets (Koza and Lewin 1999). Another, more exemplifying, distinction within alliance typology is based on a classification of reciprocal, sequential, and pooled interdependent alliances (Gulati and Singh 1998). We argue that reciprocal interdependent alliances require additional coordination efforts by both partners because they have to integrate and adjust resources for the purpose of the alliance while also maintaining existing non-alliance activities. The literature suggests that successful alliances adapt along defined dimensions in an interactive sequence of cycles in which they learn, re-evaluate, and readjust their expectations (Arino and de la Torre 1998; Doz 1996; Ring and Van de Ven 1994). They learn through formal and informal processes while assessing expectations in terms of efficiency and equity (Ring and Van de Ven 1994). The term efficiency as applied to a partnership emerged from transaction cost theory and indicates the least costly governance structure for undertaking a transaction. Equity derives from social exchange theory and refers to fair dealing but explicitly does not mean that "equivalence in the quid pro quo is not necessary" (Ring and Van de Ven 1994).(Doz 1996) was also concerned about how the cooperation process within an alliance evolves and how adaptive and inertial forces influence the outcome of the alliance. Within the same context, (Arino and de la Torre 1998) concluded that relationship quality can be considered as a mediating variable that influences the positiveness of an alliance outcome. While adaptability and relationship quality may function as a precondition and as an outcome for successful alliances, they do not specifically address the processes necessary to support the development of conditions that lead to positive equity and efficiency outcomes in an alliance. We believe that firms should be assessed on the premise that they take part in a socially embedded structure of interconnected firms

(Dyer and Singh 1998; Gulati 1998; Gulati 1999). The social structure of embedded firms, that surrounds a firm or an alliance, determines the options available to the alliance. By assessing such options, firms should avoid slipping into a "dyadic atomization during alliance formation, which is a type of reductionism in which an analyzed pair of firms is abstracted out of their embedded context" (Anderson et al. 1994).

We contribute to the field of alliance assessment in an evolutionary perspective by proposing a four-dimensional approach that sheds light on the social, strategic, economic, and economic perspectives of alliance formation and evolution. We applied this approach in a participatory case study within an alliance formation linking a US-based firm and a Netherlands-based firm in a strategic alliance in the commercial aviation industry in September 2006. This research enabled us to uncover serious managerial implications that required alliance management attention. These findings and implications are discussed further in this article. We start by introducing our framework, followed by an explorative refinement of our theory and the processes that support these four dimensions.

A multidimensional approach to alliance evolution

The inspiration for our approach comes from Talcott Parsons' (1964) system theory. The four dimensions of our framework emerge from Parsons' AGIL scheme that contains four functions of a social system: the adaptive function, goal attainment, integration, and pattern maintenance. These functions are embedded in the following phrase that defines a social system:

"…a social system consists in a plurality of individual actors interacting with each other in a situation which has at least a physical or environmental aspect, actors who are motivated in terms of a tendency to the "optimization of gratification" and who's relation to their situations, including each other, is defined and mediated in terms of culturally structured and shared symbols"

Each of these mechanisms produces its own type of processes and, within these processes, its own type of capital. Each process requires specific intervention methods that, ideally, lead to an increase in social, strategic, cultural, strategic and economic capital (Groen 2005). All four mechanisms work concurrently and influence the outcomes of a social system in a structured, though not deterministic, way. The basic hypothesis of this social system theory is that only when all four

mechanisms are developed sufficiently, can a social system (e.g. a firm, dyad, industry) sustain and thrive in the environment of the firm (Groen et al. 2002).

The table below represents the four dimensions, and their resources and outcomes, as derived from the AGIL scheme.

Dimension	Relates to AGIL scheme	Capital	Resources	Possible interventions
Social	Interaction/pattern process	Social capital	Contact (multiplex, filling structural holes, cohesive, centrality	Relation management, using brokers,
Strategic	Strategic goals as goal attainment	Strategic capital	Power, authority, influence, strategic intent	Using power, redefining strategy
Cultural	Institutions and pattern maintenance	Cultural capital	Values, organization, knowledge, skills, experience, technology, trust	Training& Education, teambuilding, knowledge sharing, organizational systems, new technology
Economic	Economic optimization as adaptive function	Economic capital	Money	Using financial incentives, lower interests rates, cost cutting, lean manufacturing

Table 1 Four dimensions and related capitals and resources (derived from Groen 2005)

Below we abstract each dimension and explain how they can apply in a situation of a strategic alliance.

The social dimension functions as the integration mechanism through which alliance members mediate and integrate resources that reside within the firms. (Brush et al. 2001) describe the role of social capital in identifying, attracting, and combining various resources, and in the transformation of personal resources into organizational resources. The social dimension has two components: a relational component and a structural component (Gulati 1995). The relational component includes the set of direct relationships that surrounds a firm. Some are strong, such as strategic supplier and customer relationships, whilst others are more on a transaction level. Strong relationships are “the heart of a company’s survival and of its growth and development but also restrict the ability of a firm to change” (Hakansson and Ford 2002). The structural component concerns the overall network configuration of direct and indirect ties. This configuration determines the way information flows through the network, where some may be better placed than others in accessing information

(Burt 1992). A well-positioned actor may benefit more than other, poorly positioned, actors from unique information about, for instance, potential alliance partners.

The strategic dimension is related to the power, control, and influence a company has in a network. (Hakansson and Ford 2002) argue that "a network is both a way to influence and to be influenced". (Gulati 1995) argues that external opportunities and the interest in entering alliances are determined by a firm's strategic intent, and the social network structure is a context for actions. An alliance alters the social structure, and leads to different opportunities for the alliance and for others in the network. Status and reputation also matter and form an indicator within the strategic dimension. (Podolny 1993) argues that status matters, and that possession of status leads to a number of benefits such as higher prices and lower transaction costs. The relative status of actors in a network is not fixed. For instance, the innovator role of lower status actors can be a powerful instrument to challenge the status order in a network. We note that alliances can be important sources of new technologies and innovations and, in so doing, they can increase their status in the wider network. The parent firms may also benefit from the improved status of the alliance by increasing their attractiveness to others. (Gulati 2007) argues that, especially in uncertain environments, partners can be evaluated primarily from such status indicators. We argue that a sufficiently developed strategic dimension increases the likelihood that alliances will achieve their goals by using status, power, authority, and influence.

The cultural dimension entails the ability to adapt to changing patterns in the environment that affects the firm and the alliance. The resources that support the cultural dimension are knowledge, experience, technology, skills, organization, and an understanding of the values that are commonly shared amongst actors in the environment. Alliances are challenged by the fact that they are difficult to manage (Park and Ungson 2001) and are challenged by the absence of the higher-order organizing principles that are necessary to integrate resources such as knowledge (Grant and Baden-Fuller 2004). (Eisenhardt and Martin 2000; Teece et al. 1997) consider the ability to acquire and implement alliance activities as a dynamic capability, a source of competitive advantage (Kale et al. 2001). This includes the ability to (i) integrate alliance activities with non-alliance organizational routines, (ii) to establish an effective governance structure, and (iii) to adapt to new circumstances as the alliance evolves (Doz 1996) Such abilities are related to the theory of dynamic capabilities. The degree to which effective alliance formation can be established, and environmental changes can be countered, by the alliance partners is determined by the extent to which resources within the cultural dimension are appropriately aligned with the purpose of the alliance. We note that, for this

to occur, firms need to develop relational capabilities that are based on trust (Larson 1991) and intensifying interaction among members of the alliance that lead to the transfer of learning and know-how across the exchange interface (Kale et al. 2000).

The economic dimension of a firm is related to the degree the firm is capable of optimizing its processes by minimizing spillovers. Alliance partners face the challenge of how to establish an effective, but least costly, governance structure. They have to find the most efficient scale of operations and become better than the competition in terms of spillover rates by improving the efficiency of alliance processes. The concepts of business process reengineering (Hammer 2007) and lean manufacturing (Womack and Jones 1994) are examples of enforcing means to strengthen the economic dimension. Lowering transaction costs to a level that both partners find acceptable, increases the likelihood of a positive alliance outcome (Ring and Van de Ven 1994).

(Parsons 1964) theory suggests that all these dimensions work concurrently and influence each other. For instance, being over-oriented towards process efficiency is likely to hinder the firms in exploring new activities, commonly known as the balancing exploration and exploitation phenomenon (e.g. (Benner and Tushman 2003; He and Wong 2004; Levitt and March 1988). Another example is that if firms fail to explore and maintain contacts within the network, they might lose track of changing values and norms to which they would otherwise adapt.

Four dimensions in alliance evolution

In the previous section, we illustrated the dynamics of these four dimensions and placed them in the context of alliance formation. However, alliances emerge, grow, and dissolve over time (Ring and Van de Ven 1994) and each stage of the alliance process requires different interventions. Alliance managers should consider that these different episodes in alliance evolution are likely to affect the social, strategic, cultural, and economical dimensions of their alliance. At the beginning of alliance formation, managers should ideally discuss how the governance structure and coordination mechanisms are to be modeled. During this stage, the extent of trust among people determines how effectively resources such as knowledge and experience are transferred. Later, alliance partners will rely more on their governance structure and coordination mechanism if they function as a “quasi organization” that also deals with changing environmental forces. Each episode in an alliance life cycle require re-evaluation and readjustment of the initial conditions (Doz 1996), and these can be

reviewed using the four dimensions that we propose. To illustrate this, we propose a model of the four dimensions in a dynamic perspective.

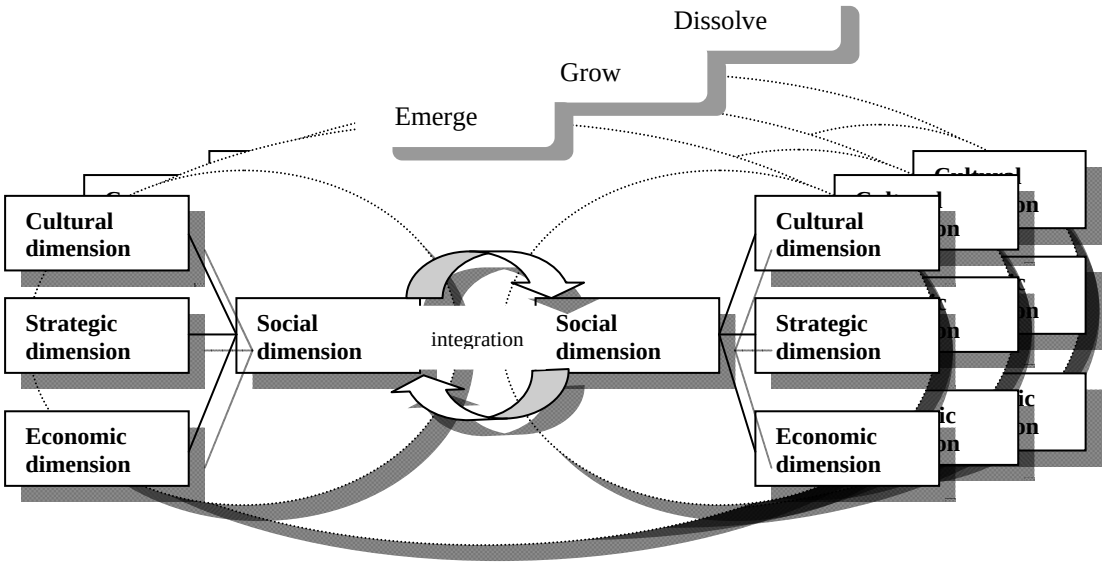

Fig. 1 Two-actor four-dimensional model of strategic alliance evolution (adapted from Groen et al. 2002)

Research context

We applied this four dimensional framework in a case study (Yin 1984) involving a strategic alliance formation between Dutch and US firms whose intent was to enter the commercial aviation industry by offering products and services related to leather seat covers. The purpose of this research is to find answers to the question as to how these dimensions are developed within each firm and how this may influence the outcome of the alliance. The research design, the methods used, and the data collection are discussed in the following sections. Here, we start by introducing the two firms.

The first partner is a 25-year-old privately owned leather tannery based in New York with 130 employees. This company is primarily active in the executive segment of the aviation industry and supplies high-end custom-made leather for seat covers and other interior parts to, for instance, Cessna and Bombardier. The US partner has experience with the corporate and VIP aircraft industry over 20 years and is one of the leading suppliers of high-end products in this industry. This company meets customer requirements for items such as customized leather products delivered in small quantities, in cut and “ready to trim” packages. These items are ready to process into

executive aviation seat covers and other interior parts. In other areas, such as repairs and after-sales services, this company works closely with downstream business partners. Over the years, this company has gathered experience in establishing close business relationships with others in the industry. They have also received many inquiries from airlines and aircraft seat manufacturers about delivering leather for commercial aircraft but were unable (to fulfill such requests due to the limited production facilities. Delivering to such high volume markets would also immediately jeopardize their valuable activities within the VIP market. As input for their process, they purchase high quality raw bull hide of North West European origin, including from their new alliance partner.

The European partner is a privately owned leather tannery located in the Netherlands that is over 100 years old and employs 150 people. The link between the two firms has existed for 15 years and has become a close customer–supplier relationship. The tannery has a production scale five times that of its US partner's capacity and mainly supplies leather to the West European furniture industry. Business experts consider this company to be a leading supplier of consistent quality leather, produced with state-of-the-art technology in terms of production efficiency and minimizing environmental polluting effects.

The incentive for both firms to enter this alliance was that, in 2005, many signals were indicating that the global commercial aviation industry would grow. Whereas, the Dutch firm lacked any market-based experience in the aviation industry, the US firm, over time, had established a good reputation in the VIP aviation industry which has not dissimilar characteristics to the commercial aviation industry in terms of network structure. However, as mentioned, it did not have the production capacity to enter this new market. Further, customers in the VIP industry value exclusivity and service, such as repair and ex-stock deliveries, whereas the commercial aviation industry values economic, MRO-related (Maintenance, Repair and Operations), and technical values such as minimized cost of operations and regular replacement intervals for seat covers.

In recent years, the Dutch firm had seen a drastic fall in demand for leather from the European furniture market. This was mainly due to changing customer behavior regarding the purchase of home and office furniture. It seemed that these developments were structural and, so, entering a strategic alliance with a partner to share network contacts in a new industry was an attractive option to make up for the downturn they faced in the furniture industry.

The motivation for the US partner to enter this alliance was that they saw an opportunity to exploit business activities in the commercial aviation sector while preserving their own operational base for the VIP aviation market through using the Dutch partner's production facilities to produce the

goods for the alliance. In their opinion, the Dutch supplier was the best choice for such an activity because of the long-term relationships and trust that had built up over the years. Secondly, their partner had a strategic position in Europe and access to the high quality raw material that is required in the aviation industry. In that sense, both partners had complementary assets to bring to the alliance: the US firm had the network and the know-how to produce aviation-certified leather for seat covers, and the Dutch firm had the production capacity. The partners agreed to divide marketing activities geographically; with the Dutch firm covering the European market, and the US firm the US market and the rest of the world.

Formal alliance agreement

The production methods for furniture and aviation leather are distinctive because aviation leather requires a chemical treatment to enable it to pass several flammability tests. The knowledge of how to make this kind of leather had to be transferred to the Dutch firm. The Dutch partner invested €300,000 in test and production facilities, and this investment will be amortized in the cost price of the leather agreed by both partners. Further, they reached a contractual agreement in which dispute procedures, incentive systems, and cost sharing of market activities were defined. Partners agreed on an alliance form of contract for a period of 10 years.

At the time that our involvement started, the managers that were involved in alliance activities had established an alliance agenda. This agenda consisted of: (a) discussing technology and planning the transfer of know-how on how to make the product (aviation leather); (b) the development of a long-term sales and marketing plan; and (c) a time frame and agreed frequency of visits between the US and the Netherlands.

Research methods and design

Our case study approach was based on participatory research (Bradbury and Lichtenstein 2000) that allowed us to experience organizational life, to act and to observe within the studied context, and to reflect on what was happening. During our research, we involved the participants in all phases of our design and analyses, and tested whether our ideas were congruent with those of the participants. The lead author was personally involved in the alliance formation process and was able to track the interactions between the alliance members and employees in both organizations. The second

author's role was to support the first author by adjusting and refining data collection and with the interpretation of the results to enhance a systematic reflection. Throughout our involvement, which lasted from September 2006 through to January 2007, we were able to discuss several implications of the interactions between members of the alliance organizations and compare these with the initial data that we gathered from questionnaires and workshops. A benefit of this multiple data collection approach was that we could triangulate evidence from our quantitative (questionnaire) and qualitative research (workshops, interviews and observations) (Eisenhardt 1989).

Our research design was developed as follows: we started with a questionnaire that provided us with data we could use to understand the extent to which processes that support these dimensions existed within both organizations. We distributed the questionnaire among the eight management team (MT) members, including the owners of both firms who function as Chief Executive Officers. The other participants within the Dutch firm were the Commercial Manager, the Financial Manager, and an Operational Manager responsible for production-related operations. The other participants at the US firm were the Chief Operational Officer (COO), the Head of the Technical Department, and the Production/Purchase Manager.

Before sending out the questionnaire, we informed the participants about the phenomena that we were studying, expecting this to yield richer and more complete data. The result of this quantitative part of our study served as the point of departure for a workshop discussion in which we could outline the results of the quantitative study and discuss their implications for the continuance of the alliance formation. During our participation, we were also able to interview and talk with employees of both organizations.

In operationalizing the social, strategic, cultural, and economic dimensions, we chose to use scales in the questionnaire that were tied to the processes that are required to achieve the capitals proposed in our theoretical framework. The questionnaire consisted of a number of five- and seven-item scales, three open questions, and a scheme to determine the non-redundancy of the relational network of the two firms. The table below provides an overview of the theories and scales that we used in gathering data.

Dimension	Resources	Indicators	Theoretical basis	Question types
Social	Contact (multiplex, filling structural holes, cohesive, centrality).	How many contacts MT members have outside the firm. The frequency of interaction with members outside the organization (direct ties). Non -Redundancy	Derived from (Burt 1992; McEvily and Marcus 2005) (McEvily and Marcus 2005)	Open questions Five- point scale Scheme/table
Strategic	Power, authority, influence, strategic intent	Market orientation and moderating environmental effects (no inter-functional coordination). Status-based power.	(Jaworski and Kohli 1993) (Derived from (Podolny 1993)	Five-point scale Five-point scale
Cultural	Values, organization, knowledge, skills, experience, technology	Problem-solving external ties and amount of trust. Interfunctional coordination (without environmental moderating effects).	(McEvily and Marcus 2005) (Jaworski and Kohli 1993)	Seven-point scale Five-point scale
Economic	Money	Balancing exploration/ exploitation. Presence of process efficiency metrics.	(He and Wong 2004) Derived from (Kaplan and Norton 1992)	Five-point scale Five-point scale

Table 2 Overview of theories that assist in the measurement of resources

Data analysis

We now continue by presenting the data and start with our findings from the quantitative research that involved eight participants. The results of our quantitative study revealed that the two firms differ in the extent to which they claim the processes that we see as supporting the given dimensions are in place. We compared the results from each firm for each dimension to the optimum (that is 100%) and we compared the two firms. The graph below represents the results of this quantitative assessment:

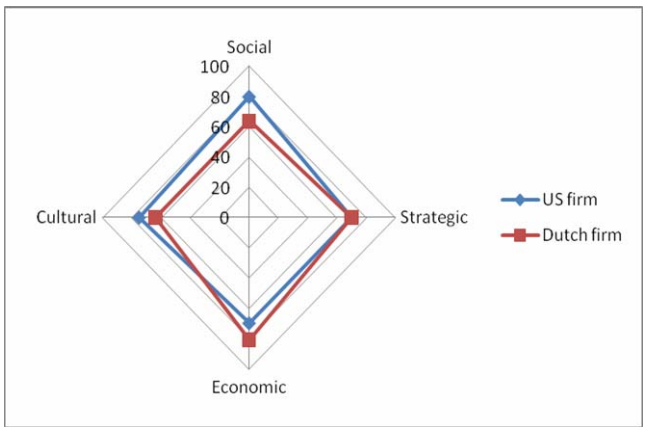

Figure 2. Comparison of the two firms for each dimension

Social dimension: the US firm seemed to be more familiar with the effects of having access to network resources, with the Dutch firm being less aware of network resources they could use. The three other open questions on how many contacts each participant maintained beyond the firm with customers, suppliers, and other related business partners, also revealed a difference: all the managers of the US firm maintained approximately the same level of contacts with external parties. The Dutch counterpart had less contact with external parties, and these contacts 'belonged' to the manager responsible for that particular actor group. For instance, only the commercial manager maintained contacts at customer firms, whereas the operational manager would have some contacts at suppliers. We saw a similar uneven pattern with the CEOs of both firms: the CEO of the US firm had over 500 contacts with people within customer organizations, whereas the CEO of the Dutch firm only had about 20 contacts.

Strategic dimension: the results indicated that both partners perceived that they had processes in place that would enable them to use their power and influence in the marketplace.

Cultural dimension: the managers of the US firm indicated that they have processes in place that support their adaptability to new circumstances. Managers of the Dutch firm, on the other hand, saw this dimension as underdeveloped.

Economic dimension: the managers of the US firm indicated that they pay little attention to measuring the efficiency of their processes, whereas managers of the Dutch firm considered this dimension to be well developed within their company.

Workshops

We held two workshops, first at the Dutch Firm and then with their US partner. At both, the participants were those who had completed the questionnaire. It was agreed that we would disclose individual results from the quantitative part of our research, and this allowed us to discuss the results openly and interact freely, which helped us to understand any discrepancies in the earlier answers. We closed both workshops by asking how the participants interpreted the consequences of our findings for the alliance.

	Dutch Firm	US Firm
Social dimension	Network awareness and interest was rather low. Members did not think in terms of network positions. They deal with customers, suppliers, and competitors - and contacts with them are based on departmental responsibility. (e.g. the sales department maintains contacts with customers and the purchase department with suppliers).	Networking is important to them. They encourage employees in different disciplines to have contact with business partners that surround them. The CEO (owner) stated that "he himself knows about 50 people at Cessna he can directly contact" They consider themselves as having a central position (as a hub) in the private aircraft interior industry.
Strategic dimension	Their reputation as a solid firm in their home market, with over 100 years of experience, enables them to retain a certain position in the marketplace. Their brand is known to many final customers in the furniture industry and that makes it easier for them in discussions with customers. In the longer run, however, they sense that the benefits of reputation will diminish.	They see themselves in a position where they can exert influence in the market. They are the market leader in the aviation industry and this status puts them in a position where they can achieve their goals. Usually, competitors follow them. However, due to their small-scale operations they cannot exert much buying power over suppliers. However, firms are wiling to supply, and at competitive prices, because they represent a good reference.
Cultural dimension	Customers are the responsibility of the sales department. Each department has it own responsibilities and top management is responsible for orchestrating the different activities. This is necessary to maintain production efficiency and assure consistent quality. There is no incentive or systems installed to share information about customers, competitors, and suppliers. All organization members operate within their given task, and relevant information is transferred top-down. R&D is done inside the firm, and customer or market requirements are coordinated through the sales department. The focus is to do things right first time without spillovers (e.g. time, material) There are no interdisciplinary problem-solving teams. Subordinates are responsible for following progress and acting if something occurs. Organizational changes are implemented top-down but members of the organization can suggest opportunities for improvement.	Sharing relevant information about customers and suppliers is encouraged. They consider themselves as better than their competitors in transforming customer needs into valuable products and services. Proactive behavior is expected. Production people are also involved in design and NPD (New Product Development) within the firm and at customer sites. NPD and the associated new product program have high priorities. Knowledge and best practices about how to solve problems are not documented. They use a CRM (Customer Relation Management system to monitor customer needs and let organization members work and report with this system regarding customer projects and orders. Customer satisfaction is measured instantly, mostly by qualitative information (visits, calls, etc.). They are certified to aviation standards (FAR 145) and maintain systems to update changing requirements.
Economic dimension	The performance of each process is thoroughly measured by means of an enterprise resources planning system. Managerial reports appear every week and actions for improvement are implemented almost instantly. They know exactly which product groups are contributing to profits and which are not.	No systems are in place to measure production performance. Members fear inflexibility if they emphasize efficiency. There is no integrated enterprise resource planning system. Product group profit analyses are not made.
Attitude towards alliance	They are convinced that the organization can absorb and integrate alliance activities with existing systems. After all, their partner is also a strategic customer and they have not had many problems in the past. They were hopeful that the market demand forecast given by their partner was realistic and that their investment would pay off.	They had noticed that their Dutch partner had a strong profit orientation and was rather impatient. Over the years they had been able to establish a trustworthy relationship and this was seen as a good basis to discuss disputes which they expected to arise during alliance formation. So far, discussing alliance concerns had gone well. However, they had seen that their Dutch partner had difficulties in enacting agreements in their organization.

Table 3 Key points found during the two workshops

The overall conclusion that we draw is that the discussions we held reflected the initial findings from the quantitative part of this case study. Members of the Dutch organization sensed that their emphasis is on measuring process efficiency. The motto of the owner is “time is money”, and this spirit is carried throughout his organization. However, managers believe that their position and reputation in the market is over-dependant on historical values. The commercial manager stated that “such values cannot be taken for granted in the near future, especially if we enter markets in which they have never heard of us”. The focus should be, he continued, “that we are able to develop high quality products that exactly meet customer requirements but, so far, research and development (R&D) has not been very successful in this”. This is something that concerned all the management members, they were wondering if tighter control and gauging R&D results would be appropriate to force new product development. Here, we see something that characterized this organization: a functionalistic approach to responsibilities and a minimum of informal horizontal integration between departments. All employees know clearly the tasks that they are responsible for. Each task has performance indicators and these are evaluated carefully and adjusted if necessary. The same approach is applied towards customers who are clearly the responsibility of the commercial department. Sales takes the lead in sensing customer needs and transfers any needed adjustments to products and services, including new product development, in the organization. It was not common practice to introduce product developers to customers. This is consistent with the findings from our quantitative study where the social and cultural dimensions were found to be somewhat underdeveloped.

After reflecting on the results of the questionnaire, we discussed the implications for the ongoing alliance formation. Managers at the Dutch company stated that managing the alliance is primarily the responsibility of the sales department, and the way the organization perceives its partner (the US firm), is similar to how they treat strategic customers. Major differences in interaction patterns are not really expected. They thought that operational issues with respect to how to produce and test aviation leather can be resolved by operational employees working with existing quality processes and procedures (according to the ISO 9001 handbook). In essence, this was how the managers thought this alliance should be managed: with few deviations and interventions, and organized within existing organizational systems. However, after two months, much effort, and several visits by managers of the US firm, they still had not succeeded in developing a product that met the necessary standards (it failed the FAR flammability test, the functional quality test, and the

appearance was unsatisfactory). Consequently, MT members decided to send two product developers to the US for two weeks training in production and testing. This approach of intensive knowledge transfer and learning by doing was fruitful: a few weeks later, the alliance was ready to take its first orders. The first order came from Hungarian Airlines (MALEV) and was acquired by the Dutch firm and, shortly later, the US firm acquired their first orders from the US market (ZOOM, JETBLUE). For the Dutch firm, these events were helpful in justifying their decision to enter an alliance in the aviation industry, and their employees become enthusiastic about the whole idea. However, we concluded at that time that possible structural impediments to successful alliance formation were waiting to be encountered. These impediments reside in: (a) the management perception of what a strategic alliance means to them (seeing it as basically no more than a strategic customer); (b) lack of effective learning from the alliance partner about the type of customers they are about to directly serve in Europe; and (c) the functionalistic approach to responsibilities and tasks that hampered the flow of information within the organization.

Within the US firm, we observed that flexibility is their most valuable asset in sustaining competitive advantage. Quickly reacting to changing individual customer demands is almost a daily event. If problems occur, employees automatically seek solutions. The production manager stated that he was aware that they lack performance measurement systems for key processes, but, on the other hand, “that [these] might also constrain us in doing the things as we do it today and diminish the options that we have for tomorrow’s products”. There are no job descriptions, and most knowledge is tacit. People know what to do and are trained to perform various tasks in the production process where necessary.

During our visits, we observed many customers, partners, and suppliers visiting throughout the day. This, someone told us, is “common in our firm because we like to be in touch and know what is going on out there”.

Their opinion about the progress of the alliance is colored by their belief that their partner is one of the world’s state-of-the-art tanneries. They are enthusiastic about their quality and delivery times of the raw material. What they had not really considered was that, over the years, they had only had contact with the commercial manager. Even if a delivery was rejected, the sales manager evaluated the situation and discussed measures and corrective actions, and ultimately took care of the commercial issues. This type of interface is not really typical for them but they did not expect, provided the aviation leather quality is at the same level as the Dutch firm’s raw material, any

serious problems. Later, managers at the US firm became somewhat frustrated at the underperformance of the Dutch firm in producing aviation-quality leather. They told us that they had even produced a handbook on processes to produce aviation leather, and how to use test equipment, and handed this over directly after contract signing to their alliance partner. After a few months of failed attempts, they were pleased to see that the Dutch firm had finally decided to send some people over to them for training. However, at the same time, they felt somewhat concerned by the fact that the management of the Dutch organization were not able to recognize or react to these problems earlier.

Discussion and conclusion

The workshops and interviews provided us with more insightful subjective data that we could then compare with our initial quantitative results. We think that the subjective data is consistent with our earlier findings. Derived from these findings, we advised the participants from the Dutch firm to address some aspects of this alliance on their managerial agenda. Our first observation here was the trouble the US firm encountered in transferring their knowledge to the Dutch firm. Despite their good intentions, the Dutch firm did not succeed in transforming the delivered knowledge (represented in the handbook and exchanged during management visits) into new product development procedures that led to the production of the required quality product. Here, we refer to (Kale et al. 2000) who argue that "especially the acquisition of difficult-to-codify competencies [which leather production is by definition], is best achieved through wide-ranging, continuous and intense contact between individual members of the alliance partners". We have seen that, after the visit of Dutch product developers to the US firm, things looked better. Shortly after that, the first step in the right direction was achieved. We also note that the trust that had been established over years, and the relational capital that has been built upon that trust, did not really help this process. The Dutch organization simply wasn't prepared to benefit from knowledge-sharing or learning routines (Dyer and Singh 1998). Learning ability and relational capability reside in the cultural dimension of our framework. The underdevelopment of this dimension is probably a result of the fact that this organization thrived for many years on its good reputation (and were focused on the strategic dimension) in its home markets, and being successful seemed natural to this firm. When the furniture industry declined, instead of concentrating on new business areas by using the social dimension to attract network resources, they started to focus on process optimization (economic

dimension). Organizational resources, including the processes that explore new activities, easily become absorbed in rigorous process optimization programs and suddenly they become trapped in a chicken-and-egg situation (Benner and Tushman 2003).

As a probable consequence of this phenomenon, we saw how the Dutch managers felt that the alliance should be managed within existing organizational systems and procedures. We advised them to create a management structure that includes the alliance function and build an alliance team to acquire alliance capabilities. see also (Kale et al. 2001). Furthermore, we suggested they encourage the involvement of other alliance involved organizational members in the alliance interface and stimulate learning and information sharing. Intensifying such relationships will likely lead to better problem and conflict solving and that may benefit the performance of this alliance (Kale et al. 2000; McEvily and Marcus 2005) However, in this case we see more structural problems that are firms specific and resides within the Dutch firm that may require strong management attention. That is why we were mainly concerned with the cultural dimension of this alliance and the impediments that required adequate management attention. Nevertheless, with this case study, we hoped that we presented more insights in how differential firm specific resources that resides within the social, strategic, cultural and economic dimension determine alliance performance.

Answering the question of how equity and efficiency (Ring and Van de Ven 1994) can be achieved in a inter firm relationship is not easy and depend on a different exogenous and endogenous variables. Therefore, we argue that at least a thorough understanding of the various organizational processes and environmental influences is necessary.

Our research agenda is now focused on assembling the additional empirical data and further theory refinement that are necessary to better understand the processes that support a positive alliance outcome. Therefore, we need to conduct more case studies, involving different types of alliances in different industries, and study over a longer period, for example by carrying out longitudinal cross-case analyses. Despite this long way to go, by presenting this article, we hope to contribute to the theoretical and practical field of alliance assessment.

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