

# Strategic Alliances

## -A Differentiated View -





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# **Strategic Alliances**

## **1 Introduction**

### **1.1 Abstract**

The common literature about strategic alliances offers a very fragmented picture. This thesis gives a theoretical overview on strategic alliances and builds the basis for the following examination of the different dimensions most strategic alliances have. The examination of the different dimensions is the crucial point of this thesis. Here the reader gets a detailed insight into the different dimensions and the implications they have on the design of a particular strategic alliance. This examination leads in the end to a more differentiated view on strategic alliances and the insight that no simple models exist, which give a sufficient basis for decision-making and understanding strategic alliances, today. The thesis concludes with an outlook into the future and some prognoses what topics have to be examined more carefully.

### **1.2 General Introduction**

Since the 1980's the importance of strategic alliances is growing and strategic alliances can be seen as alternatives or complements to mergers to achieve more competitiveness. The intensified competition in a more and more globalised world leads to the need for new possibilities to compete successfully. As solution more cooperative strategies were crafted and implemented. Due to this some firms started to compete more efficiently and effectively and stayed relatively flexible at the same time. This trend is continuing until now and there are no signs of changes. The common literature sees alliances as an answer on the changing competition: "In a changeable world of converging consumer tastes, rapidly spreading technology, escalating fixed costs and growing protectionism (...) globalisation mandates alliances and makes them absolutely essential to strategy."<sup>1</sup> Or like

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<sup>1</sup> Backhaus, K. and Piltz, K., (1990), p. 17

Peter Drucker, who has been called the father of management theory, states: "The greatest change in corporate culture, and the way business is being conducted, may be the accelerating growth of relationships based not on ownership, but on partnership."<sup>2</sup> Companies are involved in more strategic alliances than ever. The alliances generated sales grew from two per cent in 1980 to 19 per cent in 1996 among the Fortune 1000 companies. The expected sales in 2002 were 35 per cent.<sup>3</sup> These numbers confirm the trend.

The merging of the international markets puts high pressures on the participants to be present at the market and to foster their own sales. International production sites are getting more and more specialized in producing one special product to reach economies of scale. Additionally, more and more departments of companies are getting centralized and research and development is also becoming more and more expensive.

A company, which wants to remain competitive on the future's global markets, needs more than only financial and human resources. It needs the ability of understanding alien cultures and languages, it has to be an insider in every country, and it has to be able to handle different techniques of management.

To cope with all these new requirements for successful competition, many companies build strategic alliances in order to aggregate the strengths and to realize economies of scale. One might get the impression that strategic alliances are a temporary management fashion, but actually this restructuring is the consequence of fundamental changes in competition.

To assert themselves in competition, in the past companies tried to acquire the needed resources and competences either on their own or by

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<sup>2</sup> Drucker, P. (1996)

<sup>3</sup> Thompson, A. and Strickland, A. (2001)

merging with another company.<sup>4</sup> The standalone-strategy is not always practicable in today's environment anymore, because it requires enormous financial resources and is very time-consuming, while the final outcome is very unsure. On the other hand the merger meets legal restrictions very often and is very inflexible.

Another possibility, the strategic alliance offers enormous potential. If implemented correctly, some authors claim, it can dramatically improve an organization's operations and competitiveness. Companies are forming alliances for many different reasons: They want to obtain technology, to save costs, to gain access to specific markets, to reduce financial risk, to reduce political risk, to achieve or ensure competitive advantage and many more. However, while many organizations often rush to jump on the bandwagon of strategic alliances, few succeed.<sup>5</sup>

Uniform definitions for strategic alliances cannot be found in the literature. The understanding of strategic alliances differs a lot. As a common basis all definitions mention that strategic alliances are cooperative strategies with the goal of achieving synergies and that a win-win situation is characteristic for strategic alliances. Partners of strategic alliances want to compete more successfully together. One reason for this is the extreme heterogeneity of strategic alliances.

As potential benefits of strategic alliances can be seen that resources of the other company can be used and put into business in a more efficient way. Also the combination of several resources can be more useful than the sum of the individual ones. More parties are involved in the business and therefore the overall risk, especially in the research and development area, can be lowered. The individual strengths of each side will be recognized and thus learning processes are the result. For certain projects a critical size for rentable projects is needed. Strategic

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<sup>4</sup> Bronder, C. (1993)

<sup>5</sup> Soursac, T. (1996); Malott, R.H. (1992); Michelet, R. and Remacle, R., (1992)

alliances help to solve this problem. The bargaining power towards suppliers could rise.

Different goals, motives and the target benefits lead to varieties in strategic alliances. These can be described by certain factors or perspectives. The relations to the market of the partners of the strategic alliance could be investigated and the alliance could be classified in horizontal, vertical or lateral. Other factors such as their commitment to each other, their expectations, the relation of the size of the partners or the way of financial involvement could be used as the starting point to classify or describe strategic alliances and develop possibilities to deal with the different forms of strategic alliances.

These differences are a part of the problem to find a clear definition of strategic alliances. Also these differences explain a part of the large share of failed strategic alliances. Some authors claim that up to 60 percent of strategic alliances are failures. But this figure is seen very different by different authors. To get an impression of the duration of strategic alliances, one can see that about 50 percent end within the first four years.<sup>6</sup> Therefore some researchers are questioning the strategic alliance as a successful instrument for cooperate management. This amount of endings does not have to be necessarily a sign for failures because some strategic alliances might only be a cooperation with the intention last forever. A lot of them are implemented with a limited time horizon. So the conclusion that these alliances were failures cannot be made. Nevertheless the high ending rate is an indication for problems with the handling of strategic alliances. Gerybadze<sup>7</sup> talks about a widening gap between perceived empirical changes and their reflection in theory. Even the increased number of literature about strategic alliances in beginning of 1990's could not close this gap. Some aspects of strategic alliances are very well investigated. Generally one can find a lot of literature, which is investigating some aspects and forms of strategic alliances.

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<sup>6</sup> Thompson, A. and Strickland, A. (2001)

<sup>7</sup> Gerybadze, A. (1995), p. 3

So the potential for more research in this area is there. Especially a broad view is interesting.

### ***1.3 Topic and Motivation***

During our previous studies we dealt with strategic alliances. We attended different courses that covered strategic management in general. Due to time restrictions we touched this topic only peripherally. Nevertheless we got interested in strategy in general and specifically in strategic alliances. So we had an imagination of strategic alliances before we started to work for this thesis. The proceeding work showed us that strategic alliance is a much broader term than we thought before.

After reading a lot of different literature we discovered that strategic alliances are not only a broad term but as well a very differently used term. We found a lot of literature that is dealing with different subjects concerning strategic alliances. Literature which is forming the different subjects in a complete picture is very rare. Either the authors try to generalise their results acquired by analysing only a small amount of different types of strategic alliances without traceable reasons or they do not even try to produce results that are valid for all forms of strategic alliances. This motivated us to work in this direction.

### ***1.4 Formulation of the Problem***

Our task will be to form a more differentiated picture of strategic alliances by describing the necessity of strategic alliances, the different use of information technology within strategic alliances, and the factors, which influence the specific type of strategic alliance.

The first problem will be to find a definition for strategic alliances. From the beginning we will focus on the economic meaning of strategic alliances. Strategic alliances in social, war or other context will be ignored. Nevertheless social aspects with relevance in the economic context have to be analysed. To find a definition different ones have to be presented and analysed. Then we have to describe the context in which strategic alliances are embedded. The theoretical potential of

strategic alliances has to be explained. After this the task is to identify the most important aspects concerning strategic alliances. This will start with motives for strategic alliances and their scientific backgrounds. Then the formation and evolution of strategic alliances will be presented and the management process in strategic alliances has to be considered. It is also necessary to evaluate which factors are influencing the success of strategic alliances, especially considering the heterogeneous forms of strategic alliances as described before. Therefore different perspectives or factors on strategic alliances have to be presented and out of this conclusions have to be made. Hence secondary literature has to be used. In the conclusions we will develop a more sophisticated model of strategic alliances.

## ***1.5 Purpose***

When having a look at the common literature, the reader might get the impression that strategic alliances are mainly one- or two-dimensional and that it is rather simple to decide for a particular form. We will show that a narrow perspective on strategic alliances cannot serve as a basis for decision-making. Also we will show the high complexity of the subject and that the exercise of “easy” less sophisticated decision models is not recommendable. As a result a more differentiated view on strategic alliances will be developed and we will make clear that strategic alliances are actually a multidimensional topic. This view will not be complete but it will be an improvement in comparison to the existent models. It will provide a useful help for the decision if a strategic alliance is an appropriate way to compete. Also this differentiated view will help to answer the question how such an alliance should be formed and handled in the future.

## ***1.6 Audience***

First of all our thesis is intended for a scientific or academic audience. It helps to understand the high complexity of the subject strategic alliances and it helps to create a higher awareness of the influences on strategic alliances. Also this thesis can be used as a starting point for

further studies. The thesis has a broad view. So there is space for further research in different aspects mentioned in the thesis.

The thesis is no recipe how to create a good strategic alliance. It helps to understand the context. So this thesis can be used in practice as well to understand the influences on strategic alliances. For decision making it will only help indirectly. Nevertheless we think this thesis is helpful for both scientific research and practical decision-making.

## ***1.7 Outline of the thesis***

In chapter 2 the used method will be described. Therefore the perspective, the data collection, displacement of the goals, workflow, our background and the literature research are presented.

In chapter 3 the theoretical basis of strategic alliances is displayed. This includes the definitions, which can be found in the literature and decide for one we will use during our thesis of strategic alliances, and the theoretical framework, which justify the building of strategic alliances.

Chapter 4 outlines the motives for strategic alliances, the risks, the evolution process, which has to be monitored closely to be able to use the best tools to foster the alliance, the key success factors, which decide if an alliance fails or becomes a success, control considerations, i.e. measurements, as well as the related environment, which describes legal aspects of forming alliances.

Chapter 5 delineates perspectives and influences on strategic alliances. It will show several different ways to distinguish strategic alliances and will point out the differences in managing these kinds of different alliances.

A conclusion will be drawn in chapter 6.

## **2 Method<sup>8</sup>**

The choice of the method is an important element of the whole procedure. This choice influences the procedure but will also be determined by our own perspectives as well as by our questions, which we will focus on. A strategic alliance is a social system, which consists of many spheres of influence. As a basis it is important to create a understanding why companies enter into strategic alliances and it is also essential to know which are these areas of influence and how they will work together successfully in the system.

A summary about the perspective, the methods and data collection we are using, our workflow and goals as well as our background and the way we did the literature research will be described further on.

### ***2.1 Perspective***

The perspective of a person influences the way of thinking. The framework of considered and unconsidered assumptions determines a considerable part of the author's work. This framework is influenced for instance by breeding, experience and our education. Thus, we also have to take into account this fact because those described circumstances are influencing everybody. We will try to minimize the subjective influence in the way of the author's thinking. By using different sources from different countries we will hopefully get a broad and therefore less subjective perspective on the topic. Nevertheless the thesis is strongly influenced by our own framework. We tried to put in many unconsidered and creative ideas by exploiting a lot of fruitful discussions and group synergies.

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<sup>8</sup> Theisen, M.R. (1993)

## **2.2 Methods and data collection**

In our thesis we try to enlarge theories by dividing different forms of strategic alliances in a new way, which will give a deeper understanding of different alliances. These different forms are all influenced by certain success-factors, which we will analyse. A statistical analysis of these factors was not possible because the influence of one of many factors is disturbed by others. So, this will be a qualitative approach. Qualitative methods aim to catch the specifics with the certain subject and its situation. The information that should be central in the examination is thereby dependent on the source of information obtained. The information is collected under circumstances, which are supposed to be rational and up to date. Therefore we tried to connect older literature of strategic alliances with more recent one. Since our examination is to a great extent a qualitative one, we also cannot consider the measurements as quantitative.

Because of these circumstances, which are further explained in chapter 2.2.6, this thesis is of theoretical nature and not of an empirical one. So, neither deductive nor inductive nor abductive methods will be used.

For our approach we used primarily secondary data. In the beginning of our thesis we thought about getting some information from different companies by conducting a survey. But after further discussions in our group and in class we revised it because it is difficult to receive useful primary data during the short time we had. The depth of our study and the needed information are mostly confidential and the companies are probably not willing to provide this information as we learned in different previous studies. Also the fact that we would have to evaluate at least a hundred useful surveys to draw a conclusion out of it, made that impossible. There is also always the risk that the respondent gives conscious or unconscious information about his or her company. The interpretation of the questions could be also the wrong one. So this would influence such a theoretical work in a wrong way.

We have used all kinds of secondary data such as case studies, articles and books. Afterwards we read and selected the usable sources to provide us with good knowledge. To judge sources there are three criteria that can be used:

1. Asking for topicality, which means that we have tried to find literature, which is not older than from the nineties. But still, there are older sources that are still of interest.
2. Tendency-critic, which means that the sources that are read include subjective influence, which will falsify the coverage. The American literature tends to include such a subjective opinion. Therefore we complemented our literatures with those from other countries.
3. Dependency-critic, which means that it is important to proof if the used sources are interdependent. But there is the problem that many authors are building up their opinions on theories of others. Therefore we selected a broad range of sources.

In summary we can say that our thesis is a qualitative theoretical work.

### ***2.3 Displacement of goals***

We were first thinking about investigating new connections empirically by working together with different companies. We recognized very early that we could not reach the companies we needed to investigate to create new hypotheses out of the empirical work as mentioned before. At the same time we discovered that there is a lot of potential for theoretical work based on secondary literature. Especially the unreasonable generalisations, which can be often found in the literature, give space for a more complete picture of strategic alliances.

As our framework we name several different models about strategic alliances.

## **2.4 Workflow**

After some brainstorming and meetings we found out that the literature, the sources and our own conclusive and creative work changed during the workflow in nearly every step. To filter and find the right literature, which had to fit in our concept, took a long time. In the beginning of our work we tried to create a rough structure. Over the time the structure continuously changed and became more detailed. Single small parts were processed by single group members and in the following discussed, evaluated and judged by the whole group and if necessary replaced or discarded.

On the way to a more differentiated view of strategic alliances several steps have to be taken, as described in the introduction.

The criteria will be summarized and described. Then we will try to allocate certain factors like success, motives, evaluation, evolution, formation, examples and problems to the single groups. Of course, for a differentiated view, we also have to take restrictions and problems into account. Finally, a conclusion out of all will be drawn.

## **2.5 Our background**

We are three students from Germany. We come from Berlin and Munich and study as exchange students at the Lund University for one year. One of us wants to graduate there. Two of us are studying business and engineering and one is studying business administration. The Lund University, especially our facilitator Gösta Wijk, enables us to write this thesis by offering the opportunity to write this thesis in English. We are thankful to get this chance.

During spring 2003 we decided to write our examination paper on the topic of strategic alliances. Strategic alliances became very popular in the past and are still a “burning” subject. We touched this topic during our business studies in Germany but our knowledge about strategic alliances was still quite moderate. However, our background provided us with sufficient prerequisites to acquire more knowledge about that subject. We critically and analytically read the same material and have

maintained objectivity and neutrality by not suppressing circumstances or overemphasizing dispensable facts. Objectivity is in any case the basis for giving a more differentiated view about strategic alliances.

## **2.6 Literature research**

The search for material was an ongoing process, from the beginning of the thesis until the end. To write a theoretical paper in the most possible objective view, it is firstly important to get a good overview about the available literature. The more we worked into a certain topic the more material occurred. We started the literature research here at Lund University at the university library and “*Ekonomiska Bibliotheket*” (“UB 1” and “UB 3”). At these libraries we were using computerized support, i.e. the “*LOLITA*” and “*ELIN*” system. By using several key words we found several sources, but only one very old English book and some specific articles were available at the Lund University. Due to time restrictions we were unable to order books from other Swedish or international Libraries because this would have taken 2-3 weeks. The articles helped us later when we got deeper in the writing. But it did not help us in the research for common literature. Therefore we had to find other ways to get some useful literature. It was also a task to find current literature. After a while our sources incorporated databases from the Technical University of Berlin and the University of Passau where we used the OPAC research system and the BVB (“*Bayerischer Bibliotheksverbund*”). We also received very good literature, i.e. books and articles in magazines like the *Harvard Business manager*, from our colleagues in Switzerland who are studying at the University of St. Gallen. It seemed that those libraries offer more common books about strategic alliances than the libraries of Lund. As mentioned before, to write in an objective view and to describe different models of strategic alliances many writings from authors in different countries are necessary to collect. Finally our thesis includes literatures from American, English, Danish, Norwegian, German and Swiss authors. The Internet, of course, provided us also with useful literature and articles.

Through those studies of literature we got a good understanding and insight in the complexity of strategic alliances.

## **3 Theoretical Basis**

### ***3.1 Introduction***

During this thesis, we will not focus on the management process itself. There are some parts, which slightly touch the management of strategic alliances, but basically we want to give a theoretic overview over strategic alliances. The main problem in doing this is that the literature about strategic alliances does not use common theories or models but every author uses his own models and theories to describe strategic alliances.

We decided not to get into the discussion if a merger or a strategic alliance makes more sense. The main reason is that strategic alliances offer a very broad range of possibilities of getting closer together. It can be formed only for a short project or it can be long-termed and combined with complete transparency between the involved companies. Thus we do not see the fundamental difference from a manager's point of view. Of course there are many legal differences but from a practical point of view, there is not much difference if two companies actually merge or if they form only a strategic alliance and work together very closely. In both cases, the company shares knowledge and resources and it is very complicated to terminate the connection. In case of an actual merger this may even be a little more complicated, but not very much.

### ***3.2 Definition of Strategic Alliances***

Many definitions have been given for strategic alliances from various writers, but all have in common that two or more companies working independently together to achieve several kinds of advantages. The fact that the partners of strategic alliances are interdependent as well as autonomous is named in the literature "paradox of cooperation".<sup>9</sup> Mockler (1999) hits the bull's eye with stating that the term 'strategic

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<sup>9</sup> Boettcher, E. (1974), p. 42

alliance' is used to describe a wide range of cooperative partnerships and joint ventures.

The following is a compilation of the most common definitions of strategic alliances.

Webster's new dictionary and thesaurus defines an alliance as "any union for a common purpose". This definition includes also mergers and almost every thing else companies do in everyday-business. Thus this definition is too broad to be used in our thesis. A similar problem occurs when using the Definition of Gulati (1995). He defines a strategic alliance as "any independently initiated interfirm link that involves exchange, sharing, or co-development." This one is equivocal. It does not get clear, what is meant by "independently". This could mean both the legal independence of companies or that no contact occurred between the companies before the alliance.

Another definition is used by Hitt, Ireland and Hoskisson (1999). Here the strategic intend is put in the foreground. "Strategic alliances are a primary cooperative strategy, strategy alliances are partnerships between whereby their resources, capabilities, and core competencies are combined to pursue mutual interest in developing, manufacturing, or distributing goods or services". This one is rather specific. It specifies what kind of "abilities" can be combined – for instance it does not include an alliance where one partner shares a non-core competency which may be very important for the other one. A somehow less specified definition is offered by Mohr and Spekman (1994): A strategic alliance can be defined as "purposive strategic relationships between independent firms that share compatible goals, strive for mutual benefits, and acknowledge a high level of mutual dependence". This one is less specified but it demands that the companies acknowledge a high level of mutual dependence. For the purpose we are pursuing in our thesis this is too narrow because we will also look at "loose" alliances based on a single project only.

In contrast, Spekman, Forbes, Isabella, and MacAvoy (1998) put much emphasis on the duration of an alliance: "A strategic alliance is 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 other". A similar definition was introduced by Parkhe (1991): Strategic alliances are "relatively enduring interfirm cooperative arrangements, involving flows and linkages that utilize resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals". But we think that an alliance can also be temporary and very short-termed. Child and Faulkner (1998) suggest "in alliances, the partner companies join forces in pursuit of common goals without losing their strategic autonomy and without abandoning their own specific interests.". This is unclear at the point of joining forces: Do the companies have to work together in combined departments or is it also possible that they just exchange some knowledge?

"A strategic alliance links specific facets of the business of two or more firms. At its core, this link is a trading partnership that enhances the effectiveness of the competitive strategies of the participating firms by providing for the mutually beneficial trade of technologies, skills, or products based upon them" (Yoshino and Rangan, 1995). This definition is very broad, but it is focussed on the trade of something.

Elmuti and Kathawala (2001) look at strategic alliances as "partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial." The problem here is that the objectives in our opinion do not need to be strategically significant, which narrows the definition too much.

"We call it a strategic alliance when the activities of value adding of at least two companies are combined to some kind of competence-network which is used to maintain and/or to achieve significant advantages in competition while the companies pursue compatible goals" (Bronder/Pritzl 1991; translated from German in English). This definition is very close to our one and also gave us some ideas for our definition. But we want to avoid the phrase "competence-network", which emphasises the exchange of competences and puts the exchange

of products, which can be very important in a strategic alliance, into the background.

Yoshino and Rangan (1995) 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 – perhaps the most distinctive characteristic of alliances and the one that makes them so difficult to manage.
- The partner firms contribute on a continuing basis in one or more key strategic areas, e.g., technology, products, and so forth.

This definition again is too narrow. For instance one partner could contribute knowledge to the alliance only once, while the other partner contributes personnel on a continuing basis and both partners share the benefits. Following this definition, this example would not be a strategic alliance.

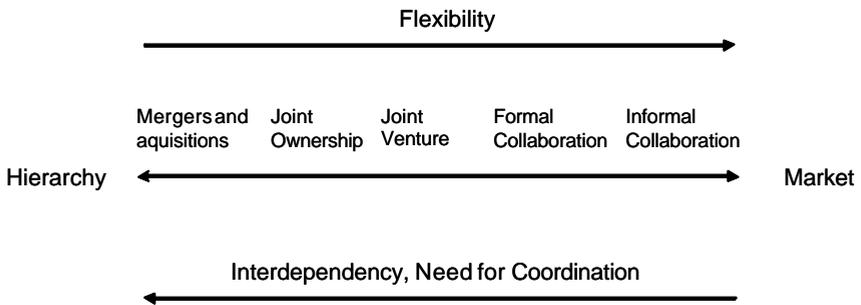
While analysing the different definitions the literature offers, we did not find any which describes perfectly what we mean by “strategic alliance”. Hence we developed one, we will use during our thesis:

“Two or more legally independent companies form a strategic alliance if they combine their activities of value adding to achieve competitive advantages and remain legally independent subsequent to the formation of the alliance.”

Our definition is one of the broadest out the literature but we do not see mergers as strategic alliances. This gives us a good basis for developing a differentiated view on the broad range of different types of alliances.

### 3.3 Theoretical framework

To integrate strategic alliances in a broader environment the common literature uses a popular model. This model exists in slightly different versions. It integrates strategic alliances in a broader environment by describing a continuum between market and hierarchy. On the market side the purchasing and selling of goods occurs by paying a price. There is no need of coordination and the transaction can take place short-term. Hierarchy means that the needed goods are produced in the company itself. These alternatives are not exclusive. Mixtures between both alternatives are possible.



**Exhibit 1: The strategic alliance in the continuum of market and hierarchy**

Joint ownerships, joint ventures and formal collaborations can be seen as different forms of strategic alliances. These forms are all mixtures between market and hierarchy. For the decision in this continuum there are three methods to find the best alternative.

- Comparison between extern prices and intern costs
- Strategic approach

- Transaction costs analysis

### **3.3.1 Cost accounting method**

This is a method that compares statically the costs of external procurement and the costs of in-house production. The advantages of a mixture between the two extremes (strategic alliance) can result from a non-linear cost-curve between the extremes.

Due to several reasons this method is problematic. The decision for or against an alternative is based on short-term data for a long-term decision. This could lead to a systematic favouritism of the in-house production. Then there are problems to acquire the right data for the internal and external costs. Internal costs could be manipulated because of different interests of some divisions and the external prices could intentionally be manipulated until the decision for external procurement.

Power relations, flexibility or dependencies do not count in this method.

### **3.3.2 Strategic approach**

In the strategic approach non-quantifiable advantages and disadvantages are compared. An example could be the following.

Advantages for the hierarchy side

- Avoiding of costs by circumventing the market (e.g. negotiation costs)
- Cost advantages due to better coordination
- Better possibilities of product differentiation
- Better utilisation ratio and time planning possible

Disadvantages could be:

- Reduction of flexibility
- No know-how transfer from supplier
- No benefits of economies of scale
- Problems with finding the optimal company size

These are only examples that are controversial. The big problem with this approach is that advantages and disadvantages are difficult to operationalise. Decisions based on these facts are necessarily made from a very subjective view.

Potential advantages of strategic alliances are obvious. The mixture of market and hierarchy could have a better advantage-disadvantage ratio. Of course this does not have to be like this.

### **3.3.3 Transaction cost analysis<sup>10</sup>**

The transaction cost theory is based on the work of Coase and Williamson. Transaction costs are what Coase named “costs of using the price mechanism”.

The transaction cost theory is based on the idea that different organisational forms between market and hierarchy lead to different transaction costs. Transaction costs cover the following costs:

- Initiation costs (e.g. information costs)
- Negotiation costs
- Control costs (costs to control delivery quality, delivery time, quantity, price and nondisclosure)
- Adoption costs

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<sup>10</sup> Sydow, J. (1992)

The minimisation of these costs leads to the decision for an organisation form within the continuum between market and hierarchy. The optimal form in this approach is only determined through the transaction costs.

To identify transaction costs Williamson uses two personal and two situational factors. The first personal factor is that humans only have only a bounded rationality<sup>11</sup>. This means that humans are not able to get and use all available information because of bounded cognitive abilities. This leads to the problem that it is impossible to deal with complex situations in all relevant aspects and eliminates the possibility of perfect contracts.

The second personal factor is that humans act opportunistic. They use the chance to enlarge their own welfare.

The first situational factor is that transactions can be distinguished due to complexity and uncertainty. The second situational factor is the number of potential transaction partners and the competition between them.

Williamson investigates the relation between these factors to identify the transaction costs. Based on this Williamson develops the theory of market failure and hierarchy failure.

In this context the market failure takes place if a transaction partner with bounded rationality and high uncertainty and high complexity comes together. The problem of opportunistic behaviour becomes virulent if the number of potential transaction partners is small. The hierarchy failure takes place the other way around. Hierarchy is inappropriate if the transaction is certain and not complex. Also a high number of potential transaction partners speak for the market.

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<sup>11</sup> Williamson, O. (1975 & 1985)

For further investigation Williamson enlarges the model with the factors information impactness, atmosphere, transaction specific investment and frequency of the transactions. A market structure makes it more difficult to create an atmosphere of affiance what leads to higher transaction costs. The same applies for information impactness because asymmetric distributed information encourages opportunistic behaviour.

|                       |               |                               |                         |                      |
|-----------------------|---------------|-------------------------------|-------------------------|----------------------|
|                       |               | Specificity of the investment |                         |                      |
|                       |               | non specific                  | Medium specificity      | High specific        |
| Transaction frequency | occasional    | Market coordination           | Trilateral coordination |                      |
|                       | Perseverative |                               | Bilateral coordination  | Vertical integration |

**Exhibit 2: Forms to minimize transaction costs in dependency of specifity of investment and transaction frequency<sup>12</sup> (noch ein bisschen übersichtlicher machen)**

Exhibit 2 shows the coherence between the specificity and the transaction frequency and the optimal form to minimise the transaction costs. If the transaction is non-specific the market coordination is

<sup>12</sup> Schumann, J., Meyer, U., & Ströbele, W. (1999), p. 459; Williamson, O. (1985)

recommended. This is understandable if we think of standardised goods. The solution for medium specificity of investment is if the frequency is low a trilateral coordination and if the frequency is high a bilateral coordination. Medium specific are for example customised goods. The trilateral coordination has additional a third party which can work as mediator. High specific goods with a high transaction frequency are predestined for a vertical integration. If the frequency is low both the integration and the trilateral coordination should be considered.

Additional even Williamson mentions hybrid organisational forms to reduce transaction costs.

From a transaction cost perspective strategic alliances are some kind of quasi externalisation or quasi internalisation depending on the original form. The quasi externalisation is recommended if the transaction costs in market coordination are lower than the internal costs but still high. The quasi internalisation is recommended if internal transaction costs are lower than the market transaction costs but still high. Considering that the transaction cost approach ignores the exploitation of external economics of scale, learning curve advantages and risk shifting the following list shows how strategic alliances could reduce transaction costs:

- Long-term agreements to reduce the transaction risks which is connected with transaction specific investments
- Stable and intensive relations with a high transparency to reduce searching and negotiation costs
- Inter-organisational communication technologies
- Reduction of opportunistic behaviour through dependencies
- Reduction of quality risks through transparency
- Through faster inter-organisational learning

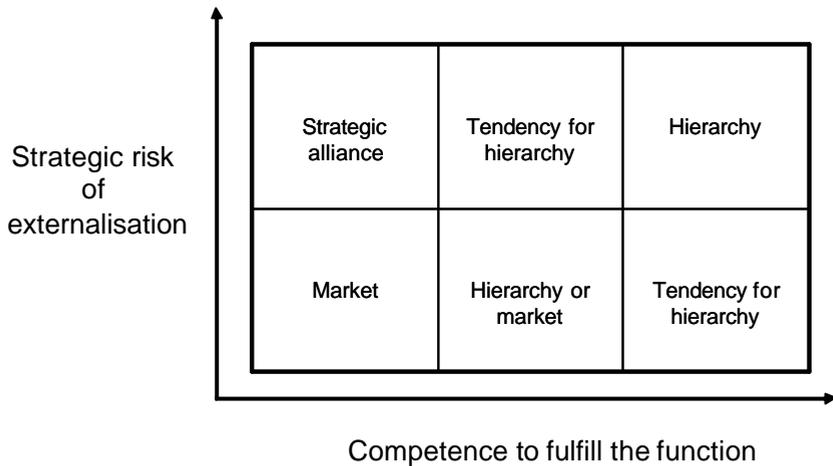
- Through a better atmosphere

As result the following potential advantages compared to a market or hierarchy solution could be named:

| Compared to the market   | Compared to hierarchy  |
|--|--|
| <ul style="list-style-type: none"> <li>• Lower searching costs</li> <li>• Lower negotiating and control costs</li> <li>• Better information</li> <li>• Transfer of non codifiable knowledge</li> <li>• Less quality control</li> <li>• Faster implementation of innovations</li> </ul> | <ul style="list-style-type: none"> <li>• Reduced opportunistic behaviour</li> <li>• Higher reversibility and flexibility</li> <li>• Higher sensibility for the environment through the decentral organised structure</li> <li>• Easier adaptation to a changing environment</li> </ul> |

**Exhibit 3: Potential advantages of strategic alliances compared to market and hierarchy solution**

To present a simplified view when the strategic alliance is the better alternative the following matrix could be used:



**Exhibit 4: Strategic alliance in the dimensions of strategic risk and competence<sup>13</sup>**

### 3.3.4 Results

The transaction cost approach is not the perfect solution to decide when a strategic alliance is adequate. As well as the strategic approach it is difficult to operationalise the transaction costs. Also this approach ignores some aspects and focuses only on the transaction. The term transaction costs is not that clear. Especially the relation to other cost types is not explained. Due to this it is not possible to use this approach in a pragmatic way. Based on this transaction cost theory no company would decide the use of strategic alliances. Therefore this approach is only a partial one. We presented a way to describe strategic alliances in a broader context and tried to show the theoretical perspective when forming strategic alliances. None of these three approaches is able to explain the relation of strategic alliances to market and hierarchy completely. As a result one can say that the broader theoretical framework of strategic alliances is not completely explored and at the same time the complexity of this subject gets clearer; even when only

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<sup>13</sup> similar to Walker, G. (1988)

considering an abstract form of strategic alliances. The complexity will even increase, when considering all the different types of possible strategic alliances and integrating them into the analysis above. Thus the complexity is increasing and one could get the impression that the research within this subject is not very advanced or very glaringly formulated. It is very uncertain if we will ever be able to explain these relations in a theoretical way.

## **4 Practical Considerations**

In this part we will give an introduction into some practical topics concerning strategic alliances. We will show how and why managers form strategic alliances and which factors are very important for their success.

### ***4.1 Evolution of strategic alliances***

Strategic alliances are partnerships of two or more corporations or business units that work together closely to achieve strategically significant objectives<sup>14</sup> like overall competitive advantage as we defined earlier. To achieve such a good relationship an evolution process takes place, which will be described now. The literature we found concerning this aspect is quite coincided. It mostly follows a common path starting with the strategic decision followed by the configuration of the strategic alliance and the choice of the partner and ends with the management of the strategic alliance. With regard to the choice of the partner we will analyse in detail the strategic, structural and especially the cultural fit. An analysis of the strategic intent is quite useful if political and analytical aspects are considered. Therefore we decided firstly to focus on these aspects. Secondly a description of the evolution process mentioned above will be given.

#### **4.1.1 Formation of strategic alliances**

When two parties come together both of them will have different strategic intents and seek for different benefits from the strategic alliance. Thus, these intents must be reconcilable and must be sufficiently compatible to leave enough space for cooperation. Hamel and Prahalad mention two dimensions.<sup>15</sup> The strategic intent envisions a desired leadership position and establishes the criteria the organisation will use to draw its progress. It also encompasses a very active management process, which includes motivating people by

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<sup>14</sup> Elmuti, D. and Kathawala, Y. (2001), p.205

<sup>15</sup> Hamel, G. and Prahalad, C.K. (1989), p.64/65

communicating the value of target, leaving room for individual and team contributions, focusing the organisation's attention on the essence of winning, sustaining enthusiasm by providing new operational definitions when circumstances change and using the intent consistently to guide resource allocations.

Clear and realistic intents have to be established by looking at political and analytical considerations. This is the initial phase of the formation process divided in a strategic match issue and a stakeholder-blessing issue according to Lorange and Roos.<sup>16</sup>

The strategic match issue deals with the resource input-output behaviour, i.e. the extent of resources the parties want to put in the strategic alliance and whether generated resources remain in the alliance or flow back to the partners, and with the strategic position of each partner, i.e. whether he is a leader by focusing on core competences or a follower. More questions concerning a common strength, benefits for each partner, cultures and so on have to be asked to find out if there is a possibility to end in a strategic win-win match between the two partners. If this is provided the chance of success in implementation will increase.

The other part of the initial phase deals with the questions whether the external and internal stakeholders are pleased with the idea of a strategic alliance. A strategic alliance can be seen as a threat among internal stakeholders because they could see a decrease of their own power and career possibilities within the alliance and a potential to lose their jobs. Concepts have to be figured out to understand the internal stakeholders' behaviours and methods better and how to handle internal coalitions successfully to give the strategic alliance a good chance to succeed. It is also important to convince external stakeholders of the importance and the resulting synergies of such a strategic alliance because they can stop the existence of the alliance. They have to accept and promote the idea of a particular cooperative strategy.

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<sup>16</sup> Lorange, P. and Roos, J. (1992), p.30-44

Now a deeper step into the intensive phase can be taken. Here it is necessary to gather enough information, to do proper analyses and to develop a strategic business plan for the strategic alliance. This involves that the two prospective partners have to work closely together. They have to know where they stand in the market place with which degree of market potential and have to identify the key competitors. The value chain of Porter shows how combinations of activities from the two value chains could create various types of synergies and thus strengths. It would go too far here to analyse the possible combinations of the two value chains (for example downstream or upstream) and to report the synergies out of it. In summary the benefits accrue through gaining scale, scope and complementarities like access to markets or technologies, sharing risk and investments, saving costs and time. Each party should assess how these prospective benefits satisfy its own strategic intent. The strategic match is the basis for this. It is also essential for both partners to understand the competitive advantage of the strategic alliance. Competitive strength can be created in the areas of suppliers to create bargaining strength, customers to offer a full range of products and to maintain a strong sales force, new entrants/exits to create more effective entry barriers or lower exit barriers, or new technology to combine complementary technologies. By identifying and agreeing on those coordinated joint activities that are particular critical to the cooperative strategy, an effective business plan can be developed that will help the strategic alliance to become competitive.

The last issue of the intensive phase before a contract is possible to be made deals with the internal support. It is the task of the management to ensure that the broader range of people within the organisation become enthusiastic and feels committed about the venture and is convinced that this alliance will bring a higher output and performance to anybody. Motivation takes place through detailed information and explanation.

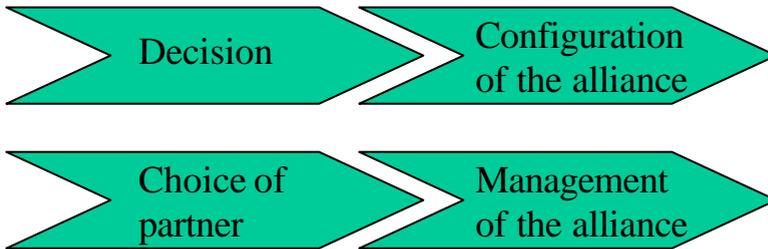
During that intensive phase the partners should not forget to pay attention on political considerations. This political aspect will be described in the next section and also in chapter 4.6.

The four issues mentioned above can be related to different archetypes of strategic alliances, which will be described later in the thesis.

### 4.1.2 Evolution of strategic alliances

This section deals with the development of strategic alliances over time. The internal and external circumstances will change over the time and therefore it is necessary that the strategic alliance, e.g. the management, will find a proper adaptation. The following management concept is not a recipe for success but a helpful direction sign for the modus operandi for management and business units to locate a successful development of the strategic alliance. We present here an evolution path of strategic alliances based on the overlapping findings of the literature.

As shown in the figure below there are four steps to analyse:



**Exhibit 5: Phases of strategic alliances**<sup>17</sup>

#### 4.1.2.1 Decision for forming a strategic alliance

As a first step on the way to a strategic alliance an analysis of the company is necessary to get a picture of the in the past followed strategies that were used to exploit potentials of utility for building up strategic success positions.<sup>18</sup> The question here is whether the company occupies the core competences that are needed to realize its vision or not. In that initial phase the company must check its own situation and

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<sup>17</sup> Bronder, C. and Pritzl, R. (1991), p. 46-47, translated from German

<sup>18</sup> Bronder, C. and Pritzl, R. (1992), p.19-30

potential of appreciation.<sup>19</sup> In that analysis of the company a clear strength-and-weakness profile shall be crystallised as well as targets and utilities that are expected of the strategic alliance. During this survey the environment, the factors of competition and the changing of markets have to be considered and evaluated. A check up of the potential and applicable human resources is important. There are certain methods and analyses for that survey that can be used, e.g. analysis of competition, branches, cost structures. These methods will help the company to get an overview about potentials and critical areas that can be focused on in the near future. It will be then adjudged whether an internal solution via the value chain or via the market will be focused on. Decisive here is the height of the actual and potential transaction costs.

Unilateralist learning processes will decrease because it is very difficult and expensive to have an organic development in a stabile market. It also lasts too long. Antitrust laws show a company the limits of mergers, and therefore the option of a cooperative transaction via a strategic alliance is the best solution. It is less fraught with risk in comparison to the other options and it also offers an open option concerning the future partnership.

An analysis of the potential of appreciation will show the company alternatives of cooperation. Benchmarks for success like total revenue and return on investment are not enough for the appraisal criteria because they do not include values like the current market value, the development of certain measurements and necessary investments, the risks and so on. Anyway, every investor wants to get out a higher output than his capital costs have been. A focus on the free cash flow of a strategic alternative is a useful appraisal criterion. It has to be checked if the resources put in are used most efficiently to higher the value of the company. Advantages of time, know-how and costs as well as better market accesses and system competence are the focused targets. This all has to be pondered against the coordination costs like initiation

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<sup>19</sup> Krieger, C. (2001), p.39-42

costs, costs of arrangements, control costs and adaptation costs. Another criterion is the subjective appraisal of the executives. The success of strategic alliances will be further discussed in chapter 4.4.

It is also important to get enough information about the potential markets, potential partners in different countries and general conditions by accomplishing market analyses and by collecting information about the environmental, technical, political and cultural circumstances.

#### **4.1.2.2 Configuration**

After coming to a decision about the strategic alliance an analysis in the context of the configuration has to be done. The cooperation field, the linkage intensity and multiplication possibilities have to be taken into consideration.<sup>20</sup> Regarding the cooperation field the company has to ascertain whether the strategic alliance has to take place in a horizontal, vertical or lateral level. This point will be deeply discussed in section 5.2, so therefore we refer the reader to read about this aspect in the mentioned chapter. In general you can say that the company wishes to expand its competences in a certain area. These expansions can take place in the areas of research and development, marketing and distribution, production and logistics, purchasing or disposal and recycling all based on Porters value chain. Basically the forces have to replenish each other in a way that the company that the strategic alliance can achieve essential competitive advantages. For example, one partner could hold a good distribution system and the other one the necessary product conception. Both partner hope that transaction cost advantages occur.

For determining the linkage intensity the partners have to frame criteria concerning the time horizon, the resource allocation and the degree of formalization. In the beginning of a strategic alliance the partners have to think about how long cooperation shall lasts, e.g. whether the strategic alliance aims at a short- or long-term relationship. At this every party gets to know very fast the motives, targets and expectations

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<sup>20</sup> Bronder, C. and Pritzl, R. (1991), p.45-49

of the other one and appearing conflicts can be solved at this early time. Every partner has to keep in mind that over the time new aspects and areas can appear because of unforeseen synergic effects. A fusion, take over, or a break up because of unsolvable conflicts could also happen. Furthermore, the strategic alliance is also determined by provided resources like human resources and capital. So either each partner of the strategic alliance provides a certain amount of resources, which are then still in the property of each partner, or the partners accomplish their activities together and create therefore an own resource pool.

Concerning the degree of formalization questions about the independent form of organisation, methods- and communication rules, a supervisory board and organisational structure will occur. The regulation of the formalizing degree is directly dependent on the strategic targets, the choice of the “going-to-be-linked” value chain activities and on the expected coordination costs.

In the end multiplication possibilities in the context of the configuration will be analysed. A multiplication takes place if cooperation between more than two companies exists. This is called a network of companies where each company has access to the know how of the whole network and therefore can create a new chance for establishing new competences.

#### **4.1.2.3 Choice of the right partner**

One of most important factors for the success of a strategic alliance is the right partner. The analysis to find the right partner should be stretched across the fundamental, strategic and cultural fit. In general we have to say the more partners are involved in the strategic alliance the more difficult it will be to reach common goals.

A fundamental fit exists if the activities and competences that are brought into the strategic alliance by each partner complement one another. Then there is a big possibility to reach the goals of the value chain potentials. A good condition would be a win-win situation where each partner gains profits. Therefore the size of the companies playing

together is very relevant. If there is disequilibrium in the size of the partners one partner could become very dependent on the other one. One partner might take advantage of the other one.<sup>21</sup> But still, the partners have to take into consideration how big the risk is to reach the forced targets over the time and how stable the branch and the environment are. The common goals of the alliance have to be translated into programmes and then transformed in orders, competences and responsibilities for the involved partners, which will support the process of reaching the goals.<sup>22</sup>

The strategic fit deals with the congruence of the strategic targets of the partners.<sup>23</sup> The success factors of this congruence are the mutual harmony of the business plans, the common determination of configuration as well as the same planning horizon. In that context there is to say that the partners have to secure their own “black box” so that the critical strategic resources that have been put in are still under control of each partner. The “black box” secured in the past the position of success for each company, so by going into a strategic alliance the partners have to divulge their success factors step by step and have to expect a return of the other side. That concerns special management qualifications, cost leadership factors, core competences and so on. The frame of the cooperation is the basis for that. Additionally the direction of impact has to be determined by summing up clear managerial objectives and expectations. The partners have also to adjust the missions of the corporate policy and the strategic programmes in consideration of the operative feasibility. The intensity concerning how the partners pursuing the business is a success factor for that aspect.

Last but not least the cultural fit will be now explained. Many strategic alliances failed because companies did not pay enough attention to that point. Cooperations are cultural “melting points”.<sup>24</sup> Corporate culture

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<sup>21</sup> Bühner, R. (1993), p.386-388

<sup>22</sup> Bleicher, K. (1992), p.267 et sqq.

<sup>23</sup> Bronder, C. and Pritzl, R. (1992), p.36 et sqq.

<sup>24</sup> Bleicher, K. (1992), p.284

emerges through a specific behaviour of the people involved. Incompatibilities will show up if different nationalities from different cultures meet.<sup>25</sup> A good communication is a success factor to solve cultural differences. It is important that one partner shows the willingness to accept the local culture as well as the different corporate culture of the other one. It should be the target of the companies to develop a cultural fit through a system of common values, styles and cultures in consideration of national aspects. A cultural analysis brings clearness into this and a cultural profile would show the differences between them. Personal aspects will influence positively the cultural aspect. Certain managers or leaders can be put into the strategic alliance or also into the alliance partner. Therefore they have to be competent and unbiased. To motivate those managers certain plans about their carriers and payments should exist. These managers will form the cultural field of the alliance. When the different cultures meet there can be the following reactions:

- Cultural pluralisms if the cultures exist side by side.
- Cultural assimilations if there is a slow fusion of cultures. Thereby positive elements of the original culture can fusion to a new uniform and combined culture.
- Cultural overtaking if one company tries to transfer its culture to the partner. That partner will then loose to a certain degree his independence.
- Cultural resistance where it comes in an extreme case to a break-up of the strategic alliance

There are several starting points for the development of cultures in the cooperation field: organization of interfaces, the inner structure, models of partnership, management systems with certain motivation and

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<sup>25</sup> Krieger, C., (2001), p.49-53

personal systems like the rotation of employees, the promotion of identification through for example having ceremonies or excursions.

#### **4.1.2.4 Management of the strategic alliance**

The last phase in the evolution process of strategic alliances deals with the management of strategic alliances. The management needs the understanding of the continuously-changing environment as well as of the permanent process of negotiations. The companies and hence the strategic alliances have to be adapted to the permanently changing conditions. It is up to the management whether the strategic alliance keeps existing or not. After defining the common goals it has to be clear who has which responsibilities and who is for what the contact person.<sup>26</sup> In this connexion there is the problem of losing a part of independence. Every partner has to share the resources with the other one. So there is the danger of opportunistic behaviour. One partner may exploit the knowledge of the other one. But anyway, this will lead to certain dependence. New resources and competence will arise, which have to be shared. The partners have therefore to keep in mind on which motives and common goals they are aiming. Contract negotiations are necessary to come to an adequate formal structure of form, contract and coordination. Therefore competitive conditions have to be considered also. It would be clever of the management to create conditions in form of contracts and conceptions to secure the continuity of the strategic alliance and where it is hard to dissolve the venture. Efficiency is provided if the management of the alliance can resort to competences for the implementation of its decisions.<sup>27</sup>

Further, managers occupy the instance of coordination. The whole success is dependent on coordinating and integrating the resources of the participating firms. On the one hand there is the task-oriented management, which is concentrating on the systematic planning and realisation of the strategic alliance and on the other hand there is the interaction-oriented management, which aims at interpersonal relations

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<sup>26</sup> Bronder, C. and Pritzl, R. (1991), p.51-53

<sup>27</sup> Bircher, B. (1990), p.27 et sqq.

of the managers and involved persons. You can say that strategic alliances have also a kind of life cycle: in the beginning there is confidence and euphoria but after a contract is made conflicts concerning the interaction-oriented and task-oriented management will appear. But those conflicts are not necessarily negative – for instance they also increase the productivity. Such discrepancies should be eliminated on an early stage and therefore an active crises- and consensus management is a useful tool for an early detection of problems and negotiation of conflicts. Also the existence of cultural differences show the central role of the management in the alliance as we have seen in the past negotiations between Japanese and western firms.

In a later stage a fusion become reasonable. Core competences have to be constantly checked as well as the changing of legal and political basic conditions because the latter puts a high pressure on the structure of the strategic alliance. That aspect will be further discussed in chapter 4.6. How the relation of cooperation will finally develop is dependent on many external and internal factors such as trust as well as on the interest for innovations, changing and handling of conflicts.<sup>28</sup>

#### **4.1.2.5 An alternative perception of the evolution process**

According to the authors Lorange and Roos an alliance is a shared strategic alliance between partners having an active role.<sup>29</sup> There are three stages in the evolution of a strategic alliance:

1. One partner provides technology; the other one is contributing market- and customer access. Over the time one partner becomes dominant in executing the strategic alliance's task. This will lead to a creation of a specific market force where the other parent is less active.

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<sup>28</sup> Bronder, C. (1993/1), p.107 et sqq.

<sup>29</sup> Lorange, P. and Roos, J. (1992), p.79-93

2. The evolution process of strategic alliances may also start here: While the joint venture's organization takes over more and more of the value-creating functions, one partner becomes dominant as mentioned before and the other one more passive. This can be slowed down or prevented if both partners wish to remain active. Therefore a very stressful coordination is necessary as well as transferring more and more functions to the strategic alliance.
3. The strategic alliance is seen as a fully autonomous independent entity. If a core role is intended, the nature of technology involved can be the key for evolution. Some problems might occur, if the technology, which has to be shared, is unique. In that case the partner controlling it might have provisos to sharing the technology. Normally the partner controlling the technology is willing to let the alliance absorb it. Over the time the shared or dominant strategic alliance is accepted or it will be dissolved. The life cycle will be also aborted if a partner is not willing to let the strategic alliance establish its own market contacts.

Now there are three possibilities:

1. The strategic alliance continues like that if it remains competitive.
2. The strategic alliance will be aborted because of no competitive success and not achieving the necessary return to its partners.
3. The strategic alliance will be terminated because one of the partners is buying out the other one.

This model will be applied more detailed later on in chapter 5.3.

## ***4.2 Motives for Strategic Alliances***

There is a broad range of possible motives for entering a strategic alliance. There are several different kinds of motives. Some of them,

like the reduction of costs, are purely financial. Another group are the motives to reduce the company's risk. One very big group are strategic motives. Some elements of that group are the access to new markets, the access to new technologies and knowledge, and synergies. In a strategic alliance the partners do not necessarily have the same motives for their alliance with each other. Partners might even have different motives to enter a particular alliance. As an example, one partner may want to get access to technologies, which the other one possesses, while the other partner wants to get access to a new market. Another very common combination is that one partner wants to get access to a market, while the other one wants to leave this particular market. The common literature points out the following motives.

#### **4.2.1 Access to the Market**

When a company wants to enter a foreign market, it generally has three different options: acquisition of an existing business, internal start-up, and strategic alliances.

The acquisition is the most popular tool to enter foreign markets. It offers direct market access and helps the company to overcome the entry barriers like costs of entry, legal barriers, missing reputation in the new market, and so forth. But on the other hand it contains also several disadvantages. The first is the problem of finding an adequate partner to acquire who has the knowledge and market access the company needs but who is not too expensive to acquire. A big dilemma a company faces is whether to pay a premium price for a successful company or to buy a struggling company at a bargain price. This approach also holds a big risk in case of failure. When the company is unable to compete successfully in the new market, it is very complicated to leave the market again. Overall the approach of acquiring a company offers the opportunity of fast access to the new market and holds the risk of getting stuck with an unwanted business part which cannot be sold at a good price anymore.

Another way of accessing new markets is an internal start-up. Using this approach, a company starts building up a new "internal" company,

which tries to build up the capabilities needed to compete successfully in the new market. This approach needs much time and thus is not used very often. A company using this approach also has to overcome the new market's entry barriers, which can be very expensive or even impossible. But this approach can be very promising when the company has already most or all of the skills it needs to compete effectively in-house. This effect is enforced when the targeted industry is populated with many relatively small firms so the new start-up does not have to compete head-to-head against larger, more powerful rivals. Thus there are some seldom situations in which the internal start-up approach is superior. Between these two approaches lies the strategic alliance. They can be used in basically three different situations. First, a strategic alliance is a good way to pursue an opportunity that is too complex, uneconomical, or risky for a single organization to pursue alone. Second, strategic alliances make sense, when the opportunities in a new industry require a broader range of competencies and know-how than any one organization can marshal. These two ways can be used to spread the risk of the entry and therefore make it less expensive to enter the market. Third, strategic alliances are sometimes the only way to gain entry into a desirable market. In that case, a local partner is selected that provides the company with access to his home market. Thus strategic alliances can offer new knowledge and direct access to a market but they remain more flexible than an acquisition and are built faster than an internal start-up. A big drawback is that the partner also profits from the alliance. Hence the company has to consider carefully which knowledge should be shared and which should not.

#### **4.2.2 Personal Contacts**

The economy offers many different partners. Hence the choice of the best partner is very complicated and normally the searching company faces a lack of information when trying to decide for a particular partner. Personal contacts are often a driving force for strategic alliances because mutual trust can help to overcome, or at least oversee, the lack of information. Many managers also believe that mutual trust lowers the risk of opportunistic behaviour. Normally this motive is not sufficient. It only helps when other motives are already present.

### **4.2.3 Access to new technologies and knowledge the partner possesses**

In today's fast moving markets, the access to the cutting edge technologies is a very important advantage in competition. By having access to the partner's newest technologies and knowledge, the company can improve its own position and it is easier to close gaps in its knowledge base. A good example for technology exchange is the project "Jessi"<sup>30</sup> during which the Europeans tried to get an edge over the Japanese and the Americans in the field of producing microcircuits.

### **4.2.4 Advantages in Time**

In view of the changing competition moving towards a competition based on time, the achievement of time advantages is becoming more and more important in reaching a competitive advantage. This kind of competition is very often also called "innovative competition". The product life cycles are becoming shorter and very often the development of a product takes longer than it actually is sold on the market. Especially in the technology- and research-intensive industries like the aerospace industry, electronic devices and in the automotive industry the timely introduction of a product and the immediate global availability are crucial factors for a product's success. The combination of the partner's resources in a strategic alliance may for instance in the area of research and development shorten both the development cycles and the reaction time upon unexpected changes in the market.

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<sup>30</sup> "Jessi" is an acronym for "Joint European Submicron Silicon Initiative" and was founded by the EU. During this research project, the basics for the European microchips at the end of the millennium should have been developed. The project was started in 1989. The goal was to break the Japanese dominance in the field of memory-chips. Half of the costs of the project were paid by the industry, while the other half was paid by the EU and the involved countries.

## 4.2.5 Reduction of Costs

This is a very important motive when seeking for a strategic alliance. There are two distinct ways of saving costs: By implementing transparency and by combining the production.

The implementation of transparency aims at the elimination of “waste” which occurs at the interface between the partners. The literature identifies different types of waste:

- Depending decision cycles
- Push-pull conflict
- Complex interface with external entities and suppliers
- Bottleneck function and inappropriate capacity planning
- Lack of standard work practice and document control
- Existence of fast-track/expedite path for strategically important products
- Myopic corporate prioritization procedure
- Existing computer applications are ‘stovepipes’
- Fragmented file stores

It can easily be seen that the elimination of these types of waste offers big opportunities to make the value chain more efficient.

On the other hand there are mainly two different ways to combine the production. Even with separated production sites the partners can cut costs by combining the production assignments or by specialization onto special products. In this way, the partners can achieve economies of scale. The agreement to act like that can be concluded for both components and final products. The other way to cut costs is to build a

collective production site. The effects mentioned for different production sites are applicable here too and many of them are even bigger. Additionally there are several other cost cutting effects like a smaller stock. The drawbacks of the second approach are obviously high costs for building the combined production site and the strong bindings between the partners. As soon as a combined production site is built the partners face a lack of flexibility and the strategic alliance is very hard to end.

#### **4.2.6 Reduction of Risk**

Today's products often require big investments into research and development. This is connected to many different risks. For instance the research might fail in finding new ideas and innovations for new products or the customers may not show enough interest in buying the new developed product. Sharing knowledge about the research and the market between the partners can reduce these insecurities. In this way the technological and market knowledge can be broadened and the forecasts become more reliable for both parties. Additionally the risk can be shared by simply sharing the costs for the developments between the companies. Thus a miscarriage is less expensive for each of the partners.

#### **4.2.7 Synergies**

This effect often goes hand in hand with other ones and is rather hard to distinguish from these. Synergies arise when two or more companies are able to reach a goal better than a single company. A good example for this is the combination of complementary knowledge of both companies. In this way, new knowledge and technologies can be developed whereas each company on its own would not have been able to reach this. These synergies often arise when former separated technologies are growing together as it can be seen in the telecommunication- and computer-industry. These technologies were almost unconnected in the past and are growing together very fast now. Thus strategic alliances can be witnessed very often between companies of the computer industry and the telecommunications industry.

## **4.2.8 Manipulation of the Competition**

According to Porter, five forces are affecting a company: suppliers or raw materials, parts, components or other resource inputs, buyers, firms in other industries offering substitutes products, potential new entrants, and rivalry among competing sellers. A strategic alliance has the potential to change every one of these five forces:

### **4.2.8.1 Suppliers of raw materials**

Often companies in a strategic alliance bundle their needs for inputs and hence gain bargaining power. Thus they can try to force suppliers to lower their prices, to raise their quality, or to use special production technologies.

The partners can also use their bargaining power to force their suppliers to discriminate rivals.

### **4.2.8.2 Buyers**

Again the companies gain bargaining power. They have more power to charge higher prices or to invent new standards.

### **4.2.8.3 Firms in other industries offering substitutes**

Here the advantages of a strategic alliance are rather small. But the companies can still try their additional power to change their own market in a way that the substitutes cannot be used as substitutes anymore. This is a very risky strategy because it contains the risk of loosing the home market completely to substitutes.

### **4.2.8.4 Potential new entrants**

The companies in the alliance can try to pursue the government to implement new entry barriers like higher quality requirements, security standards or to grant a temporary monopoly. They can also use their market power to frighten new entrants for instance by promising to enter a price competition with every new entrant and to underbid every price the new entrant might offer. If this threat is believable possible new entrants will think twice before entering the market.

On the other hand a strategic alliance can also be used to help partners getting access to a market.

#### **4.2.8.5 Rivalry among competing sellers**

There are several ways of reducing the pressure of the competition. The easiest one consists out of cartel-like arrangements between the partners. More indirect ways affect the rivals. The partners can for instance try develop and use their own standards to make existence harder for competitors. They might even try to pursue the government to prescribe certain technology standards. They can also try to initiate price wars to fight rivals out of the market. By using these instruments, the parties have to consider legal barriers, which set limits for cartel-like actions. W. Kartte, the former president of the German federal cartel office, suspected that strategic alliances are nothing else than the attempt of global acting companies to form their own system of competition and to avoid competition by according arrangements and market partitioning<sup>31</sup>.

Concluding there are many different possibilities in forming and changing the competition by forming a strategic alliance. Strategic alliances pursuing such goals always risk violating legal restrictions.

#### **4.2.9 Leaving the Market**

Strategic alliances can also be used to leave a market in the long run. When a market does not offer any possibilities for success, there is the option of leaving it. But when leaving a market, there can be significant barriers, which make it more complicated or even impossible to leave the market. These barriers can be manifold. First there are cost disadvantages consisting mainly out of losses when selling production sites and materials, compensation for employees, and contractual penalties. Second there are negative implications on the reputation of customers, suppliers and capital providers.

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<sup>31</sup> Dressel, L. (1991), p 394

When there are very high barriers, the immediate exit out of the market can be too expensive. In that case, a strategic alliance can be a solution, if the partner is interested in overtaking and carrying on the business. By doing so, the personal can be transferred to the partner and the takeover will be more smoothly. Expensive social plans and “sunk costs” are also avoided. However factual there is not much difference to simply selling the business.

### **4.3 Risks and Problems facing strategic alliances**

The trend towards strategic alliances has not brought the big benefits, the supporters of strategic alliances promised. Many studies focus only on the success-factors for strategic alliances without mentioning the risks. But it is the risks that have to be well known because they are the true reason why more than 60% of all strategic alliances fail in reaching their goals.

#### **4.3.1 Clash of cultures and “incompatible personal chemistry”**

Cultural clash is probably one of the biggest problems that corporations in alliances face today. “These cultural problems, consisting of language, egos, chauvinism, and different attitudes to business, can all make the going rough. Problems can be particularly acute between a publicly quoted Western holding company, keenly focused on share holder’s value, and Japanese partners who have different priorities”<sup>32</sup>. The first thing that can cause problems is the language barrier that they might face. It is most viable for partners who want to work together that they understand each other very well to avoid misunderstandings. If they are unable to communicate perfectly, the strategic alliance failed before it even began. After a good communication is established, the companies face other cultural problems. Different cultures operate in different ways “for example, US companies tend to evaluate

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<sup>32</sup>Killburn, D. (1999), p. 22

performance on the basis of profit, market share, and specific financial benefits. Japanese companies tend to evaluate primarily on how an operation helps build its strategic position, particularly by improving its skills<sup>33</sup>. Thus the cultural differences directly influence the choice of the partner and the way the alliance actually works.

### **4.3.2 Lack of trust**

Risk sharing is one of the primary bonding tools in a partnership. What will happen if one company is successful and the other experiences a failure? The partners have to generate a sense of commitment between the partners to avoid situations in which one partner is pointing the failure finger at the other one. Blaming each other for the failure does not solve the problem, but increases tension and mistrust between the partners. Also technologies and knowledge are not shared very effectively if there is a lack of trust between the partners. Thus building mutual trust is one of the most important, but also one of the most challenging tasks during a strategic alliance. This mutual trust has to be built between individuals. Not companies trust each other, people do. Therefore, alliances need to be formed to enhance trust between individuals. The companies must form the three forms of trust, which include responsibility, equality, and reliability. Very many promising strategic alliances failed because of the lack of mutual trust causing unsolved problems, lack of understanding, and despondent relationships.

### **4.3.3 Wrong reasons for forming the alliance and lack of clear goals and objectives**

In today's business world, many strategic alliances are formed for the wrong reasons. Alliances formed like that will surely lead into a disaster in the future. For instance many companies enter a strategic alliance to combat industry competitors. As long as there are no well-defined clear goals how the alliance can lead to a competitive advantage, this action is counterproductive. The involved companies

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<sup>33</sup>Daniels, D.J. and Radebaugh, L.H. (2001)

raise flag and move into the spotlight, showing that they have a weakness they want to abandon but do not know how to do that. Alliances are also very often formed to correct internal company problems because the management thinks of this action as a quick fix. But in reality it is just the other way round: First the internal problems have to be solved and then the challenging task of making a strategic alliance work can be taken over. In fact, the company might already be doomed and is just taking another one along for the ride.

A problem very close to these ones is the lack of clear goals and objectives. As long as these are not well specified there is the risk of dissimilar objectives and goals. Over time this will lead to the inability to share risks and a lack of trust.

#### **4.3.4 Lack of coordination between management teams**

In strategic alliances it is likely to happen that not all managers possess all the knowledge about the legal restrictions bound to the alliance. And this lack of knowledge can lead to an unintentional abuse of the information shared while being a strategic alliance. Such mistakes will surely terminate the alliance and would most likely end up in a legal battle, which could take years to solve, if it can be settled at all, and could result in big losses of shareholder value.

#### **4.3.5 Differences in operating procedures and attitudes among partners**

Other problems that can occur are different attitudes among the companies. These problems can be very manifold. The one company delivers its goods or services a little behind schedule, the other one does not always stick to its quality guidelines, etc. These problems may lead to distrust among the companies and usually make the employees at the other company angry. Sometimes this can also lead to a hostile takeover. An example of this is described below: “The deal between Publicis Communication and Foote, Cone and Belding (FCB) was designed to fill strategic needs of each: An alliance in Europe would

finally give FCB the international reach it needed, while Publicis could use FCB's experience in North and South America to serve its multinational clients. The venture officially ended earlier, after bitter and expensive divorce proceedings. True North Communications Inc., the holding company for Foote Cone, and the world's No. 8 agency group, is fighting off a 28-a-share hostile takeover attempt by its ex-partner Publicis, which still owns 18.5 percent."<sup>34</sup>

### 4.3.6 Relational Risk

Relational risk is concerned with the probability that the partner firms lack commitment and that their possible opportunistic behaviour could undermine the prospects of an alliance. This is a typical "prisoner's dilemma". This is a theoretical situation from the game theory. In such a situation both partners have the possibility to betray the other partner. Thus both partners have two possibilities of action: First to cooperate and second to defect, which is betraying. In practice this situation, in which it is favourable for each partner to betray the other one, often leads to a lack of mutual trust between the partners. Consequently this can also lead to problems in sharing knowledge or technology. An example of this dilemma is shown in exhibit 5.

|         |           | Actor A   |        |
|---------|-----------|-----------|--------|
|         |           | cooperate | defect |
| Actor B | cooperate | (3,3)     | (0,5)  |
|         | defect    | (5,0)     | (1,1)  |

**Exhibit 6: Prisoner's dilemma**

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<sup>34</sup> Melcher, R. and Edmundson, G. (1997)

No matter, what Actor B does, it is always better for Actor A to defect, which means that he acts opportunistic: If both actors cooperate, they both gain three “points”. But this situation is not optimal for A. He gets more profit if he defects. The same applies when B defects. In the case that A cooperated, he does not get any profit, while he would get 1 “point” if he defected. Since this is a symmetrical situation, B will show the same behaviour, which leads to a “Nash-Equilibrium”<sup>35</sup> in which both actors defect.

But in this equilibrium, the actors do not reach the most beneficial situation, which would be that both cooperate. But this equilibrium will be reached when there is only one round to play. If the game is played for more than one round, there are two possibilities: a limited number of rounds and an unlimited number of rounds. In the former case, both players will defect in the last round, because there is no reason left to cooperate. But if both players know that both will defect in the last round, they will also defect in the round before, and so on. Hence there will be no cooperation at all as long as there are a limited number of rounds. In the latter situation of unlimited rounds, there is always enough time left to punish the counterpart and mutual cooperation is possible.

In practice, many situations can be found, where the number of rounds seems to be limited, but both partners cooperate. There are several reasons for that kind of behaviour:<sup>36</sup>

- The existence of irrational reasons to trust the partner based on intuitional appraisalment of the partner
- Moral concerns that defecting could be seen as amounted

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<sup>35</sup>“If there is a set of strategies with the property that no player can benefit by changing her strategy while the other players keep their strategies unchanged, then that set of strategies and the corresponding payoffs constitute the Nash Equilibrium.”

<sup>36</sup> Thielen, T. (1997)

- The payoff-matrix is wrong
- Other reasons to cooperate, like future contacts to the partner.

However there are many examples, which show that partner firms are very often more committed to their own goals than to the shared goals of the alliance. In the case of a conflict of goals most partners decide for their own goals and abandon the alliance or – even worse – try to take advantage out of it. Such opportunistic behaviours include shirking, appropriating the partner’s resources, distorting information, harbouring hidden agendas, and delivering unsatisfactory products and services.<sup>37</sup>

To avoid the problem of being deceived, the literature offers two different solutions: Effective control mechanisms or another incentive structure.<sup>38</sup> The first approach aims at detecting the defecting and offers the possibility of an adequate reaction. The latter one aims at avoiding the defecting and making it unattractive. This can be reached for instance by contractual punishments.

Because of the serious risks linked to relational risk, it is one of the most important risks to consider when entering a strategic alliance.

### **4.3.7 Performance risk**

Performance risk is the probability that an alliance may fail even when partner firms commit themselves fully to the alliance. Das and Teng (1999) published a study showing that performance risk includes environmental factors, such as government policy changes, war, and economic recession, market factors, such as fierce competition and demand fluctuations, and internal factors, such as a lack of competence in critical areas, or sheer bad luck.

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<sup>37</sup> Das, T.K. and Teng, B.S., (1999)

<sup>38</sup>Gahl, A. (1991)

### **4.3.8 Strategic alliances might create a future local or even global competitor**

A strategic alliance always holds the risk that a strong competitor is created. When the companies exchange knowledge, skills and technologies, there is always the risk that one company can deal better with the new skills and grows to a strong competitor. A company has several different ways of limiting this risk. First it can decline to cooperate with others in the field of its core competency or main business. But this behaviour has also the disadvantage that the main business cannot benefit from any strategic alliance. The second possibility are contractual clauses that constrain future actions of the partner so that he cannot enter specified regions or industries.

The following case shows the problems and risks associated with global alliances:

The dangers of global alliances are evident in the case study of Anamartic, a UK semiconductor firm with a novel technology. Anamartic undertook a strategy of global alliance with a major foreign customer and supplier-manufacturer in order to access resources and achieve flexibility. Instead, the new venture found itself locked into a trajectory shaped by the needs of powerful corporate partners. The Japanese partner acquired technological competence and effective control over the intellectual property of the venture. The coupling from research and development and from production can create serious difficulties for the protection of intellectual property and the realization of its potential value.<sup>39</sup>

## **4.4 Key Success factors of strategic alliances**

As mentioned below in chapter 4.5, success can be measured by many magnitudes and dimensions like profitability, return of investments, stability of the total operating performance and so on. But this is not enough. Environmental, inner-organizational, cultural and human

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<sup>39</sup>Garnsey, E. and Wilkinson, M. (1994), p. 138

factors also influence the success of a strategic alliance in a enormous magnitude. If organizational arrangements of assimilations stay away or when transactions do not have a clear concept in the corporate policy, strategic alliances will show a low quote of feasibility. There exists always a nearly endless potential of conflicts – this has to be kept in mind all the time. As mentioned earlier in this thesis it is very difficult to assign a certain ratio of success to a partner. Therefore a certain distribution key has to be assessed.<sup>40</sup> As we have seen many strategic alliances failed in the past because of reasons the involved people did not think about. Thus there exist many key factors for the success of strategic alliances. The following shall give the reader an overview about the success factors starting with common factors and ending in more deeply ones.

As mentioned before, cultural conflicts may occur, which is a result of different company- and national cultures. To avoid those there has to be an open communication of all participants.<sup>41</sup>

An interchange of ideas will help to dovetail strategies, goals and procedures if conflicts occur. The companies should appoint employees who have the right instinct and experience to avoid misunderstandings.

Human aspects like motivation and clear future outlooks are also playing an important role. The rotation of in-house employees through the strategic alliance as well as the exploitation of cross-training opportunities are an efficient training tool and guarantee a permanent knowledge transfer. Information symmetries lower the possibility of opportunistic behaviour. A common strategy and a realistic appraisal of the achievable synergies is a basis for that. Clear objectives and targets have to be worked out together that ambiguities will not emerge. It has to be assessed which competence-areas shall work together and which division will be involved.

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<sup>40</sup> Bronder, C. (1993), p.107 et sqq.

<sup>41</sup> Krieger, C. (2001), p.70-73; Garai, G., (2001), p.601-605; Gumprecht, I. and Sjöholm, P. (1992)

Because of having a lack of control concerning the effort each partner puts in the strategic alliance, a situation of mistrust could emerge. Taking a long-term view of the alliance encourages a highly collaborative and trusting relationship early on, which is a precursor to a successful corporate marriage. The partners should assure a balanced amount of shared values if their initiatives are to succeed. So an equilibrium can be obtained if the distribution systems, the degrees of technology and the information networks concerning the sourcing and evaluation are as possible similar. It will be helpful to have one person as a contact address to avoid a wrong flow of information.

Reciprocative control helps on one hand to achieve common goals because an agreement of the partner is always necessary but on the other side it will lame the courses of business if the partners have unequal opinions.

In addition, many theoreticians and practitioners suggest a time-intensive search for the right partner, compatibility of the corporate culture and corporate policy, balanced ratio of costs and utility, control of the flow of information or the like to lower the potential of conflicts-but in reality there are still many more. So an alliance should allow continual change and should be structured with room for experimentation and pullbacks due to adverse marketplace changes. They also refer to a permanent analysis of alternatives concerning the strategies a company is focusing on, the type of the strategic alliance and the partner to complement one another. Therefore a company has to undertake market analysis as well as an appraisalment of the competition-situation. Each company has to know its market shares in a specific area not to underestimate the rivalry. Bleeke and Ernst showed in their study of 150 companies from different continents that only 8 percent of the strategic alliances worked out where the geographical market was the common factor.<sup>42</sup>

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<sup>42</sup> Bleeke, J. and Ernst, E. (1991), p.128

Defining and documenting clear objectives, performance benchmarks, and timetables for key milestones will bring forward the strategic alliance. Especially the documentation should be done with care: if important commitments of technology, equity and personnel are involved, there will be a call for extremely comprehensive written contracts that protect everybody. For instance, capital requirements, ownership parameters, employee incentive issues, access to future technology developments and a range of other considerations should be covered.

But mostly the management influences the success of strategic alliances.<sup>43</sup> The senior management has to formulate, implement, manage and monitor with its full commitment the company's overall strategic plans. Their impact as a leader is very important for the success of the strategic alliance. They have to make sure that the alliance receives all necessary resources and have to convince others throughout the organization of the importance of the alliance. "Good partnerships, like good marriages, do not work on the basis of ownership and control. It takes effort and commitment and enthusiasm from both sides if either is to realize the hoped-for benefits."<sup>44</sup> Partnerships of companies whose management philosophies, strategies and ideas are most similar will, of course, bring a higher survival-possibility than those, which have different views. The management has to be effective and strong, but they have to start with simple alliances and then have move to more complex ones. Therefore they must create an environment of trust. A development of relationship-networks is maybe a useful beginning. As said earlier, the goals have to be well defined and somehow measurable, for instance by measuring the market share. In order to succeed, the alliance must be always assessed and evaluated against short-term and long-term objectives. Independent of the relationship of the partners and of the merging of separate corporate cultures, the management has to make sure that alliances are aligned with the company's strategy. Clearly defined and shared goals

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<sup>43</sup> Elmuti, D. and Kathawala, Y. (2001), p.209-215

<sup>44</sup> Ohmae, K., (1992), p.483

and objectives should be the result out of it. But synergies only result over the time. To avoid a climate of disappointment the management should not overestimate the desired synergies and should show a big engagement that all employees will feel the success. There has to be a clear link between the industry's future and the fit of the alliance into that plan where every partner clearly understands his role. A McKinsey study found that 50 percent of alliance failures are due to poor strategy while 50 percent are the result of poor management.<sup>45</sup> The planning, commitment, and agreement are essential to the success of any relationship, but to learn about the planning steps towards an overall strategy we want to refer the reader to chapter 4.1.2 (The evolution of strategic alliances). It is also quite necessary for companies to compete on the growing international market – so cooperating on a global level and building up international relationships will facilitate the process of global competition.

The ability of cooperation is influenced by many factors: it will increase through a trust-aiding behaviour as said before, through a decentralised form of organization and by appropriate management systems.<sup>46</sup>

Trust is the recipe to achieve reciprocal advantages. Therefore the employees have to be motivated. They have to realize that a strategic alliance in comparison to an acquisition or going alone makes it possible that the own company or some departments risk a step forward beyond internal borders to achieve new spheres and stay competitive. Because a strategic alliance is not a static entity, it is a consecutive process of negotiations. The motto is “learning through conflict and consensus”. To deal with the reciprocal approach, values like patience and calmness are necessary to have.

The leading- and organizational structure has to be adapted to the different mentalities. Bureaucratic structures and systems hamstring the

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<sup>45</sup> Alliance Management, 14<sup>th</sup> April 1999

<sup>46</sup> Bronder, C., (1993/2), p.20-27

handling of conflicts as well as the handling of learning behaviour of the employees. In a decentralized organizational structure the employees have creativity- and innovation-aiding climate, in which they can act independently. If there is a good communication structure a quick exchange with the leadership will be possible. Also the chosen legal form of the alliance as well as the organizational form influences the flexibility of a strategic alliance. Limited liability companies are characterized by a high autonomy of the leadership and a better handling of the shares in the business. Beside the legal form the degree of integration influences the breadth of cooperation abilities. Concerning the conjunction of divisions is a holding therefore better than a matrix structure.

The factor of appropriate management systems deals with controlling-, personal-, and incentive systems. If those systems are built flexible enough, a cooperation between the divisions will be accelerated and increase the success of cooperation. How intense the conjunction of the different management systems shall be is dependent on desired size of autonomy of the cooperation. Controlling systems provide the alliance with necessary information to formulate strategic programmes and also with measures to control the implementation.

On the other hand controlling systems constitute formal communication networks of the organizational entity. The dimensions of configuration have to be clear, i.e. the management has to take into consideration the reference towards the object and time, function and form of institutionalisation. It is to clarify which flows of resources shall be detected, on which time horizon shall be focused on (the longer the more abstract the information), which techniques shall be used for information processing and type of transfer and on which management level shall the controlling system be installed. Strategic and operative goals have to be well defined in the sense of milestones for the development of the cooperation. The deviation between certain measurements shall be transparent to formulate hypothesis about the reason of appearance. Personal systems help to select employees under cooperation-specific requirements to finally increase the ability of cooperation. Traditional values and experiences of old-established

executives guarantee the transfer of competences into the strategic alliance. The managers have to ensure the learning through conflict and consensus, the change for innovation, have to negotiate with values like sensibility, patience, curiosity, humility and risk-willingness, and have to occupy inter-cultural competence. A certain amount of power inside their companies is necessary to implement changes quickly and effectively. Clear career planning and further training are essential because managers should have future visions and have to know that their jobs are secured in any case. The goal of the personal development is that the employees are able to manage future tasks and that they are up to all requirements. The involved persons have to be well prepared in meeting new and changing business policies. In addition, certain incentive systems also increase the ability for cooperation. In terms of strategic thinking, the payment to the managers will be dependent on the success of the partnership. Thus an enthusiasm in the sense of “spirit of cooperation” will be created. The strike for a goal is the configuration-factor for prudential incentive system. The success will be then readable on incentive-factors, for instance development of innovations, behaviour patterns, time periods and other economic factors. It has to be arranged on which hierarchical level and in which division the incentives shall reach. Finally a decision about the compound of monetary and non-monetary payments is required. The partners always have to control that their incentive systems harmonize. They have to keep in mind that risks the executives have to take are in the beginning of a cooperation much higher than those risks that they have to manage inside of their company.

#### ***4.5 Control considerations***

Earlier, we have described how important managerial decisions are in order to lead the strategic alliance into success. Therefore we also described several success factors. However, in this relation we have to know what shall be continuously monitored and by whom. We will differentiate in this chapter between non-financial and financial control as well as the operating control.

As a non-financial tool we can mention the black box<sup>47</sup>, which gives a partner a sense of strategic control over the direction of the strategic alliance.<sup>48</sup> Control must be based on other dimensions than traditional legal rights and contracts. The involvement in the planning process as well as in the reporting process are examples for that. The better the assignment of people the more efficient the control works. Having euphoric people in the cooperation involved helps to put less control on them but more on other aspects. The involvement of executives in the board of directors who are active in the business implies a strong source of control and helps to pursue the partners' strategic intents. All responsibilities that were spelled out have to be monitored as well. There has to be also a monitoring mechanism regarding on the agreement of the parties how to share the output of the strategic alliance. The capacity of the strategic alliance in the sense of not losing money has to be controlled as well as any capacity expansion decisions. If a company has joint ventures in other countries, then the maintenance of price stability will be dependent on the capacity balancing of each joint venture, so that no one will be under pressure to export into other territories. There is also the type of a strategic alliance that works without investments. Those alliances work because of social contacts and interpersonal relationships but take a long time to establish. It includes social norms, expectations and appreciations of taking and giving. Taking a minority, cross-ownership financial stake in the partner can be seen as a complement to the social control not as tool to dictate own views.

In contrary, financial control must be as compatible as possible with both partners' control systems and needs, hopefully without installing two separate systems. In the short run the revenues have to be monitored in order to know about successful transactions in the market. But other factors have also to be taken into consideration. A continually reassessment is necessary to modify the strategic directions by obtaining early warning signals for instance when a new competitor

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<sup>47</sup> see chapter 4.1

<sup>48</sup> Lorange, P. and Roos, J. (1992), p.112-117

enters the market. A scanning of the environment is necessary. A planning committee should meet on a regular basis to discuss implications of changes in critical environmental assumptions. It has to be clear who monitors what as well as who is doing what inside the strategic alliance. If this takes place early enough ameliorating modifications can be instituted. Another issue that deals with the strategic programming is that reactions from the environment, customers and competitors have to be reassessed. Executives need to receive a clear delineation of their tasks and responsibilities to assess and monitor competitor and customer responses. Strategic budget expenditures also require careful monitoring. Surveillance is necessary because financial resources have to be held back in response to emerging strategic opportunities and to be able to apply sanctions.

While financial control holds managers accountable for a limited number of objective output measures, operating control recognizes that all sorts of events outside the managers' influence may affect their performance, for instance bankruptcy of a customer.<sup>49</sup> The operating control evaluates the managers' decisions and actions. While financial control would punish managers even during a recession, operating control may reward them. Financial control is less suitable in fast-moving industries with high levels of uncertainty but is always easy to implement and places the fewest demands on corporate management. Operating control involves qualitative and quantitative measures that capture the nuances of a particular business. To use operating control efficiently, managers have to be familiar with the businesses in the firm's portfolio and they need to have some experience. Operating systems require more interaction between corporate and business unit managers. Strategic planning sessions, operating reviews, capital budgeting discussions are nice examples how to observe managers' performance by the corporate management.

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<sup>49</sup> Collis, D. and Montgomery, C. (2001), p.633-647

“No control system can be assessed in isolation. Rather, its effectiveness depends on the degree of fit with the company’s particular set of resources and businesses.”<sup>50</sup>

## **4.6 The environment**

The following part relates to the legal environment, competitive restrictions as well as to trade barriers. Those aspects have to be taken into consideration when entering into a strategic alliance. The legal form of the strategic alliance has to be chosen by, of course, the partners.

### **4.6.1 Legal considerations<sup>51</sup>**

In a democracy the influence of political and legal norms sets limits to entrepreneurial behaviour. Norms are the result of social relationships of certain societies and their underlying ideals. The companies have therefore also to adhere also “non-laws” for instance good faith and morality. These are informal rules, which were built up and consolidated from the tradition and history of a society.<sup>52</sup> That is a general framework concerning the treatment of a partner, but which is also dependent on right-consciousness and right-handling of a society.

### **4.6.2 Aspects of anti-trust laws<sup>53</sup>**

Because the form of appearance of strategic alliances is very complex, it is difficult to determine abstract rules that appraise the legal competition. Strategic alliance will be entered because no partner would be able to achieve the aimed at targets with his own force or resources. But there is the problem that this association could be an instrument for segmenting or partitioning the market. This is the reason why competition authorities deal with that problem. Thus competitive restrictions have to be taken into consideration. International alliances

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<sup>50</sup> Collis, D. and Montgomery, C. (2001), p.640

<sup>51</sup> Krieger, C. (2001), p.205-207

<sup>52</sup> for traditional and social rules see chapter 5.4 (Cultural Fit)

<sup>53</sup> Kartte, W. (1992), p.401-420; Krieger, C. (2001), p.230-233

are conjunctions, which nurture reciprocal understanding in the areas of economic policy, corporate policy and mentality of the partner. Therefore their intentions have to be clearly acquired – will it be a positive, eligible cooperation or will negative effects occur? If a tuned behaviour exists there will not be any rediscovery-competition for the development and distribution of new technologies.

Nevertheless strategic alliances underlie regulations of competition. A company cannot cope with the research and development by itself because the product life cycle will be shortened more and more. Therefore a decision has to be taken whether a company is able to bear the expenditures by itself or not. Two dimensions have to be distinguished: the competition-proportion between the alliance partners and their market position in proportion to their competitors and thus to the whole competitive situation on a market. On the one hand, strategic alliances reduce competition or the stress of competition, for instance through price and quantity arrangements or through establishing an oligopoly on the world markets, but on the other hand there exists the possibility to use a certain know how in marketable solutions. Co-operations lead to a change of the market structure but are basically accepted. They are audited towards market control when they reach a certain size. There will not be any problem if the resulting market structure leads to a functional competition. Agreements that could lead to a limitation of competition between independent companies are in general forbidden. In demarcation to a fusion, strategic alliances contain elements of coordination-behaviour of independent companies as well as structural changing like building up a new company or the acquisition of stakes. In the opinion of the EU-commission strategic alliances can therefore be a dynamic competition factor, which accelerates the process of economic integration. Positive effect can be expected if huge investments are made to create new capacities. In general you can say that the EU-community law is more tolerant than national anti-trust laws. In this context we dispense with a detailed description of any national or EU law because this is transcending our actual theme.

National governments commonly use tariffs and trade restrictions to raise entry barriers for foreign firms and protect domestic producers from competition. One might get the impression that foreign competitors are held at bay in the grey area of the GATT (General Agreement on Tariffs and Trade) by always more inventive tricks, for instance by anti-dumping procedures and exaggerated local content regulations. Strategic alliances are often used to bridge over trade barriers by getting in cooperation with a company inside a protectionist country. These kind of strategic alliances could normally be harmless but against the background of the increasing protectionism they can be competitively problematic. It is therefore to prove how open the markets really are when judging strategic alliances.

If cooperation took into place, new standards through the synergic effects can be set. Thus strategic alliances can also establish new entry barriers.

### **4.6.3 Changes of market conditions**

Markets, which are the main environment for strategic alliances, are very dynamic. The market environment, in contrast to legal and social norms, could change rapidly. These changes are not always predictable, which influence both, the partners of a strategic alliance and also the alliance itself. The development can also be so large, that it destroys the basis for the alliance itself. Thus there will always be a certain dynamic in building and abandoning strategic alliances in the market and also existing alliances have to be adapted on a continuing basis.

# 5 Perspectives and Influences

## 5.1 Introduction

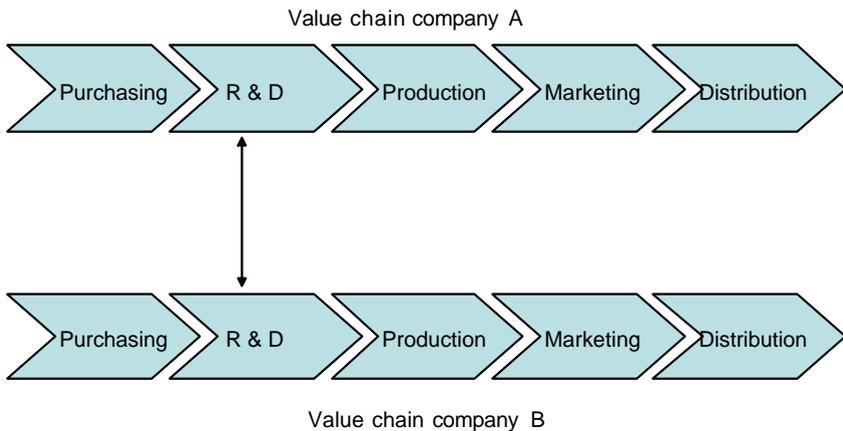
In the next part we will present different factors to distinguish different types of strategic alliances and the consequences following out of these differences. These factors will show the extreme heterogeneity of strategic alliances and the broad range of alternatives a company has if it wants to form strategic alliances. This will confirm that for a successful decision making a broader view is adequate. Some of these factors will be a kind of perspective how to look on and analyse strategic alliances. Others will be factors, which can be decided when forming an alliance. All have huge impact on the strategic alliance. To underlay these abstract and concrete practical examples will be presented. Also interdependencies between some of these factors will be shown. This will confirm the high complexity of this subject and will lead to a better understanding. The following factors are for sure not complete list but the most important are mentioned and the high number of influencing factors on strategic alliances will become clearer.

## 5.2 Horizontal – vertical – lateral

One way to look on strategic alliances is to distinguish them in horizontal, vertical and lateral. This differentiation is based on a market view. Investigated is the relation between the partners anent to the market. A clear distinction is obviously only possible if strategic alliances with two partners are analysed. Nevertheless the findings from this two-partner view are transferable to a case with more partners.

This factor is a kind of perspective. Companies have only sometimes the possibility to choose these categories. Especially between vertical strategic alliances and the two others, the possibilities to choose are very rare. The possibility exists only indirectly combined with in- or outsourcing. Horizontal and lateral strategic alliances are often substitutes. Normally the restriction of the existence of adequate partners for lateral strategic alliances is deciding.

Horizontal strategic alliances are defined as alliances between companies that are competing directly against each other on the same market. There are two main alternatives of horizontal strategic alliances. First simply one common step in the value chain could be put together.



### **Exhibit 7: Value chains in horizontal strategic alliances**

In this case the companies work together in one step of the value chain. Principally every step in the value chain is suitable to be integrated in a strategic alliance. The classic example in such a case is the cooperation in research and development. A lot of examples can be found there in practice. One newer example would be the cooperation between AMD and IBM in developing 65 and 45 nanometre structures for semiconductor technologies<sup>54</sup>. The development of such much smaller structures is extremely expensive and needs a lot of high-qualified employees. Therefore the benefits of this strategic alliance are obvious. Both companies will save costs by using economies of scale. Without this alliance both companies would have to do the same work alone. The saved costs are probably very high. The other main advantage that

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<sup>54</sup>www.heise.de

this alliance can probably achieve is due to a higher research capacity a faster development of the product or differently formulated a better product in the same time. These advantages are crucial in this high tech industry. Also such an alliance means a splitting of the risk, which is bounded with such a high investment. This might not be in this case so significant but there are a lot of examples in the high tech industry where the benefits of the expected product is not clear because there is no market before the product is introduced. Another important advantage of such an alliance in R & D is that partners can benefit from complementary abilities. The main motives of these strategic alliances in research and development are cost, time and risk advantages and entrance to better knowledge and technologies of the partner. The big advantage especially in high tech industries is obvious what leads to a very high number of strategic alliances with this conceptual design. Other examples could be the conjoint development of lithographic masks for small structured chips by Infineon, AMD and DuPont Photomasks. The list is easily enlargeable.

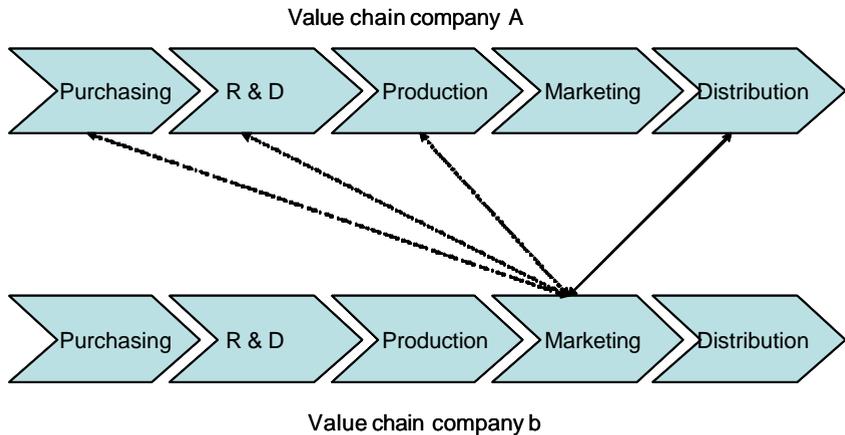
Off course R & D is not the only step in the value chain for such alliances. Especially named should be some other steps whose motives, benefits and risks differ significantly.

Horizontal strategic alliances in purchasing are very common too. The main motive in this step is saving costs. This form can be often found in mature industries with a high price competition. One good example can be found in the automobile industry. A lot of European car producers pool their supplies and buy a big amount of their overall purchasing together. The main advantage is that the car producers gain bargaining power and are able to force the suppliers to offer products with very small margins. The big danger in these strategic alliances is that especially in mature industries the companies could loose their ability to differentiate their products from their competitors. So the market and the products have to be monitored carefully. The Japanese car producers had to go another way because their outsourcing policy would make it more difficult to differentiate their products if they would pool their supplies. Especially Toyota goes another way of a network of vertical strategic alliances.

In the production such alliances can be found as well. Producing together could save costs by using economics of scale. Not necessarily the whole production has to be put together. Especially parts, which are standardised with a low differentiation potential and no big quality differences are predestined for such alliances because then the risk of convergence of the competition position of the involved parties is not there.

Strategic alliances can also be built around the value chain steps “marketing” and “distribution”. Examples can be found if the distribution is very expensive and the same marketing or distribution does not destroy the differences of the products from a customer’s perspective.

Another form of horizontal alliance is characterised through a different cooperation within the value chains.



**Exhibit 8: Value chains in horizontal strategic alliances without pooling of interests**

The difference of this form of horizontal strategic alliance is that the partners do not work on the same value chain steps together. It is more a complementary combination of the best practice at each value chain

step. In this case company B uses the better distribution system of company A and as consideration A uses the better marketing of B. The grey arrows would be alternative possibilities. This form can be found when a company wants to entry a new market. A company can use the distribution system of an existent company. Another example would be a small innovative company whose R & D division is used by an old big company with the right distribution channels. The motives of such forms could vary from entry in another market or access to technologies to simply usage of a better value chain step and therefore achieved cost advantages. Especially this form of strategic alliance can lead to a form of higher dependency than in relation to the previously described ones because a company, which uses the abilities of another company tends to ignore the improvement of their own abilities in this sector. Generally this problem can be reduced if the management is encouraged learning processes with the goal to learn from the abilities of the partner. If this is consequently done the dependency is could decrease.

The categorisation of these forms of strategic alliances is not really clear. The constellation can be seen as a combination of two alliances as described first. As well this form of strategic alliance could be seen as related to vertical forms because it would be possible to imagine the company B as two companies divided in one which does everything besides the distribution and another which only does the distribution. Then it would be a vertical strategic alliance. The frontiers between these forms are not really clear.

As last form of horizontal strategic alliance a less on the value chain focused form will be presented. The motive of influencing the competition can be achieved by horizontal strategic alliances. The companies can influence the competition in different ways. They can simply coordinate their prices or they can coordinate their markets with the consequence that in one part of the world only one company offers their products. One example would be the vitamin trust. The companies BASF, Hoffmann-La-Roche and Rhône-Poulec coordinated in the

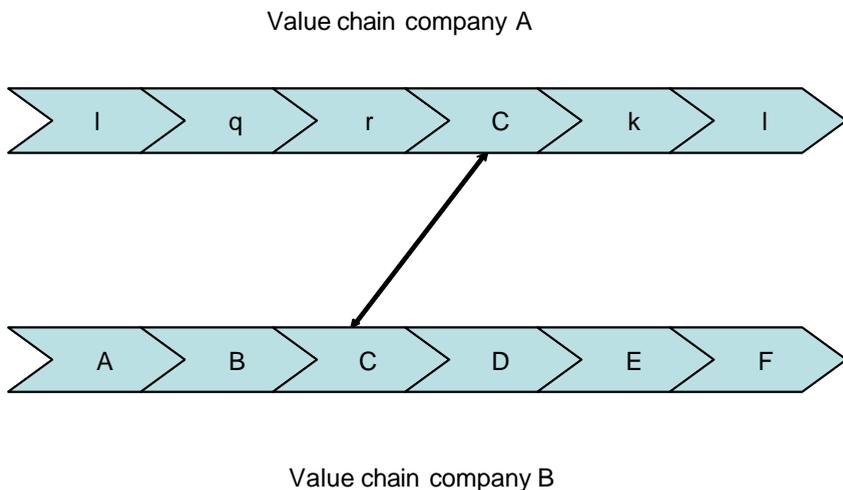
whole 1990s their prices<sup>55</sup> of vitamins and divided the world market and due to this abolished any competition. Such behaviour is in most cases illegal. Normally this building of trusts leads to financial consequences because of civil and competition law and it leads to penalties due to criminal law. So considering the legal environment is crucial for such alliances. Also such trusts can suffer from control problems and the attractiveness of the outsider position.

A big problem of all forms of horizontal strategic alliances is opportunistic behaviour of the involved parties. The involved companies compete per definition on the same market. Therefore the tricked company suffers double from opportunistic behaviour. First they loose knowledge or something else without real payment and then second this knowledge is used to compete against them. The problem which results from this risk is that companies in horizontal alliances might act with caution. For example they could not provide the partner the newest knowledge. The alliance could suffer from such behaviour extremely. Measurements, described in chapter 4.3.6 have to be done.

Another form of strategic alliance is named lateral.

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<sup>55</sup> <http://www.admin.ch/cp/d/38fd881f.0@fwsrvvg.bfi.admin.ch.html>



**Exhibit 9: Value chains in lateral strategic alliances**

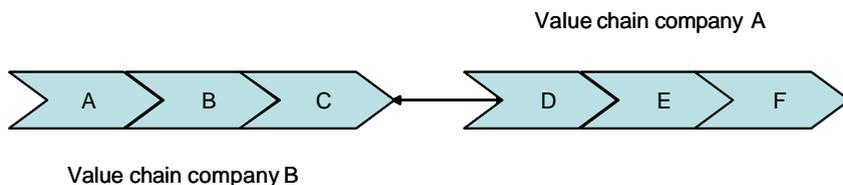
The lateral strategic alliance is characterised through two companies which have at least one common step in the value chain but are not competing on the same market. Sometimes the term diagonal is used synonym for lateral. The advantages and motives of this form of strategic alliance are very similar to the advantages and motives of the horizontal strategic alliance where the same interests of one common value chain step are pooled. The advantages, which result from alliances in the different value chain steps are principally the same as described before. The disadvantages and problems are different. The effect of the different markets, the partners compete in, is positive. The consequences of opportunistic behaviour are not as extreme as they are in horizontal alliances because normally a tricked company is not punished double. The partner does not compete directly against him. This opens the possibility for a more trustful less reserved behaviour. Of course this advantage is not given if the risk is there that the tricking partner is entering the other market.

The main problem of these lateral strategic alliances is that every value step of a company not exists necessarily in another company which is

not a competitor. And even if such a potential partner exists over time, problems may arise from a different developing environment. The risk of failures due to this is relatively high.

Examples for such forms of strategic alliances can be found in extremely different sectors. Banks and insurance companies often use the same distribution channels. Examples<sup>56</sup> are the Allianz and Dresdner Bank, Deutscher Herold and Deutsche Bank or ERGO and HypoVereinsbank. In each case the distribution step in the value chain is the same. Therefore a pooling of the distribution can save costs. Other very current examples can be found in the entertainment industry. The recently appeared movie Matrix reloaded was accompanied with the appearance of the Matrix reloaded computer game. In this case game producer and movie maker are using economies of scale in the production of the contents and in marketing. Such a big promotion as this game received would never be possible for a separate appearance.

Vertical strategic alliances are built as followed:



### **Exhibit 10: Value chains and vertical strategic alliances**

Vertical strategic alliances differ in some points fundamentally. No interests are pooled in this form of strategic alliance. The partners are in a supplier-customer-relationship. The vertical strategic alliance is characterised through a more intense relationship than it would be normal in other forms of strategic alliances. The main motives for such alliances are to achieve cost, quality and risk advantages. There are different forms of vertical strategic alliances to achieve these

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<sup>56</sup>Bauchspieß, Benno

advantages. Cost advantages for example can be achieved with concepts like just-in-time delivery or vendor-managed inventory. Both concepts aim to reduce the stock and save costs due to this. Supplier can benefit from the possibility to smooth demand because of better information. Quality improvements can be achieved by a better coordination of the supplies and the needs. Supplier development could be one form of this coordination. Supply risk<sup>57</sup> can be reduced by a fixed supplier relationship. Toyota has a lot of vertical strategic alliances. The lean enterprise concept of Toyota includes a big network of vertical strategic alliances.

Important for vertical strategic alliances is transparency. Without transparency a better coordination is not possible. This transparency requires trustfulness because transparency enlarges the risks of opportunistic behaviour. The gained knowledge of the other company could be used to apply more pressure on the supplier because of a disclosure of the price structure or the supplier could use the gained knowledge of technologies to work with competitors together. The risk can be decreased by dependencies. This at the same time enlarges the risk to suffer from inefficiencies due to lower flexibility. From a customer perspective the types of supply which are purchased from a partner of a strategic alliance have to be chosen carefully because the coordination is not cheap. Therefore products with a high impact on financial results should be chosen. A balanced relationship is more important in vertical alliances than in other forms. The benefits of vertical strategic alliances are very different for both partners. More than in different forms of strategic alliances it has to be always a win-win situation which is not always easy in a changing environment.

Strategic alliances as described before are very heterogeneous. From this heterogeneity results a high complexity and difficulties if advices for forming strategic alliances are questioned. The plenty of alternatives only offered by this market perspective gives a picture how difficult it is to form a successful strategic alliance.

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<sup>57</sup> the risk to be out of supply

### 5.3 Input and Output of resources<sup>58</sup>

A very theoretical, abstract and unique framework concerning the classification of strategic alliances was developed by Lorange and Roos. This framework is then applied to the formation and evolution of strategic alliances as well as to general management processes. They distinguish between generic motives for strategic alliances and four different archetypes.

|  |            | Business market position |             |
|--|------------|--------------------------|-------------|
|  |            | Leader                   | Follower    |
| Strategic importance in parent's portfolio | Core       | Defend                   | Catch up    |
|  | Peripheral | Remain                   | Restructure |

#### Exhibit 11: Generic motives for strategic alliances

As can be seen in the figure above a company has to contemplate the strategic importance of one business within the strategic alliance and how it fits into the overall portfolio. Is this business part of the core activities or is it more peripheral? The core activity of IBM, for example, is the computer business while producing displays for mobile phones is seen as more peripheral activity. Is the firm's position in that business a leader or more a follower? For instance a leader may have a larger market share, a leading technology or superior quality. Four different generic motives for entering into a strategic alliance emerge when looking on the two dimensions- defensive, catch up, remain or restructure.

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<sup>58</sup> Lorange, P. and Roos, J. (1992)

|                              |            |                                      |                                     |
|------------------------------|------------|--------------------------------------|-------------------------------------|
|                              |            | Parents' input of resources          |                                     |
|                              |            | Sufficient for short-term operations | Sufficient for long-term operations |
| Parents' retrieval of output | To parents | Ad hoc pool                          | Consortium                          |
|                              | Retain     | Project-based joint venture          | Full-blown joint venture            |

**Exhibit 12: Archetypes of strategic alliances**

Here the questions occur how many resources have been put in the strategic alliance and retrieved from it. On the one hand a parent may take back all the resources that have been generated through the strategic alliance, for instance financial profits or managers who have worked in the alliance for a project, or on the other hand generated output may be retained in the alliance itself. Then the question arises whether the strategic alliance is aligned to have short-term or long-term operations. The longer the operation will take place the more resources will be put in. Again, four different archetypes of strategic alliances are pointed out when looking at the two dimensions:

- The ad hoc pool in which the parties put into the strategic alliance a minimum of resources, often on a temporary basis; the generated resources will bill plowed back into the parents' own houses.
- When looking into a full-blown joint venture, the amount of resources that is put into the alliance is much higher and the generated resources will be retained in the alliance itself
- In the consortium-type the parents are willing to put in more resources, but still the value created inside the strategic alliance will be disbursed back to the parents.

- Concerning the project-based joint venture, it is exactly the other way around, compared to the consortium-type.

It would go too far here to discuss deeply the motives and archetypes but the common framework should be understood. There is to say that those two frameworks are also linked together, for instance in the project-based joint venture only few resources are put in by the parties, the gained resources are being retained in the particular joint venture and we can talk about being a leader in the particular business segment but which tends to be a peripheral one in the overall portfolio strategies of the participating firms.

Earlier in the thesis we talked about the formation of strategic alliances and mentioned keywords like strategic match, stakeholder blessing, strategic plan and internal support. These four issues can be applied to the four different archetypes.

When we are in an ad hoc pool strategic match problems occur if one partner tends to be an established entity and the other partner an entrepreneurial one. In relation to the stakeholder blessing the threat of takeover arises if the partners have different sizes. Concerning the strategic plan the partners have to look after the compatibility of resources in the way complementing each other. When talking about the internal support several meetings in that stage are necessary.

In the case of a consortium the strategic match includes complementarities between more or less equal partners to achieve congruence. For a stakeholder blessing an involvement of the key people is necessary while cooperation among the partners is essential when mentioning the strategic plan. To ensure internal support a good flow of information and an interaction among the partners is crucial. A balanced input-output-ratio of resources has to be reached.

The project-based joint venture is used to enter into a new market area. To provide the strategic match the partners have to find enough overlapping between their perceptions without feeling threatened. The exposing of strengths helps them to overcome any fears of a win-loose

scenario. To develop a business plan an establishment of complementarities between the parties and the security for competitiveness are quite necessary. Securing internal support deals with the delineation of the tasks who is doing what. The output can be measured by profit and sales.

The strategic match in a full-blown joint venture deals with the equality of each partner. They need to have a clear understanding of the nature of the catch-up situation. All stakeholders have to realize that this cooperation is “the way”. To provide a working strategic plan the parties have to put in all of their business activities into the alliance. Therefore a careful assessment of how the combined entity should be reconstructed is needed. The tasks of the management become here more and more important. The output can be measured by the return on investment, market share, costs, revenues and so on.

By that description a clear course towards the necessity of the managements’ tasks and the deep linkage between the involved parties in the way of taking many aspects into consideration can be seen.

A good example, which explains the importance of the formation process, is the telecommunication sector. One can notice that the formation of strategic international alliances to meet the needs of transnational clients represents an important step in the internationalisation process of companies in the telecommunication sector. The operation of the corporate networks of client companies, without solving continuity within the heterogeneous union of associated supplier networks, requires that the suppliers' service systems are closely integrated on an international level. On a worldwide level, the move towards alliances is wide-ranging. The most well-known alliances are Concert (uniting the American MCI with British Telecom), Atlas (Deutsche Telecom and France Telecom, and others) and the World Partners alliance. The latter currently includes AT&T, Singapore Telecom and the Japanese KDD among its leader.

The evolution process can be also applied to the evolution within and between the archetypes. In the case of an ad hoc pool one can expect

the parties to deal with ameliorating issues on their own. They have to secure continuously their leadership position and each of them has to improve in a better way.

Additionally, in a consortium type each partner has to play his complementary role and the strategic alliance is seen as a contract-regulating institution where the involvement process takes place as describes in the chapter of evolution.

In the project-based joint venture the learning of common organizational issues takes place. The partners have to become more efficient in coordinating the uses of resources and they have to adapt new opportunities. But the death rate is that stage is quite high. Managerial and human aspects as described in the chapter about success factors play therefore an important role.

The evolution in the type of a full-blown joint venture includes high efforts in the way of making a strategic alliance successful. If the strategic alliance does not work properly each partner will end in a situation of financial ownership that can be used as an exit mechanism.

The evolution between the archetypes is dependent on how the parents see their resource positioning and their strategic position. This evolution process takes place because of the parents' shifting perspectives. In the case of a shifting from an ad hoc pool towards a consortium type the alliance is loosing its business leadership position and becomes a follower. But actually this shift does not imply the move towards a follower. In practice, a strategic alliance can still be in a leader position while putting in more resource in connection with a long-term orientation. There is the potential to win through further operations. A shift from a project-based joint venture to a full-blown joint venture implicit the same as before but of course with the difference that the output will be retained in the alliance. A change in the way of handling the parents' retrieval of output can be seen in a move from an ad hoc pool to a project-based joint venture or from a consortium to a full-blown joint venture. The issue is of course to retain the resources. This has to do with a re-prioritisation of the business in

the portfolio because the core competencies do not tend to be maintained through the strategic alliance. Thus we can see a development from core to peripheral. Because of life-cycle considerations we suggest that the firm should redeploy its core competencies into new core businesses. The last possibility in that evolution could be the development from an ad hoc pool to a full-blown joint venture via the consortium or the project-based joint venture. The importance of the business within its portfolio will be reclassified and a facing up to the deterioration of the business's competitive position is crucial. In that context there is to say that the evolution process is dependent on the product life cycle of a specific product. If the product becomes a commodity, there will be less a problem with the creation of an independent entity.

Another aspect dealing with the archetypes is the management process especially the planning and control for the four archetypes. Several factors can be allocated to each archetype. The authors presume that one partner is large and well established while the other one is small and entrepreneurial. To develop a strategic plan in an ad hoc pool a focus on creating clarity regarding the compatibility of efforts, technologies, tasks and so on is necessary. Difficulties regarding definitions of standards and cultures as well as the formalization of the organization (versus the entrepreneurship) need to be captured in planning this ad hoc pool stage. The same issues apply to the case of a consortium. Here the parties tend to be more even in size as mentioned before and the consortium is larger in its scope than the ad hoc pool. It is important to know how advantages of scale and scope can be achieved and also by whom. The planning recipe for the project-based joint venture is to develop "a sense of planning to allow the know-how exchange through the skeleton entity with a minimum of efforts and with no more additional resources than intended. The planning emphasizes training, institutionalisation of know-how transfers as well as servicing routines."<sup>59</sup> The planning in a full-blown joint venture

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<sup>59</sup> Lorange, P. and Roos, J. (1992), p.118

equals the planning in full-blown organisation, which has been created through a merger.

You can see that the model has a distinct picture of the size relations and we think that it is only applicable if these prerequisites are fulfilled.

You can see the development of planning processes through the four archetypes takes into consideration more and more aspects as described commonly in the evolution-, motives- and success factors for strategic alliances.

Concerning control measures in an ad hoc pool it has to be observed whether the intended output from the pool efforts has been achieved or not. Setting control points, for instance checking the level of customer satisfaction and monitoring the market share, is a helpful tool. These types of control measures are also appropriate in the case of a consortium. In addition, resource utilization becomes crucial as well as the equity ratio of the partners. In a project-based joint venture the focus is on performance outputs of financial nature, for instance costs, sales and profits. A control of the strategic fit is required here. For further details we refer the reader to chapter 4.1.2.3. Control measures in a full-blown joint venture are calculated with the return on investment coupled with other control measures as described for the project-based joint venture. Other factors like business climate, movements of the competitors and reactions for customers are involved because it is essential to pay attention to environmental factors and circumstances to let the strategic alliance succeed in its long-term business intention.

There is also the need to tailor the planning and control approaches. If a business position is strongly combined with a core portfolio strategy the emphasis will be on the development and maintenance of the black box position for one part<sup>60</sup>, i.e. a defensive strategic intent. If the strong business position is coupled with a peripheral portfolio role the

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<sup>60</sup> mentioned in chapter 4.1.2.3

emphasis will not be on non-financial controls, so senior management involvement is limited. Planning and financial control combined with strategic programming efforts are needed to reach the strategic intent.

In contrary, if there is a weak business strategy position combined with a core portfolio strategy the emphasis will not be any more on the black box dimension, i.e. catching up strategic intent. If we have a weak business strategic position coupled with a peripheral portfolio role there will be neither much non-financial control nor many attempts to establish a black box position. Planning and financial controls consistent with the size and complexity of the task are relevant. If the strategic alliance is quite large and complex, formal planning and qualitative control will take place. If it is quite a small one non-financial control will be used.

Too little planning effort is often used by the stronger partner for a takeover. It is the task of the management how they shift their emphasis on control over the time because there is the need to change the financial control form from physical to a more decentralised one.

When mentioning the human resource management function it includes the assignment and motivation of people to create a fine value within the strategic alliance. Attention is required on job skills, communication compatibility, coordination and so on. Human resources have to be managed strategically in order to sustain and enhance their competencies. A successful allocation of people is essential to bring the strategic alliance on the right way. A transmission of the human resource management function to the different archetypes is, of course, possible. In the case of an ad hoc pool the executives have to see their assignment only in the short-term with clearly defined goals. A long-term career planning will not take place in that situation. The human resource function will be carried out by each partner and must be well coordinated as in any other case. One might find a huge number of involved executives in the consortium type. They need to encompass flexibility, sensitivity to various cultural settings as well as the ability to adapt new colleagues. All parties must find ways to cooperate. A good example is large engineering consulting firms assigned to various

construction projects. In project-based joint ventures individual or group work is required but without much supervision or demand additional support like any kind of input of a parent. The managers can be seen as skilled entrepreneurs. Each partner will deal the human resource function, with a good coordination, independently. In the case of a full-blown joint venture one is being assessed how well the strategic alliance works. Strong and fully-fledged managers as well as such a human resource management function have to be established. The executives have to work closely together and shall not forget the development of new human resource capabilities.

It is quite simple to see how important human resource management becomes when dealing with the four archetypes.

This part shows how small differences in the intention of the strategic alliance lead to bigger consequences in nearly all other for strategic alliances relevant areas as described above. This reflects the high complexity of this subject and confirms the difficulty to give advices for forming strategic alliances. Also the interweavement of the relevant aspects of strategic alliances can be recognised.

## **5.4 Cultural Fit**

The cultural aspect of a strategic alliance should not be underestimated. The failure of an alliance between the producers of tires, Dunlop and Pirelli, in the year 1981 can be traced back to cultural incompatibilities.<sup>61</sup> In this particular case, the management was unable to find a synthesis between the English and Italian culture. Management means, to delegate many tasks to other persons. In order to do this successfully, you have to know which tasks have to be fulfilled and which employees are able to execute this task. In order to understand these persons, the manager has to know their cultural background, which determines the future behaviour of these persons. Thus the willingness of both partners to accept the geographically and policy-

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<sup>61</sup> Bronder, C. and Pritzl, R. (1992), pp. 36-40

grown culture of the other one is vital for a successful and long-lasting cooperation. Hence the goal has to be, to find a cultural fit by a compatible system of shared values, stiles and cultures while considering the national peculiarities.

“When challenges by the presence of differences, culture becomes much like the air we breathe: We begin to take it for granted. We think about the air only when it is taken away, and we think about culture only when the familiar behaviours we learned during our socialization fail to help us achieve our goals in different social settings.”<sup>62</sup> Consequently, culture is a very broad concept and it is very hard to find a reliable definition. Ajiferuke puts it: “Culture is one of those terms that defy a single all-purpose definition, and there are almost as many meanings of culture as people using the term.”<sup>63</sup>. Thus there are many different definitions of culture. In this thesis, we will use one of the broadest ones, which was first used by Kroeber and Kluckholm<sup>64</sup>:

- Culture is made by humans;  
It is the result of collective thinking and acting.
- Culture is and interindividual phenomenon;  
A group delivers it, but its existence is not bound to the existence of a single individual
- Culture is acquired;  
Therefore culture is also called the “social heritage” of a society
- Culture is transmitted by symbols and manifests itself in these
- Culture determines the individual’s behaviour;

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<sup>62</sup> Brislin, R. (1993), p. 169

<sup>63</sup> Ajiferuke, M. and Boddewyn, J. (1970), p. 154

<sup>64</sup> Kroeber, A.L. and Kluckhohn, P. (1952), p. 181 et sqq

It encompasses all rules, norms, and codes of behaviour, which affect the behaviour of its members.

- Culture strives for internal consistence;  
i.e. that a society tries to be free of inconsistent beliefs, norms and codes of behaviour
- Culture is a tool  
It is a tool, a society uses to adapt to its environment. It provides every individual with methods and tools to deal with the everyday problems.
- Culture can be adapted  
Cultures underlie an adaptive process. Cultural systems tend to adapt itself to a changing environment

In the literature, the topic of culture in strategic alliances and especially its importance is heavily discussed. On the one side, many authors claim that in a company, the behaviour of individuals has to be rational and that there is no room for cultural differences.<sup>65</sup>

On the other side are authors that claim that there are many different cultural environments, which determine for example the understanding of time or the optimal way of working.<sup>66</sup>

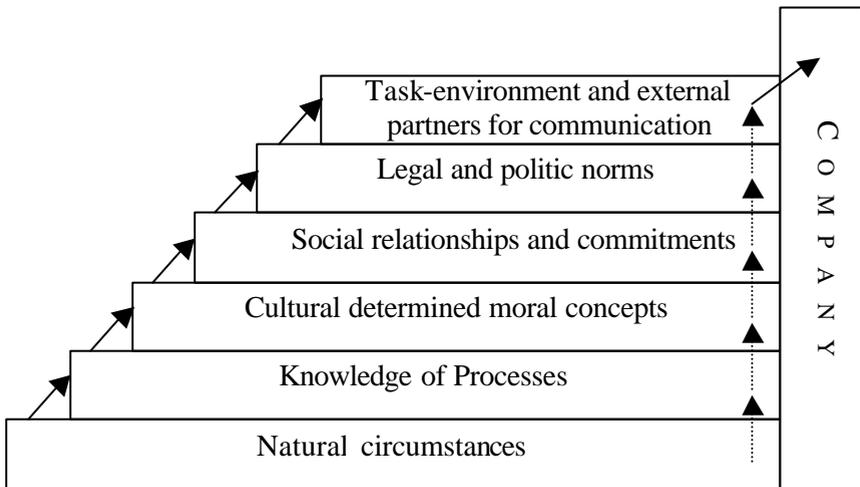
One of the most famous examples for this debate is the discussion if the so-called “Lean Management”, which was made popular by the “International Motor Vehicle Study” of the MIT (Massachusetts Institute of Technology), is universally applicable. The study shows how Japanese automotive producers used the help of a combination of

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<sup>65</sup> Negandhi, A.R., (1985), p. 69-97; Harbison, F. and Myers, Ch.A., (1959); Vroom, V.H. and Yetton, P.W. (1973); Koontz, M. & O'Donnell, C. (1976)

<sup>66</sup> Roberts, K.H. (1970); Triandis, H.C. (1972); Bass, B.M. and Burger, P.C. (1979); England, G.W. and Negandhi, A.R. (1985); Laurent, A. (1981); Hofstede, G. (1980); Park, K.K. (1983); Ronen, p. (1986)

instruments to gain considerable advantages in productivity. It is heavily discussed, if this combination can be used in Europe too. Some authors like Pfeiffer and Weiss<sup>67</sup> do not see any problems; while others like Klimecki and Probst<sup>68</sup> argue that not the instruments are the best at Lean Management, but the culture-specific character of Japanese Managers and workers who can always be committed to continuous improvement. Thus there are many influences, which have to be considered carefully. To be able to do this systematically, we will use the layer model of the environment by Dülfer<sup>69</sup>.



**Exhibit 13: Vertical cut through Dülfer’s layered model of the environment<sup>70</sup>**

This model shows how cultures develop and how different parts of the culture influence each other, starting with the natural circumstances and ending with the cultural influence on the company. Each of these layers

<sup>67</sup> Pfeiffer, W. and Weiss, E. (1990)

<sup>68</sup> Klimecki, R.G. and Probst, G.J.B. (1993), p. 260

<sup>69</sup> Dülfer, E., in: Pausenberger, E. (1981), p. 197 et sqq.

<sup>70</sup> Dülfer, E. (1995), p. 218

influences the other one – either directly or indirectly through other layers. In the following we will have a more detailed look into each of these parts.

### **5.4.1 Natural Circumstances**

The fact that natural circumstances are vital for the success of a company is beyond all questions. The natural environment with its topology, the availability of vital resources and the climate build the basis for the culture – and thus also for the success of a strategic alliance. The country's influence is the most obvious one, because the country offers the basic resources for a good efficiency and production. But there are also less obvious influences like the infrastructure.

### **5.4.2 Knowledge of processes and cultural determined moral concepts**

Every society has found different ways and solutions to manage the forces of nature and climatic conditions. Due to these different circumstances, many different views on the world and many different religions developed. These solutions build the basis for all processes and ideas in business. It has influences on the way of communicating, the way the individual is seen, the way time is sensed, and, as mentioned before, on the religion.

In everyday business of strategic alliances problems with intercultural communication occur very often, for instance when managers from different countries meet in negotiations. Thereby it can be seen that especially in long-lasting projects, problems in intercultural communication can have big negative consequences for the whole project. To get a deeper understanding of the foreign culture, it is inevitable to learn the foreign language. The other language is not only a medium for communication, but represents also a part of the foreign culture. Even the usage of a translator does not always help because many words do not have a perfect translation in other languages. The translator is also a good example for cultural differences. Western managers see a translator as a “black box” and expect a neutral translation of the words. In other cultures, as for example Japan, very

often the translator has a dialogue with the receiver of the translation. Japanese expect a translator to translate not only the words, but also the “non-spoken” communication like gestures. Thus a good communication is very delicate and important during negotiations and strategic alliances.

Another very well known difference is the view on the individual. While western cultures tend to see the individual as the most important part of the society, many Asian individuals see themselves less as an individual, but more as a part of a collective. It is very important for the international management if a culture is primarily individualistic or primarily collective. Negotiations, motivations, and decision-making have to be adjusted to these local circumstances. These differences can be seen in a recent study. Individuals from 38 countries were asked, which method of working they prefer:<sup>71</sup>

- Everyone is his own chef. Every individual decides the most on his own and works most of the time alone.
- Work takes place in the group and everyone helps the other. Decisions are made by considering the opinion of every group member.

Only 12% of the French and 14% of the Germans were able to see themselves in option B, while 64% of the Japanese identified themselves with this solution.

Thus there can be big problems in decision-making and also during work when Germans or Frenchmen work together with Japanese.

The next difference can be seen in the sensing of “Time”. When western people have to describe past, present, and future, they describe them as a sequential progression, while Japanese see them more cyclic or “polychronic”. Western societies see time as a priceless resource, as

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<sup>71</sup> Trompenars, F. (1994)

can be seen in the saying “time is money”. In contrast, Asian cultures tend to see time as an indefinite, boundless resource. This can lead to misunderstandings in everyday business life. For instance in western cultures everyone is expected to be on time and to finish his work according to the deadlines, which were set before. In Japan, time is not seen as that important. Thus the priority of tasks can be estimated differently. Also the “adequate” duration of negotiations differs. Western managers often get nervous and want to end the meeting, while the Japanese side wants to take more time. This can be seen as an advantage of Japanese negotiators, because they can use this to get in a better position. These misunderstandings can complicate the relation to foreign partners.

Another difference is the religion. Today, religion loses more and more importance, but it still shapes a society’s values. An examination of different religions would be too long here, but it is very important to keep differences in religions in mind when interacting with people from other religions.

Concluding there are many different problems that can occur on this layer of the model and all have to be addressed carefully when interacting in order to avoid offences or misunderstandings.

### **5.4.3 Social relationships and commitments**

On the basis of cultural values, social relationships are built. The individual is living in a social environment and tries to live up to his own expectations and the ones of the culture. Thus a manager has to be informed about the background of everyone he has to lead. Some of the factors, which can influence the relationship, will be examined here.

#### **5.4.3.1 Power Distance**

Power distance is defined as "the extent to which the less powerful members of institutions and organisations within a country expect and

except that power is distributed unequally".<sup>72</sup> The power distance concept is clearly more far-reaching than the work place alone. The power distance is often reflected in the hierarchical organisation of companies, the respect that is expected to be shown by the student towards his teacher, the political forms of decentralisation and centralisation, by the belief in society that inequalities among people should be minimised, or that they are expected and desired.

Examples of countries with a high power distance include Mexico, the Arab countries and India. Countries that score a low power distance are, for example, Israel, Sweden and Ireland. Also within Europe big differences can be found. While Germany and Sweden are countries with low power distance, France has a very high one. These differences can also lead to misunderstandings.

#### **5.4.3.2 Labour Unions**

One completely different point is the role of Labour Unions. Between the countries exist many differences in their attitudes towards labour unions. The goals of the unions do not differ much, but the way they pursue them. In Western Europe the Unions have more powerful lobbies, which try to influence the local politics. Another difference is the probability of strike. In individualistic countries, the unions organize strikes more often than for instance in Japan. In 1993 German companies lost 593 000 man-days, while Japanese companies lost only 116 000. Another difference is that a member of a Japanese union does not lose his loyalty to his employer.

#### **5.4.4 Legal and politic norms**

It is no surprise that laws differ between the states. This is a very obvious fact and it is rather easy to deal with this because normally laws are written down in some way. This problem is easy to see and easy to solve by gathering information about the foreign legal system, especially about:

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<sup>72</sup> Hofstede, G. 1980, p. 28

- Rights of the individual in family and state
- The different forms of cooperation
- Competition law and commercial law
- Rights and duties of the partners
- Laws for the relation to employees including the role of labour unions
- Regulations for foreign trade
- Tax laws

But there are also problems, which are more hidden; for example, law has another significance in Japan than in western societies. In western societies courts solve conflicts, while Japanese managers tend to avoid conflicts in advance.

### 5.4.5 Task-Environment

This is the result of the before-mentioned aspects of the cultural differences in strategic alliances. It encompasses the entirety of all business relationships. Unfortunately this can only be examined for particular partners.

### 5.4.6 Conclusion

Krieger examined the cultural influences on strategic alliance in theory at the example of France, Germany and Japan and showed the results in a life-phase-matrix:

| Factor\Phase | Strategic Decision and Configuration |         | Choice of the Partner |         | Management |         |
|--------------|--------------------------------------|---------|-----------------------|---------|------------|---------|
|              | Ger-Fra                              | Ger-Jap | Ger-Fra               | Ger-Jap | Ger-Fra    | Ger-Jap |
|              |                                      |         |                       |         |            |         |

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| Natural Circumstances   | 2 | 2 | 2 | 2 | 3 | 3 |
| Knowledge of Processes and cultural determined moral Concepts | 3 | 3 | 3 | 2 | 2 | 1 |
| Social relationships and commitments                          | 3 | 3 | 3 | 2 | 2 | 1 |
| Legal and politic norms                                       | 2 | 2 | 1 | 1 | 2 | 2 |
| Task-Environment  | 2 | 2 | 2 | 2 | 2 | 2 |

Rating for the success of a strategic alliance:

1 = very important

2 = important

3 = inferior significance

4 = no significance

**Exhibit 14: The importance of the different layers in different phases<sup>73</sup>**

This matrix shows that there are no irrelevant cultural factors when building and managing a strategic alliance. The differences in relevance

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<sup>73</sup> Krieger, C. (2001), p. 246; the original matrix is more detailed, but we did not want to go too far into detail and thus calculated the means of the more-detailed values.

between forming an alliance between a German and a French and a German and a Japanese company are very low.

The first factor, the natural circumstances loose relevance, when the alliance evolves. The reason is that there is no way to change the circumstances, once the alliance is built up. The second factor, the “knowledge of processes and cultural determined moral concepts” is gaining relevance over time. The same applies for “Social relationships and commitments”. During the formation of an alliance, these factors play a small role in the process because the obstacles they hold can be overcome. But once the alliance is formed, they have to be considered carefully. The last two factors, “Legal and politic norms” and “Task-Environment”, have to be considered carefully in every phase of the alliance.

According to Bleicher (1989) Top Managers can address all these problems by

- Sending managers into the alliance to gain intercultural experience
- Competence and impartiality of deployed employees
- Offering awards for successful alliances

After all the it is very important to recognize the cultural differences:

“If we fail to recognize cultural differences and choose to maintain staunchly ethnocentric approaches, we condemn the world to divisiveness and its own demise [...]. Corporations can use their transnational status, their creative public-private partnerships, and their ever-growing network of alliances in ways that benefit and enrich their

worldwide constituencies or in ways that impoverish us all. The challenge is immense. The importance is without bound.”<sup>74</sup>

## **5.5 Exchange – Integration**

This part distinguishes strategic alliances using the way resources are shared between the partners. Although resources play a central role in the formation of strategic alliances, conventional theories on strategic alliances have tended to emphasize structural elements within the alliances, such as market imperfections<sup>75</sup> or control mechanisms<sup>76</sup> rather than the resources themselves. These conventional theories explain the circumstances under which resources should be obtained from strategic alliances, as opposed to being bought from the market or internalised within the firm. These theories say little about “how” the resources should be shared.

Basically, we distinguish between two kinds of resource-sharing schemes in alliances: the first being the case where a partner offers a resource in exchange for another resource from the counterpart, the second being the case where both partners pool their resources for a common purpose.

The first can be referred to as an ‘exchange alliance’, within which resources are first exchanged and then utilized independently by each partner. In exchange alliances, although the objectives of the partners are distinct, nevertheless they cooperate in some way to achieve their respective objectives. The resources are shared outside the organization. An alliance-participant makes use of its partner’s resources without bringing them into its own organization. For example, in a consigned manufacturing agreement, a firm provides its designs and product technologies to combine with the manufacturing

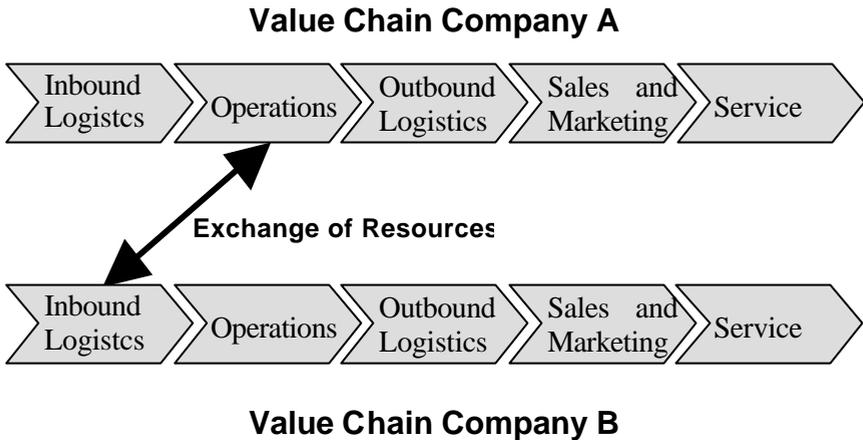
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<sup>74</sup> Schuppert, D, Pappmehl, A., and Walsh, I. (1994)

<sup>75</sup> Beamish, P. (1985); Harrigan, K.R. (1984); Stopford J.M. and Wells, L.T. (1972)

<sup>76</sup> Beamish, P and Banks, J.C. (1987); Buckley, P. and Casson, M. (1988); Hennart, J.-F. (1988)

capabilities of its partner in manufacturing a product. The firm makes use of its partner’s manufacturing capabilities, but has no intention of annexing them. This kind of alliance is shown in exhibit 15.

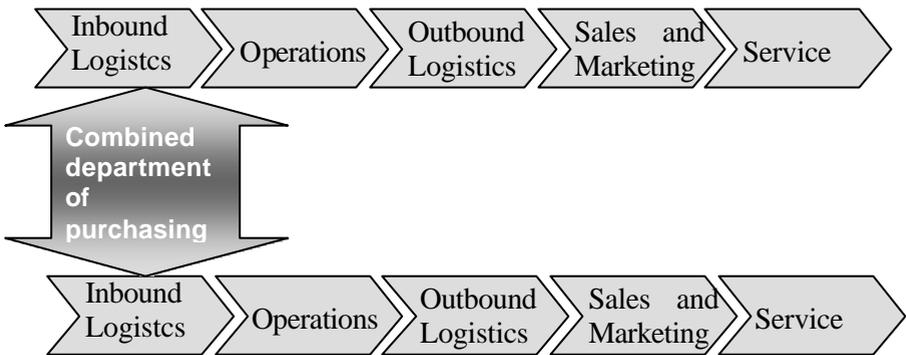


**Exhibit 15: Example for an ‘exchange alliance’ based on Porter’s model of a value chain**

The alliance facilitates only an exchange of resources between the partners with each one performing its activities independently. This allows specialisation for each partner. The exchange alliance can have all kinds of motives like “access to the market”, “access to new technologies”, or “leaving the market”. It is rather simple to form and abandoned more easily than an integration alliance. The most important success factor is to check for alternatives before entering the alliance, because it is crucial to find the best partner. But also equilibrium between the partners is very important to avoid dissatisfaction about the resources the other partner can give into the alliance. As a special case, an exchange alliance can also happen between equal levels of the value chain. For instance, two companies exchanging knowledge for research and development without actually building combined research facilities and organizations.

The second may be referred to as an ‘integration alliance’, wherein resources are integrated within a certain organization designed by the partners to perform prescribed functions which serve a common purpose for the partners, although the partners’ ultimate goals will still remain distinct. This kind of alliance allows a firm to internalise the resources owned by its partner. While specialization is often the aim of exchange alliances, synergies are the main objective of integration alliances. For example, partners can agree to combine their purchasing in order to gain more bargaining power. In an integration alliance, they would then Form one department for purchasing and send their orders to this department:

### Value Chain Company A



### Value Chain Company B

**Exhibit 16: Example for an ‘integration alliance’ based on Porter’s model of a value chain**

Of course the alliance can also take place between supporting activities like research and development. In this case, the different facilities in research and development are combined and build a new one.

There is more concern about opportunism in integration alliances than exchange alliances, as the parties will invariably contribute less to the alliance, while gaining more from it. On the other hand the parties are

much more dependent on each other and thus the risk for opportunistic behaviour decreases. The most important motive of integration alliances is to achieve synergies. Thus integration alliances also have to be more structured because the success of integration alliances depends on synergies, which can only be realized through the strong commitments of the parties involved. The ability to realize these synergies is also the most important success factor for integration alliances. However also personal factors and similar strategies are not unimportant for the success of an integration alliance.

Chen and Chen<sup>77</sup> conducted a study about how different kinds of resources are shared between the partners. They found that “firms entering strategic alliances with the desire to access their partners’ production or marketing resources tend to choose an exchange alliance, whereas those with the desire to access their partners’ R&D resources tend to choose an integration alliance.”<sup>78</sup>. And that “alliance partners offering each other complementary resources will tend to enter an exchange alliance, whereas those offering similar resources for the purpose of synergies will tend to enter an integration alliance”.

## ***5.6 Equity Joint Venture (EJV) – Contractual alliances***

While conventional theories are often geared towards the explanation of EJVs<sup>79</sup>, we will also focus on the difference between EJV and contractual alliances. The latter is often ignored, but is becoming increasingly important in the field of strategic alliances.

Contractual alliances offer a number of advantages over EJVs such as greater flexibility, easier dissolution, a lower public profile, reduced legal encumbrances, ease of negotiation and renegotiation and a more

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<sup>77</sup> Chen, H, Chen, T.-J. (2003)

<sup>78</sup> Chen, H, Chen, T.-J. (2003), p. 6

<sup>79</sup> E.g. Killing , P. (1983); Beamish, P. (1984)

transient and less institutionalised relationship between the partners.<sup>80</sup> On the other hand transaction cost theory tries to explain, why EJVs may be superior to contracts. According to the transaction cost theory, the choice of an EJV as an alternative to market or hierarchy is explained by coordination and appropriation costs. The appropriation problem, which originates from pervasive behavioural uncertainty and contacting problems, can be resolved by joint equity ownership that defines the power of hierarchical control by the respective partners. The greater the appropriation concerns, the more hierarchical control is desirable in organizing the alliance, and the more likely that an EJV will be chosen over contracts.<sup>81</sup> The cost of coordination increases if it is difficult to anticipate and evaluate the activities of the counterpart. An EJV may overcome that difficulty by providing mechanisms for internal monitoring and supervision. A problem of EJVs is the possible clash of different cultures. For an EJV a special organization is built and people from both involved companies have to work in this organization. Thus the contact between the cultures is most of the times more intense than in a contractual alliance, where most of the employees remain in their own organization. EJV also need to be at least of a “critical size” because rather big efforts are needed to build an EJV. Thus according to Chen & Chen (2003) small firms tend to prefer contractual alliances as opposed to EJVs. A good example of an EJV is the alliance between DaimlerChrysler AG, Hyundai Motor Company, and Mitsubishi Motors Corporation, who founded a joint venture company in 2002 for the design, development, and engineering of a new family of in-line four cylinder gasoline engines. Global Engine Alliance L.L.C. jointly develops these engines through the combined resources of all three companies. The engines are to be used in future generations of vehicles of the Chrysler Group, Mitsubishi Motors, and Hyundai Motor. The joint venture company is owned equally by all three companies and is located in the United States. By combining resources, the engine will have the most competitive technologies of the Chrysler Group, Hyundai and Mitsubishi. Each company will produce

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<sup>80</sup> Johnson, J.L., Cullen, J.B., Sakano, T. and Teknouchi (1996)

<sup>81</sup> Gulati, R. and Singh, H. (1998)

the world-class engine for future vehicle applications. Under the new joint venture, Hyundai has the lead responsibility for implementing the decisions of the joint venture company for design, development and engineering. The initial production of this new engine is expected to take place during 2004 or 2005. According to the CEOs of the three companies, this alliance can also be the beginning of a closer relationship.

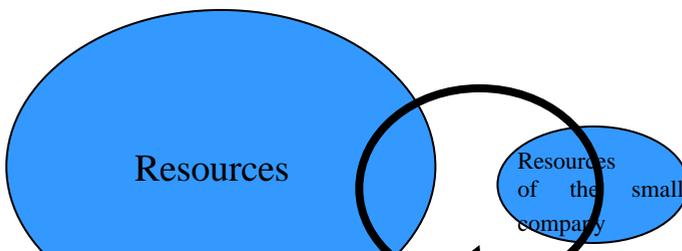
In conclusion, contractual alliances are much easier to build and to dissolve, while EJV require more planning and commitment of both partners, but offers also better possibilities to save transaction costs.

### **5.7 Size and size differences**

Size and size differences are very important if strategic alliances are considered. In strategic alliances a balance between both partners is needed to become successful. Equilibrium provides the partners with contentedness and faith. Such a balance is difficult to achieve in an asymmetric sized alliance. It can be distinguished between three basic types: Those three types result from the combination of small and big companies.

Strategic alliances between two or more big companies have the prerequisites to achieve a balanced strategic alliance. The bureaucratic structure of such a constellation is normally compatible. Nevertheless the balance can be disturbed if one partner contributes super proportional more of efforts and resources into the strategic alliance than the other one. Thus the strategic alliance may suffer or may be aborted in the worst case because one partner gets dissatisfied.

Another type of a strategic alliance is the constellation of a big and a small company. The main problem is that the absolute contribution of resources and efforts into the strategic alliance means relatively a much higher contribution for the smaller company.



### **Exhibit 17: Resource contribution of asymmetric sized strategic alliances**

In the figure the resource contribution of the big and the smaller company is visualized. It is obvious that the smaller company nearly contributes half of their resources into the strategic alliance. This can also lead to dissatisfaction in the smaller company and can disturb the relationship between the partners significantly. Another problem is the frequently occurring bureaucratic structures or different operational practises in big companies, which can lead to dissonances between the companies. These differences imply unequal power ratio in favour of the bigger company, which can lead to an opportunistic behaviour.

In practise you can find such a constellation very often in the biotechnology- and high-tech sector. Normally the bigger company provides for instance its distribution channels and the small company provides some high-tech innovations. Doz and Hamel suggest that size differences in organizational contexts, often stemming from size

differences between partners, do more to undermine alliances than do differences in national culture.<sup>82</sup>

The third possibility is the constellation of two or more small companies. Those companies will work together to achieve a critical size and benefit from economics of scale. Besides this constellation is similar to the “big-big” constellation and the prerequisites for a balanced strategic alliance is fulfilled.

Concluding many problems can be avoided in a strategic alliance of equal sized companies. Asymmetric sized strategic alliances need a much more careful management of relationship of the involved companies. The companies should bring in the same amount of resources. Factors like trust and good will are important to succeed.

## **5.8 Analysis**

We have shown that every strategic alliance has many different characteristics which define it and which give important implications for practice. When considering all the different dimensions, for instance the importance of the different success factors can change, and an almost indefinite number of different types of strategic alliances occur.

Of course, we did not mention all dimensions in our thesis, but we think we chose the most important ones. Also there could be other very important ones, which we did neither find nor developed.

We will show the complexity at several examples:

A first example is the importance of culture when forming a strategic alliance. When a manager only considers whether the alliance is an integration alliance or an exchange alliance, he will come to the conclusion that culture is a very important fact when forming an integration alliance. In contrast to that, culture is less important in an exchange alliance because the companies have less points of contact

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<sup>82</sup> Doz, Y. and Hamel, G. (1998)

here. Thus he will be careful in forming an integration alliance with a company with different culture. But as soon as he also considers the sizes of the companies, he may see that both companies are small ones and thus the problem of different cultures is not that important because smaller companies are more flexible in handling different cultures. Thus a small size of the companies gives a tendency towards an integration alliance.

On the other hand small companies form EJVs less often. But not forming an EJV gives a tendency against an integration alliance because EJVs are often combined with integration alliances.

Now we showed two different implications following out of the fact that two companies want to enter a strategic alliance: The first gives a tendency towards an integration alliance, the second a tendency against it. This shows how the different dimensions are interdigitated and how many different implications can be drawn out of them. There is a big amount of such combinations and disregarding of only one of them can lead to completely different or even wrong results.

## **6 Conclusion**

### ***6.1 Consolidated findings***

In its considerations, the corporate management has to keep in mind that a strategic alliance as an instrument between market and hierarchy is only one of several different options. Other possible options are acquisitions or mergers. Once the decision for a strategic alliance is made, the question of the specific design has to be answered. For this, several basic types from an informal agreement to the foundation of an equity joint venture are available. The choice of the specific design depends on the situation and is very complicated as we showed before.

The various theoretical approaches presented in chapter 3 are not advanced enough to explain the existence of strategic alliances. The theoretical approaches cannot give any implications for practical decision-making concerning strategic alliances yet. It is also not predictable that these implications can be given in the nearer future because today's theories are not even able to fully explain the existence of a theoretical and simple type of alliance not to mention all the different forms that occur in practice. There is still more need for research to develop new theories which are able to accomplish this.

As we have seen, motives and success factors are influenced by all types of the described forms of the strategic alliances, but on the other hand only a few factors influence special forms of strategic alliances, for instance the four archetypes can be mentioned here. Through the evolution of strategic alliances the subject obtains some kind of dynamic aspects. This adds a new dynamic dimension to strategic alliances. Also all mentioned static motives and factors play an important role in the evolutionary process. Thus strategic alliances are both a static and a dynamic entity. The connection between static and dynamic factors in theory is necessary, which also increases the complexity of the subject.

But dynamic aspects do not only arise from the alliance itself. Also the environment is changing dynamically and often unpredictably. A

continuously changing environment, e.g. proceeding globalization, can cause significant changes in motives and intentions of the partners of the strategic alliance. This necessarily leads to dramatic changes in the form of the alliance. Therefore it is the task of the management to make constantly the necessary adaptations. Even a perfectly formed strategic alliance will fail if the management does not conduct these changes.

The static complexity of strategic alliances is caused by a high number of dimensions, which are needed to characterize a strategic alliance, and their heterogeneity. Almost every single of the dimensions mentioned in chapter 5 is applicable to every single alliance and has little or no correlation to the other dimensions. By combining all these dimensions, an almost unlimited number of types of strategic alliances can be distinguished. Unfortunately, these dimensions and their consequences are not independent from each other. These interrelations lead to an amount of different types of strategic alliances that is very difficult to manage. In chapter 4 and 5, we described in detail, which dimensions are the most important to keep an eye on.

The fragmentation and the incompleteness of the literature concerning strategic alliances in our opinion reflect the complexity of this subject. The high complexity of the subject leads to difficulties in forming strategic alliances and thus to the very high rate of failure.

The different perspectives show a well-differentiated picture of the complexity of strategic alliances and improve the decision-making. Thus we were successful in developing a differentiated view of strategic alliances.

During our thesis we think we have proven that it is not enough only to look at one or two of the dimensions as most of the literature does. Such a narrow perspective leads most of the times to a forged and incomplete view on the examined alliance. Thus a much broader perspective is needed to fully understand the influences on the alliance. This implicates additional need for research in this part.

Even though the primary audience of this thesis are scientists and researchers, managers can use it as well. The former can use this thesis to get a deeper understanding of strategic alliances and especially of the different dimensions needed to categorize them. It can also be used for a basis for all kinds of research in the field of strategic alliances. On the other hand, managers can also use this thesis to get a deeper understanding of strategic alliances which leads to better insight into the problems which may arise.

## ***6.2 Achievement of Goals***

We were able to proof the deficiencies of a narrow perspective on strategic alliances. We described the most relevant aspects to build a more differentiated view. The differentiated view is not all-embracing. We knew this already when we began to write the thesis. Nevertheless we were still surprised by the high complexity of the subject and due to this the differentiated view is still expandable.

Concluding we think, that we achieved most of our goals and got a deeper insight into strategic alliances.

## ***6.3 Further need for research***

Even though strategic alliances have been give a lot of attention during the late eighties and the nineties, the topic is still not very thoroughly explored and there is still much room for further research. The view, we presented here, leaves much space for being enlarged and being explored more in detail. Also every single aspect, we showed, can still be examined more deeply and more thoroughly. These theoretical studies have to be done before a practical study can be conducted. This topic is subject to radical changes, triggered by continuously changing environmental factors and challenges for the management.

It is predictable that strategic networks consisting out of many strategic alliances will become more important in the future. The research in this part is still very rudimentary. Thus the need for more research in the area of strategic networks is very big.

## ***6.4 Outlook in the future***

We expect that the future research will make progress in describing strategic alliances. At the same time strategic alliances will gain importance and their number will still increase. Simultaneously, the complexity will raise, e.g. because of the augmented appearance of strategic networks. Therefore it is not clear if strategic alliances in the future will have a higher probability for success.

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