EFFECTIVE INTERFIRM COOPERATION

KEY FACTORS OF SUCCESS AND FAILURE FOR INTERNATIONAL STRATEGIC ALLIANCES

Master's Thesis

to confer the academic degree of

Master of Science

in the Master's Program

General Management
Sworn Declaration

I hereby declare under oath that the submitted Master’s Thesis has been written solely by me without any third-party assistance, information other than provided sources or aids have not been used and those used have been fully documented. Sources for literal, paraphrased and cited quotes have been accurately credited.

The submitted document here present is identical to the electronically submitted text document.

Linz, November 2016

__________________________________________

Anna Schlossinger
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Even more I wish to extend my heartfelt gratitude and appreciation to my family who made all of it possible in the first place, continually had my back and calmed me down with soothing words whenever my nerves were on edge, which happened more often than I care to admit.

My final acknowledgement goes out to anyone who feels like they should be included as well.
Abstract

The competitive pressure has increased for years – even decades – now, mainly attributable to globalization and its ramifications such as lower tariff levels and border barriers, the gradual opening of previously closed markets, progress of global technologies and the overall inconstancy of the environment. This forces organizations to look for different strategic alternatives to achieve and maintain a competitive advantage. One example for such strategic alternatives are International Strategic Alliances (ISA’s) referring to two or more independent companies cooperating.

Indeed, ISA’s have the potential to positively influence a firm’s competitive position through the pooling of resources and skills and the thereof created synergies. As a result, the number of ISA’s formed and their popularity has been on the increase ever since. However, such cooperative ventures are inherently risky and suffer from high rates of failure which creates kind of a paradoxical situation and raises the question of what factors hamper and foster their success in terms of key factors of failure and success – which has been chosen as the topic of the master’s thesis at hand.

The literature review has shown that there are in fact numerous factors which contribute to either failure or success of an ISA. Cultural and organizational differences and the thereof arising misunderstandings, ambiguities and decision-making biases, the overall risky nature of strategic alliances as well opportunistic behavior have been identified as factors hampering the cooperative process. On the other hand, thorough planning – including selecting the right partner, negotiating and planning the exit – along with an effective learning process, experience and the thereof developed alliance management capability, the right governance model, management of ambiguities and a continuous feedback on the alliance’s performance have been characterized as contributing to the success of an ISA.

All in all, the discussion has revealed that ISA’s can be characterized as crucial measures to attain and maintain competitive advantages within a globalized business world. However, organizations must not enter or form ISA’s simply because they are on-trend at the moment but need to be aware of all potential key factors of success and failure in order to fully leverage their potential.
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INTRODUCTION

“Relationships are one of the most valuable resources that a company possesses.”

(Hakansson, 1987: p. 10)

Within the last few years the competitive pressure within the business world has experienced a considerable increase. This phenomenon can be attributed to a number of influencing factors such as:

- the globalization of markets,
- lower tariff levels and border barriers,
- dropping of transmission times in terms of information and products,
- the gradual opening of so far rather closed markets such as Eastern Europe,
- progress of global technologies that result in quicker production cycles as well as
- the overall inconstancy of the environment. (Faulkner, 1995: p. 1; Balling, 1998: p. 7)

In other words, due to globalization the competition among companies has been accelerated, resulting in them having to compete with rivals and competitors on a local as well as a global level. (Ring & Van de Ven, 1992: p. 483; Kang et al., 2014: p. 1127)

Therefore, more and more corporations all around the world are forced to look for and consider different strategic alternatives that are able to help them in gaining and maintaining advantages in competition as well as a strong market position. In many cases capabilities and resources are seen as improving the likeliness of survival and success. (Contractor & Lorange, 2002: p. 485-486; Barney, 1991: p. 105-112; Kang et al., 2014: p. 1127) Hence, one possibility of dealing with the increasing competitive pressure is the cooperation between firms in the form of so-called international strategic alliances, that is “(...) two or more organizations share resources and activities to pursue a common strategy.” (Johnson et al., 2014: p. 341)

Recently, this inter-organizational form has indeed enjoyed great popularity. As a result, nowadays, not only its internal strengths determine a corporation’s success, but also the connections to other firms and organizations play a crucial role, broadening the “(...) view of strategic management beyond the limits of the single firm.” (Grant, 2012: p. 396)

The slogan, thus, is “Collaborating to Compete.” (Mintzberg et al., 2002: p. 257)
1. Problem Definition and Motivation

However, despite their popularity and the numerous potential advantages that can be exploited through them, strategic alliances are in many cases fraught with risk and uncertainty themselves. They need considerable investments of one or more companies in both human and physical capital and extensive coordination as well as communication over a longer period of time. The problems arising for management control mainly come from partially overlapping but still independent profit goals. Moreover, often a central authoritarian person that could take on leadership is missing. Last but not least, legal issues and the role of different third-party intermediaries can be responsible for damage with serious consequences for the strategic alliance. (Anderson et al., 2014: p. 2)

Put differently, strategic alliances suffer a high incidence of failure. Dyer, Kale and Singh (2001: p. 37) concluded that approximately half of all formed alliances fail. That is, they neither provide the alleged operational and/or strategic advantages nor they achieve the objectives of one or even both parties. (Kale & Singh, 2009: p. 45)

One of the most notable examples of strategic alliances failure is probably the joint venture of Danone, the French-based multinational food corporation, and Chinese firm Wahaha Beverage. In 1996 Danone acquired a 51% stake in Wahaha Beverage, which looked like a promising partnership with Danone providing capital, business expertise, access to new markets and jobs and Wahaha offering local expertise, access to cheap labor and a (formerly) negligible market. However, this alliance has since turned into trouble and a bitter public dispute because of three reasons. To begin with, the allocation of earnings and investments was unclear. This naturally led to many heated arguments between the two parties. Furthermore, Wahaha was glad to receive capital and technology, though they did not like being treated as a mere adjunct of Danone. In fact, Wahaha had ambitious, global goals themselves. Last but not least, the Chinese market has changed: availability of labor and land has decreased, plenty of domestic capital is at hand and the situation has become rather nationalistic and self-contented with the Chinese market being viewed as one of the most attractive markets worldwide. Therefore, providing external firms with a partnership and access to the market is not a priority anymore. So now with Wahaha being aware of the opportunities, the company is angered at the fact that it has to settle plans with their foreign (majority) owner and cannot focus on
its own alternative strategies. And Wahaha is even more angered at the fact that Danone actually wants full ownership. (The Economist, 2007)

It is in fact this disillusioning success rate of alliances that influenced the decision to write this master’s thesis on the topic of effective, successful interfirm cooperation.

1.1. Purpose and Objective

Addressing the problematic situation discussed beforehand, the goal that is sought to be accomplished therefore is to examine the key factors of success as well as the key factors of failure of international strategic alliances as means of corporate strategy. In other words, this thesis aims at looking at the conditions under which strategic alliances can flourish and be successful, as well as the circumstances that hinder their performance.

1.2. Methodology

The thesis at hand can be classified as a secondary analysis, otherwise referred to as desk research or theoretical work. In comparison to primary analysis, where data is collected or observed through first-hand surveys or experiments respectively, secondary analysis means the re-use and re-analysis of previously collected data to discuss research questions formulated irrespective of the original purpose for which the data was obtained. (Glass, 1976: p. 3; Vezzoni, 2015: p. 129)

There are numerous advantages of conducting secondary analysis. First of all, due to the fact that the data is already collected the whole research process of obtaining and analyzing it is faster than if the research would have to start from scratch. (Burns & Bush, 2005: p. 151) Additionally, it is cost-saving and “(...) a great opportunity for single researchers or research teams, without substantial funding, to have access to quality data by means of which they are able to test their hypotheses and answer their research questions.” Moreover, re-using and re-analyzing already collected data offers the possibility to examine change and development of certain aspects over time and “(...) helps (...) to provide answers to questions that would otherwise have remained unresolved.” (Vezzoni, 2015: p. 130-131)

While some are convinced that secondary analysis is entirely past-oriented, Vezzoni argues that – even though it is challenging – it can also be projected onto the future by posing as a drill ground for young scientists that should become the battleground for their
upcoming real research efforts. In this way, secondary analysis serves “(…) both as a research strategy and as a fundamental tool to train the future members of the academic community.” (Vezzoni, 2015: p. 137)

As stated before, the purpose of this master’s thesis is to illuminate the overall concept of strategic alliances in a globalized context such as development, types, propensity and motives, and examine the efficacy of strategic alliances as means of corporate strategy by analyzing key success factors and factors of failure. This will be done by evaluating the state-of-the-art concerning strategic alliances and examining current research literature on the topic. (e.g. Aldakhil & Nataraja, 2014; Anderson et al., 2014; Chiambaretto, 2015; Ho & Wang, 2015; Schilke & Cook, 2015)

At these topics also the structure of the master's thesis orients itself, starting with an overall introduction into the concept, then moving to requirements and obstacles for successful international strategic alliances. Afterwards, a summary of the findings as well as implications for management can be found.
LITERATURE REVIEW

As mentioned in the introduction beforehand, the second chapter deals with a review of the current literature on the overall topic of international strategic alliances and their key success factors as well as factors of failure before discussing and summarizing the findings and giving implications for management.

2. The Basics of International Strategic Alliances

Before clarifying what factors influence the success of interfirm cooperations and which ones hamper their development, this section will be dedicated to the fundamental basics of strategic alliances to facilitate the understanding of the following subchapters.

2.1. Definition of Strategic Alliance

At the heart of the basic discussion of the topic is naturally the definition of a strategic alliance. While the literature offers several varying explanations of what a strategic alliance is, they basically have one thing in common, namely that a strategic alliance exists “(...) whenever two or more independent organizations cooperate in the development, manufacture, or sale of products or services.” (Barney, 2002: p. 369)

Thereby, cooperation is defined by the dictionary as “an act or instance of working or acting together for a common purpose or benefit; joint action” and as “more or less active assistance from a person, organization, etc.” (Dictionary, 2016)

Moreover, Grant (2012) emphasizes the importance of a common goal underlying such a collaborative agreement. Hence, strategic alliances are normally formed in order to serve a certain purpose. (Grant, 2012: p. 402)

Relating to this, the author lists three examples:

a. A total of 25 airlines – among them Lufthansa, Turkish Airlines and United Airlines – have consented to an agreement in the form of the so-called ‘Star Alliance’ “(…) to code share flights and link frequent flier programs.” (Grant, 2012: p. 402)

b. In order to facilitate research and development (R&D) on sophisticated composite materials, Automobili Lamborghini and Callaway Golf Company have also teamed up and entered a strategic alliance in 2010.
c. Last but not least, in 2009 a major pharma-concern in India named Dr. Reddy's laboratories formed a partnership with GlaxoSmithKline, a leading healthcare firm that operates worldwide, with the intention of distributing Dr. Reddy's products in countries with emerging markets by making use of GlaxoSmithKline’s network of marketing and sales. (Grant, 2012: p. 402)

To reach these underlying goal(s), however, a strategic alliance also requires the formulation of a ‘collective strategy’ which “(…) is about how the whole network of alliances, of which an organization is a member, competes against rival networks of alliances.” (Johnson et al., 2014: p. 341) Accordingly, the usual approach to strategy, which is organization-centered, is put into question because of two reasons: To begin with, organizations entering a strategic alliance are required to embrace not only their personal organizations self-interest, but also their networks’ collective success when it comes to strategy. In addition, collective strategy also stresses the relevancy of effective collaboration. “Thus success involves collaborating as well as competing.” (Johnson et al., 2014: p. 342)

Whenever at least one alliance partner is headquartered in a foreign country and at least one partner is based in the host-country, the strategic alliance operates in, it can then be called an international strategic alliance. Moreover, an extensive level of operations in multiple countries can be considered as an indicator for an alliance on an international level. (Geringer & Hebert, 1989: p. 235; Soulsby & Clark, 2011: p. 296)

Due to their international nature, they are generally used by companies in order to compete in competitive arenas that can be characterized as global or multidomestic. (Harrigan, 1987: p. 68-69; Geringer & Hebert, 1989: p. 235)

### 2.2. Types of Strategic Alliances

Following the aforementioned definition, the literature distinguishes between symmetric, asymmetric and mixed alliances. (Barney, 2002: p. 380)

Whenever all participating organizations of an alliance have similar strategic ambitions and objectives and seek the same benefits arising from the formation one speaks of a **symmetric alliance**. A few of the motives to engage in a cooperative alliance agreement only account in such a case. Others incentives, however, are only existent when the alliance parties set themselves diverging strategic ambitions and objectives. An alliance
that seeks to provide low-cost entry into new industries or markets, for instance, presupposes that not less than one party within the alliance acts in a different industry or market than the other(s). Furthermore, alliances that are out to learn from competitors assume that it is in fact diverse companies who are cooperating. These forms, organizations with dissimilar goals, are so-called asymmetric alliances. Still, there are some motives that work with both similar and diverging ambitions and objectives. When the goal is to deal with uncertainty that uncertainty can be related to entering new industries or markets or it can arise from the industry or market the company is currently operating in. The same goes for managing risk. A mixed alliance, therefore, is when the strategic interests can be the same as well as different. (Barney, 2002: p. 379-380)

<table>
<thead>
<tr>
<th>Types of Alliance</th>
<th>Generic Industry Structure</th>
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<tr>
<td>Symmetric alliances</td>
<td>Mature industries</td>
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<tr>
<td>Economies of scale</td>
<td>Fragmented industries</td>
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<tr>
<td>Tacit collusion</td>
<td>(with strategic groups)</td>
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<tr>
<td></td>
<td>Network industries</td>
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<td></td>
<td>Empty core industries</td>
</tr>
<tr>
<td>Asymmetric alliances</td>
<td>Emerging industries</td>
</tr>
<tr>
<td>Low-cost entry into new markets</td>
<td>Fragmented industries</td>
</tr>
<tr>
<td>and new industry segments</td>
<td>(with no strategic groups)</td>
</tr>
<tr>
<td>Learning from competitors</td>
<td>Declining industries</td>
</tr>
<tr>
<td>Mixed alliances</td>
<td>Global industries</td>
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<td>Managing uncertainty</td>
<td>All generic industry structures</td>
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<tr>
<td>Managing risks and sharing costs</td>
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</table>

Table 1: Types of Strategic Alliance and Generic Industry Structures (Barney, 2002: p. 380)

Thereby, the majority of alliances formed are to support co-marketing, followed by research alliances, distribution alliances, supplier alliances as well as co-production alliances (see Table 2: Types of Alliances Used by Companies). (de Man et al., 2009: p. 5)
Moreover, strategic alliances can broadly be classified into three different groups: equity alliances, non-equity alliances and joint ventures. (Barney, 2002: p. 369)

<table>
<thead>
<tr>
<th>Type of Alliance</th>
<th>Frequency (%)</th>
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<tr>
<td>Co-Marketing Alliances</td>
<td>45%</td>
</tr>
<tr>
<td>Research Alliances</td>
<td>15%</td>
</tr>
<tr>
<td>Distribution Alliances</td>
<td>13%</td>
</tr>
<tr>
<td>Supplier Alliances</td>
<td>11%</td>
</tr>
<tr>
<td>Co-Production Alliances</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

Table 2: Types of Alliances Used by Companies (de Man et al., 2009: p. 5)

Figure 1: Types of Strategic Alliances (Barney, 2002: p. 370)
2.2.1. Non-Equity Alliances

A non-equity alliance is characterized by two or more cooperating companies who consent to operate together with the intention of developing, producing or market a product or service respectively. In contrast to the other two types, however, thereby they do not establish an autonomous firm or take an equity position in one another but rather manage their cooperative relationship and efforts by the use of diverse contract forms. (Barney, 2002: p. 369)

Examples for such contract forms are amongst others:

- **Distribution agreements**
  Two organizations arrange that one distributes the product(s) of the other.
- **Licensing agreements**
  One party permits the second party to take advantage of their brand name in order to sell products.
- **Supply agreements**
  A firm declares to supply its partner(s). (Barney, 2002: p. 369)

Without already going too much into detail why strategic alliances fail (see Chapter 3.2. Key Factors of Failure), it is to mention that in some cases these contract forms fall through due to the fact that they do not take into consideration the numerous ways of cheating that may occur in such a relationship (including moral hazard, adverse selection or holdup for instance). An alliance partner may cheat on the cooperation agreement subtly and such subtle cheats are complicated to estimate when it comes to contractual requirements. For one, particular company-owned processes or technologies may have to be provided by one party due to requirements obliged by the contract, but it is difficult for the other party to make sure that it receives the entire information about these processes or technologies. Additionally, it may not be possible to communicate every subtle or sometimes implicit detail to the partner which could also be interpreted as either contract violation or simply good faith effort. (Barney, 2002: p. 390)

2.2.2. Equity Alliances

In a different way from non-equity alliances in “(…) an equity alliance, cooperating firms supplement contracts with equity holdings in alliance partners.” (Barney, 2002: p. 369)
It is due to these equity investments in each other that the power to control contracts and resolve or at least limit the threat of cheating (see Chapter 2.2.1. Non-Equity Alliances) is enhanced remarkably. “When Firm A buys a substantial equity position in its alliance partner, Firm B, the market value of Firm A now depends, to some extent, on the economic performance of that partner. The incentive of firm A to cheat Firm B falls, for to do so would be to reduce the economic performance of Firm B and thus the value of Firm A’s investment in its partner.” (Barney, 2002: p. 392)

2.2.3. Joint Ventures

The third type of strategic alliances, so-called joint ventures, refers to the creation of a legally independent company by two or more cooperating firms in which all alliance parties invest. Any profits that arise from this newly formed, independent company are divided among the contributing partners and act as a compensation for the investment. However, the bearing of any risks associated with the joint venture is also shared equally. (Barney, 2002: p. 369-370; Grant, 2012: p. 255)

Put differently, the following characteristics mark a joint venture:

1) independency of all alliance participants, both in legal and economic terms;
2) the organization is managed conjointly;
3) profits and risks arising from the venture are shared. (Pausenberger, 1989: p. 624; Weder, 1989: p. 33)

2.3. The Strategic Alliance Process

Literature on strategic alliances proposes various process models which differ only slightly from each other, mainly concerning the labeling or adding of certain sub-stages to the process. In this context, a process is referred to as “(…) a sequence of events that describes how things change over time.” (Van de Ven, 1992: p.169)

Despite some minor differences, all of these alliance process models, however, have in common and can be grouped in three overall consecutive developmental stages: Formation, Operation and Outcome. (Das & Teng, 2002: p. 727-728)

Two process models (Ring & Van de Ven, 1994; Chan & Harget, 1993) were chosen to give an overview of the stages through which a strategic alliance develops and evolves.
Strategic Alliance Process Model 1 (Ring & Van de Ven, 1994)

Ring and Van de Ven (1994: p. 96-98) consider the alliance process as consisting of three repetitive phases: negotiation, commitment and execution. These three phases in turn are each assessed concerning their efficiency and equity. In practice, these phases often overlap and take place simultaneously. For analytical purposes, though, it is helpful to separate them. Moreover, the duration of the several phases may differ from alliance to alliance.

“In the negotiations stage, the parties develop joint (not individual) expectations about their motivations, possible investments, and perceived uncertainties of a business deal that they are exploring to undertake jointly.” (Ring & Van de Ven, 1994: p. 97) Hence, this phase concentrates on the formal negotiation processes as well as the parties’ choice behaviors when it comes to choosing, approaching or even eliminating possible alliance partners and convincing, discussing and quarrel with them over potential terms and conditions of the future cooperation. At the bottom of these formal negotiation approaches are sense making or enactment process of social-psychology, that induce else independent organizations to join the bargaining with each other. (Ring & Van de Ven, 1994: p. 97)

In the stage of commitment the parties come to an agreement in terms of rules and obligations controlling the prospective actions in the strategic alliance. “At this point, the terms and governance structure of the relationship are established, and they are either codified in a formal relational contract or informally understood in a psychological contract among the parties.” (Ring & Van de Ven, 1994: p. 98)

In the last phase, the execution stage, both the commitments and the rules and obligations of alliance action are put into practice. In other words, the partnering firms acquire needed materials, pay for the agreed amount, issue orders to their employees and handle everything else that is required to conduct the cooperative agreement. This phase is therefore characterized by a number of role interactions which increase the familiarity among each other and ultimately begin to be interpersonal. (Ring & Van de Ven, 1994: p. 98)

As already stated before, efficiency and equity of each of these three phases is also evaluated during the assessment.
Strategic Alliance Process Model 2 (Chan & Harget, 1993)

In comparison to the first introduced process model of international strategic alliances that consists of only four phases, Chan and Harget (1993: p. 22) propose an alliance life cycle model that encompasses seven stages in total: Strategy, Search, Dialogue, Negotiation, Formation, Operation and Termination Stage.

During the first phase, called the **strategy stage**, the formation of the general guiding principles takes place, which are closely interrelated with the organization’s common strategic vision. “Top management use the strategic position of the company and its strategic goals to decide where to place the strategic alliance in the company’s value chain.” (Chan & Harget, 1993: p. 22)
The following search stage follows the course implied by the strategy stage. The initial screening of potential alliance partners takes place here with the intention to list possibly suitable candidates that are characterized by compatibility in terms of business and cooperation. (Chan & Harget, 1993: p. 22)

Afterwards comes the most crucial phase, the dialogue stage that strongly determines the alliance success. This is due to the fact that it has high power over the overall process as well as the relationship established and its importance in the long run. At that stage of the alliance life cycle, the list of possibly suitable candidates is examined intensively so to determine the most appropriate and ideal partnering company. “As more and more is learned about the potential partners and the relationships with them develop, the company acquires a sense of which ones are trustworthy and deserve further effort. Many informal discussions involving the interesting details of the strategic alliance occur.” (Chan & Harget, 1993: p. 22) A lot of aggravating and uncomfortable subjects are in many cases, however, only superficially discussed or even avoided because they tend to deal with potentially hard-to-solve conflicts. (Chan & Harget, 1993: p. 22)

In the negotiation stage all of the previous agreements, details and discussion are written down and accepted by all participating actors. “This stage plays an important role in the decision to move ahead with the strategic alliance because it requires a quantifying of the impressions and intentions of the partners.” (Chan & Harget, 1993: p. 22) Thereby, possible weaknesses of the alliance are exposed, making it an important process as well. Moreover, it becomes necessary to take all formerly abstract ideas and put them into concrete language. (Chan & Harget, 1993: p. 22)

During the formation stage the operating manager of the strategic alliance puts together the strategic alliance organization. Thus, the focus lies on the implementation of all previously worked out plans. Situational factors, such as the operating managers’ degree of autonomy and control or the tasks that need to be accomplished, influence the necessary level of detail. The formation stage is crucial for the alliance partners’ relationship due to the fact that it is the first time that significant financial commitment is required by the cooperative actions. “Talk must be replaced by action.” (Chan & Harget, 1993: p. 22)

The scheduled actions are carried out by the strategic alliance in the operation stage. By the time of this phase it is usually not possible to make any more major changes and the
preliminary work accomplished during the previous stages strongly influences the alliance success. “The synergy of skills, assets, and contributions is put to the marketplace test facilitated by the cooperative spirit between the partners.” (Chan & Harget, 1993: p. 22) In addition, the benefits resulting from actions in preceding phases are materialized. The operation stage is commonly the longest one which results in small problems being amplified due to the fact that they persist over such a long period. (Chan & Harget, 1993: p. 22)

Finally, the termination stage is where one of the partners takes over the alliance or it is spun-off or liquidated respectively. The alliance partners split the assets resulting from the business relationship, which account for a considerable return on investment. Given that the strategic alliance fails, equitable treatment of all partners is necessary to maintain a good reputation of the alliance. “In the case of a strategic alliance success, because of the constantly evolving competitive environment and capricious nature of the marketplace, the strategic alliance will reach a point where it is no longer useful to all of the partners and must be terminated.” (Chan & Harget, 1993: p. 22)

The following table gives again an overview on the proposed developmental stages of both process models discussed:

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>I. Formation</th>
<th>II. Operation</th>
<th>III. Outcome</th>
</tr>
</thead>
</table>
| Ring & Van de Ven, 1994 | • Negotiation  
|                       | • Commitment                 | • Execution   | • Assessment |
| Chan & Harget, 1993   | • Strategy                    |               |              |
|                       | • Search                      | • Operation   |              |
|                       | • Dialogue                    |               | • Termination |
|                       | • Negotiation                 |               |              |
|                       | • Formation                   |               |              |

Table 3: Process Models of Strategic Alliances

This shows that even though the overall strategic alliance process is viewed fairly similar, there are some minor differences. First of all, Chan and Harget (1993) divide the formation phase in five sub-phases; strategy, search, dialogue, negotiation and formation; while Ring and Van de Ven (1994) only define two sub-phases in terms of formation, namely
negotiation and commitment. When it comes to the operation and execution of the alliance, both models agree on defining it as a single stage. Concerning the outcome, however, they again slightly vary. Ring and Van de Ven on the one hand, see the alliance model as a rather ongoing process, where the stages often take place simultaneously and stage assessment regarding efficiency and equity continually takes place. Chan and Harget on the other hand, propose a strategic alliance life cycle model that ultimately ends with its termination.

2.4. The Influence of Strategic Alliances on Competitive Position

As already stated in the introduction, the use of strategic alliances has enjoyed great popularity and therefore experienced a substantial growth over the last decades. Already back in 2001, the 500 leading global companies each maintained 60 alliances on an average. (Dyer, Kale & Singh, 2001: p. 37) All in all, the number of U.S. American companies forming joint ventures with international partners has been growing at a rate 27 percent annually since 1985. “For example, by the early 1990s, IBM had over 400 strategic alliances with various companies in the United States and overseas.” (Barney, 2002: p. 370)

Generally speaking, organizations are prone to enter a cooperative strategic alliance given that value of their conjunct assets and resources is greater than the value of their assets and resources taken separately. This relates to the concepts of resource complementarity and economy of scope, with the latter being described as existent “(…) when using a resource across multiple activities uses less of that resource than when the activities are carried out independently.” (Baumol, Panzar & Willig, 1982: p. 71-72) Put differently, this resource complementarity or economy of scope respectively exists as long as the following equation holds:

$\text{NPV (A + B)} > \text{NPV (A)} + \text{NPV (B)}$

where

- NPV (A + B) = the net present value of Firm A’s and Firm B’s assets combined
- NPV (A) = the net present value of Firm A’s assets alone
- NPV (B) = the net present value of Firm B’s assets alone” (Barney, 2002: p. 370-371)
In terms of actual competitive position and strategy, Porter (2013) defines three broad types of strategy that are able to achieve competitive advantages, namely cost leadership, differentiation and focus. Thereby, the strategy of cost leadership refers to being capable of maintaining lower costs while performing value chain activities for a parity product than competitors. Differentiation, on the other hand, entails the advantage of offering a service or good that consumers or customers experience as different with regard to essential attributes compared to rival offerings. Last but not least, focus relates to the company’s scope of offering its service or product to exclusive market segments. Crucial factors that influence a firm’s capability to pursue such a strategy and in doing so achieve competitive advantage are the very distinctive and unique resources and skills underlying the organization. (Porter, 2013: p. 73-80)

The following figure specifies a number of diverse resources and skills that companies who enter a cooperative agreement in the form of a strategic alliance could possibly pool. This list includes for example patent(s), customer base, brand equity, reputation and image and marketing or manufacturing resources and skills as well as organizational expertise, producer learning and experience effects. Moreover, the figure shows how “(...) the pooling of resources and skills in a strategic alliance can lead to a competitive positional advantage by enabling the alliance partners to perform various value chain activities at a lower cost and / or in a way that leads to differentiation.” (Varadarajan & Cunningham, 1995: p. 292)

Thus, strategic alliances can be classified in two categories:

(a) Strategic alliances that pool their complementary and different skills and resources in order to achieve advantages;

(b) Strategic alliances that pool related skills and resources with the intention to lower their costs. (Hennart, 1988: p. 362; Nielsen, 1987: p. 62-63)

In other words, companies partnering in strategic alliances either search for allies who correct their weaknesses or improve their strengths even more, again relating to the concept of resource complementarity. Hence, there are two scenarios under which an alliance can achieve a competitive advantage:
(1) A strategic alliance characterized by individual partners concentrating on certain phases of the value chain, during which they can contribute best in terms of cost leadership or differentiation advantages in view of their distinguishing resources and skills.

(2) A strategic alliance characterized by partners pooling their resources and skills with the intention of performing certain value chain activities, such as research and development, marketing or manufacturing, conjointly to gain competitive advantages. (Varadarajan & Cunningham, 1995: p. 293)

For that matter, the resource-based view assumes that strategic resources and skills are unequally distributed among organizations and explores the tie between a firm’s resources and sustained competitive advantages. Thereby, resources need to meet four requirements in order to give rise to a sustained competitive advantage:

- **Valuable.** The resource must be of value.
- **Rare.** The resource must be rare having regard to both current and possible competitors.
- **Imperfectly imitable.** Competitors must not be able to easily reproduce the resource.
- **Non-substitutable.** There must not be substitutes that are strategically equivalent. (Barney, 1991: p. 105-106)

“The bundle of resources pooled in an alliance would be valuable if they aid in formulating and implementing strategies that improve efficiency and / or effectiveness (i.e. perform value chain activities at lower cost or in ways that lead to differentiation).” (Varadarajan & Cunningham, 1995: p. 293) On the contrary, if (potential) competitors own similar resources compared to the alliance or can easily acquire them, then those resources cannot lead to a sustained competitive advantage. Moreover, only if there is no possibility to substitute strategically equivalent resource bundles, a strategic alliance can obtain sustained competitive advantage.
Figure 3: Achieving Competitive Advantage through Strategic Alliances (Varadarajan & Cunningham, 1995: p. 292)

Thus, strategic alliances can be a crucial source of competitive advantage. Researchers found out that a firm’s stock price increases approximately 1% just by announcing a new alliance. This increase can be translated into a rise of $54 million per alliance in terms of market value. (Dyer, Kale & Singh, 2001)
Regarding strategic alliances’ contribution to the company market value, a study on the behalf of the Association of Strategic Alliance Professionals showed that companies are in fact very positive concerning the delivered value of their alliances. The following figure illustrates that 49% of the study participants indicated “(…) that less than 40% of the value of their company depended on alliances in 2008, while 51% stated this percentage is higher than 40%.” (de Man et al., 2009: p. 7) In 2013, this contribution was estimated to be even greater with already 61% of responding companies expecting their strategic alliances to generate over 40% of the firms’ market value.

![Figure 4: Contribution of Alliances to Company Market Value (de Man et al., 2009: p. 7)](image-url)
2.5. Motives & Propensities for Establishing Strategic Alliances

The previous chapter has shown that the basic motive of international strategic alliances is the pooling and sharing of resources. This basic motive, however, has a number of varying facets that can and need to be explored further. Therefore, the next chapter will deal with the motives for establishing international strategic alliances in greater detail.

Sharing Risks and Costs

In many cases, spreading financial risks through a sharing of the costs is named as a substantial motive influencing the formation of strategic alliances. An organization that has only limited financial resources at its disposal “(…) may deal with either an opportunity or a defensive challenge by seeking an alliance with a partner who can help spread the financial risk.” (Faulkner, 1995: p. 58) Indeed, there are several ways that facilitate the reduction of risk through an alliance, including:

1. more than one company bearing the risk of a large project;
2. allowing product diversification with the result of decreasing market risks linked to dependency on a single product;
3. providing quicker entry as well as establishment of presence within a market, leading to a faster return on investment;
4. “(…) cost subadditivity, i.e. the cost of the partnership is less than the cost of investment undertaken by each firm alone.” (Contractor & Lange, 1988 cited in Glaister & Buckley, 1996: p. 304)

Moreover, strategic alliances have been used by multinational corporations (MNCs) to reduce political risk by sharing ownership of the corporations’ subsidiaries in foreign countries with local companies to mitigate xenophobic responses in the host countries. This is due to the perception that partly foreign-owned enterprises are in some cases treated better than a wholly-owned foreign enterprise. (Hennart, 1988: p. 364)

Exploiting Economies of Scale

Among the most cited motivations behind entering or forming a strategic alliance is also the opportunity of exploiting economies of scale by companies that would not be large enough to benefit of these cost advantages if acting autonomously. The development, manufacturing or distribution practices held by the alliance partners are – in this regard –
the complementary assets and resources. “The cost of these activities, when combined in a strategic alliance, can be less than the cost of the activities separately.” (Barney, 2002: p. 371)

Building Market Power

A main goal of foreign investors is furthermore to build market power by preempting potentials of the business and opportunities in a host market. Thereby, a local alliance partner’s business and industrial background, established market position as well as its distribution and marketing networks are of great importance. “Moreover, a local partner’s strong market power can strengthen an international joint venture’s commitment to local market expansion.” Additionally, the building of a strong market power may result in a higher bargaining power with the governmental authorities, which again can facilitate the reduction of business and political risks and uncertainties. (Yan & Luo, 2001: p. 23-24)

Learning from Partners

As already stated in the introduction, the environment in which businesses operate is characterized by inconstancy and the global competition proceeds to intensify. As a result, learning and acquiring new organizational knowledge has emerged as a managerial priority and still continues to increase in significance due to the fact that novel knowledge serves as the basis for sustainable competitive advantages and organizational renewal. (Genç & Iyigün, 2011: p. 1125; Inkpen, 1998: p. 69) An understanding of knowledge is associated with appreciating the complex processes of acquisition, transfer and integration of knowledge in an environment that is considered as learning. “In the global arena, the complexities increase in scope as multinational firms grapple with cross-border knowledge transfer and the challenge of renewing organizational skills in various diverse settings.” (Inkpen, 1998: p. 69)

A unique learning opportunity can be created through alliances, that is companies possessing diverse skills and knowledge coming together. If a company gains access to these skills and knowledge of the partnering firms it can be seen as a crucial source for new knowledge. Gaining access, however, often requires a formal alliance structure which establishes advantageous conditions in terms of learning from partners. (Dussauge et al., 2000: p. 100; Lane & Lubatkin, 1998: p. 461)
Using such a knowledge then can potentially “(...) enhance partner strategy and operations.” (Inkpen, 1998: p. 70) Nevertheless, the overall learning process is often considered as complex, frustrating or misunderstood. (Inkpen, 1996: p. 124) To fully leverage the learning environment and create a successful alliance partnership, dealing with knowledge management challenges is a necessity and hence a crucial key success factor (see Chapter 3.3.2. Effective Learning and Dealing with Knowledge Management Challenges). (Inkpen, 1998: p. 70-71)

**Entering New and International Markets and Industries**

In addition, strategic alliances have a crucial impact on the cost of entry into new markets and industries for firms attempting to achieve growth and profitability, especially on an international level. With respect to new and international markets, one partnering company usually supplies resources in the form of products or services to the relationship, while the other provides distribution networks, knowledge as well as political influence on a local level as resources. In the context of new and international industries, an entry therein calls for particular non-available abilities, skills and products that come with high costs of creating. An alliance can facilitate the entry into a new industry through eliminating or reducing these high costs. Given that the cost of forming and using an alliance is less than the cost of acquiring or learning novel abilities and skills, such a business relationship is in fact a strategic opportunity of great value. (Barney, 2002: p. 375-376; Varadarajan & Cunningham, 1995: p. 285) Indeed, in some markets, the almost sole way to enter is a strategic alliance formed with a local partnering firm. An example in this context is the Japanese domestic market, where virtually every U.S. firm entering has established an alliance with a Japanese partner. (Barney, 2002: p. 375)

**Other Motives and Determinants**

Besides the reasons already illuminated, there are numerous other motives and determinants that may influence a company to enter or form a strategic alliance, but whose further explanation would go beyond the scope of the master’s thesis at hand. Examples include: (Varadarajan & Cunningham, 1995: p. 285; Glaister & Buckley, 1996: p. 305; Zineldin & Dodourova, 2005: p. 462)

- Raising entry barriers
- Reducing the possible threat of future competitors
- Defending or enhancing the current market position
• Achieving core competency
• Transferring complementary technology and exchanging patents
• Lowering costs of manufacturing and/or marketing
• Reducing uncertainty
• Joint new product development

This shows that there are basically four distinct categories into which all motives can be classified into, namely financial, managerial, strategic and technological. (Zineldin & Dodourova, 2005: p. 462)

![Figure 5: Motives for Alliance Formation (Zineldin & Dodourova, 2005: p. 462)](image)

Despite international strategic alliances seeming like a profitable option of gaining and sustaining competitive advantages, not every company is equally prone to enter a strategic alliance, resulting in firms having diverging propensities to commit themselves to such a business relationship. There are various factors that can influence the decision of whether to enter a strategic alliance or not. These factors can be classified in three general categories: firm characteristics, industry characteristics and environmental characteristics. (Varadarajan & Cunningham, 1995: p. 290)

The firm characteristics category states, for instance, that the propensity to enter into strategic alliances is low if an organization holds the necessary financial means to purchase or internally generate the required resources and abilities in order to exploit a
market opportunity. An example for industry characteristics positively influencing a firm’s propensity to enter an international strategic alliance then would be a needed base volume to capitalize scale economies (that is MES) would be considerably higher than the affordable activity scale according to its resource position. Two firms finding themselves in a similar situation may be forced to enter a strategic alliance in order to be cost competitive. Last but not least, environmental characteristics such as frequent changes in buying patterns, a high degree of market uncertainty or a challenging political, legal and regulatory environment will lead to a higher propensity to enter into strategic alliances. (Varadarajan & Cunningham, 1995: p. 290-291)
3. Successful International Strategic Alliances

The subsequent main part of the master’s thesis at hand will first deal with an explanation of the paradox situation concerning strategic alliance success, followed by a review of both key factors of failure and success that are recognized as having an influence on the cooperative business partnership.

3.1. The Strategic Alliances Paradox

Over the last two centuries, strategic alliances have become more important than ever with the speed of doing business accelerating and the competitive landscape being subject to intense globalization. Hence, in the present business environment, organizations are demanded to enter alliances so that they can address and deal with today’s business challenges. Thereby, an alliance has the potential to provide synergies by complementing firms’ core competencies as well as resources, which in turn helps them to jointly handle identified problems with a client or problems on the market that could not be handled by a single entity. Moreover, alliances facilitate the bridging of the gap between current resources and capabilities and those expected in the future. (Augustine & Cooper, 2009: p. 37; Hoffmann & Schlosser, 2001: p. 357) In other words, strategic alliances have emerged as important strategic manoeuvres and crucial management instruments in order to improve competitiveness. This applies especially to firms in complex, globalized and turbulent environments. (Hoffmann & Schlosser, 2001: p. 357)

As a result, it comes as no surprise that the number of strategic alliances formed has been on the increase ever since. By 2000, numberless large companies around the world had more than 20% of their assets as well as 30-50% of yearly research expenditures tied up in such collaborative relationships. (Ernst, 2004: p. 19) A study conducted by Partner Alliances showed that in 2007-2008 80% of Fortune 1000 CEOs were convinced that their strategic alliances account for approximately 26% of the firms’ revenues. (Kale et al., 2009: p. 354) In other numbers, already back in 2001 the 500 leading global companies each maintained 60 alliances on an average. (Dyer et al., 2001: p. 37)

However, despite their popularity and the potential benefits associated with strategic alliances, they are indeed fraught with risk themselves and suffer from a high rate of failure. There have been numerous studies on the success and failure rates on alliances.
Dyer et al. (2001) concluded that approximately half of all formed strategic alliances fail. (Dyer et al., 2001: p. 37) Marxt and Link (2002) as well as Ernst (2004) came to a similar conclusion and stated that 30-60% of alliances do not work or achieve their objectives. (Marxt & Link, 2002: p. 219; Ernst, 2004: p. 19-20) Moreover, especially international alliances still remain a challenge, with a significantly lower success rate than domestic alliances. This exemplifies the fact that they are considerably harder to manage. Even though the success rate of international alliances has been on the rise, “(...) many companies still underestimate the difficulties of doing business internationally.” (de Man et al., 2009: p. 7)

According to Chang and Harget (1993) a strategic alliance can presumably be viewed as the single most complex entity in the entire business world. To begin with, a strategic alliance demands all abilities and skills necessary for managing any successful business. However, it also needs additional abilities and skills in order to deal with complications concerning communication and relationship induced by being subservient to the alliance partners. Moreover, the participating companies find themselves confronted with the difficult, unusual and risky duty of cooperating and acting jointly with each other. Besides, partners within a strategic alliance have in many cases varying or even incompatible goals. “This puts significant strain on a strategic alliance and brings to the front many complicated situations that are not easily resolved.” (Chan & Harget, 1993: p. 21)

All in all, this “(...) creates a paradox for firms. On the one hand, companies face significant obstacles in ensuring sufficient success with alliances. On the other hand they need to form a greater number of alliances than before, and must increasingly rely on them as means of enhancing their competitiveness and growth.” (Kale & Singh, 2009: p. 45) Furthermore, the simultaneous presence of the oppositional tendencies of both cooperation and competition on behalf of the partnering firms within strategic alliances contributes to the paradoxical nature of such collaborative relationships. (Clarke-Hill et al., 2003: p. 17)

The significance of strategic alliances along with the upward trend concerning alliance formation and the still high failure rate of alliances hence pose the question of what makes certain strategic alliances more successful than others. As a result, it needs a good understanding of the key factors that are responsible for either failure or success of strategic alliances and particularly international strategic alliances. (Dadfar et al., 2014: p. 813)
3.2. Key Factors of Failure

Put simply, key factors of failure, or critical failure factors, are perceived as those factors that increase the chances of failure or disappointment. (Meister, 2007: p. 116) So generally speaking, whenever a collaborative business relationship in the form of a strategic alliance is either not able to provide the expected or satisfying results or needs to be terminated unexpectedly, alliance failure occurs. Not being able to provide the expected or satisfying results is thereby referring inter alia to less-than-expected productivity, meaning that the actual output of the alliance is way below initial expectations. “Examples include delay in developing new products in R&D alliances, low sales in joint marketing alliances, and low economies of scale in horizontal alliances.” (Chao, 2011: p. 351) This less-than-expected productivity brings forth dissatisfaction among the partnering organizations within the alliance and decreases its legitimacy. (Chao, 2011: p. 351) Researchers have taken on several measures to investigate alliance failures, including – as mentioned before – unexpected termination, (non) survival, acquisition, dissolution, divestment as well as instability, which might be measured relating to the alliance expected duration. (Park & Ungson, 2001: p. 38-40) Moreover, there are basically two aspects of a failing alliance, that is “(…) the failure of the alliance per se and the failure of any parent firms that may be involved in the alliance.” (Chao, 2011: p. 351)

The following sub-chapters take on these definitions of key factors of failure and alliance failure and clarify what factors contribute to the failure of international strategic alliances.

3.2.1. Cultural & Organizational Differences

Culture is “(…) ubiquitous, multidimensional, complex and pervasive.” (Tjemkes et al., 2012: p. 183) A clash of cultures is one of the greatest problems for organizations within an international alliance and hence the first key factor of failure that will be discussed. (Elmuti & Kathawala, 2001: p. 208)

Generally speaking, there are numerous definitions for culture – may it be organizational or national culture. Broadly, however, it can be defined “(…) as a set of shared values, assumptions and beliefs that are learnt through membership in a group, and that influence the attitudes and behaviors of group members.” (Ghemawat & Reiche, 2011: p. 1) Membership in a group then ought to refer either to an organization or a nationality.
Naturally, there persist a number of differences between the distinct organizational and national cultures that can be categorized in various dimensions:

According to Hofstede et al. (1990) organizational cultures differ along six dimensions: process-oriented vs. results-oriented, employee-oriented vs. job-oriented, parochial vs. professional, open system vs. closed system, loose vs. tight control and normative vs. pragmatic. The first dimension sets the means (process-oriented) against the goals (results-oriented). The second dimension distinguishes between worrying about people (employee-oriented) and worrying about finishing the job (job-oriented). This is followed by opposing employees who derive their identity from the organization (parochial) to employees who derive it from their type of job (professional). The fourth dimension then contrasts open and closed systems while the fifth dimension draws upon the organization’s internal structuring in terms of being loosely or tightly controlled. The final and sixth dimension revolves around customer orientation with pragmatic units being market-driven, thus customer-oriented, and normative units being rather rule-oriented. (Hofstede et al., 1990: p. 302-304)

When it comes to national cultures, again six dimensions can be distinguished: (Hofstede, 2011: p. 8-16)

a. **Individualism vs. Collectivism**
   The individualism vs. collectivism dimension deals with the degree of people being integrated into groups.

b. **Uncertainty Avoidance**
   Uncertainty avoidance refers to the degree to which a society tolerates ambiguity.

c. **Long Term vs. Short Term Orientation**
   This dimension draws on the people’s focus of efforts which might be either present and past or future.

d. **Masculinity vs. Feminity**
   Masculinity vs. feminity is related to the distribution of emotional roles and values between genders.

e. **Power Distance**
   Power distance measures to which extent unequal power distribution is accepted and expected by the less powerful ones.
f. **Indulgence vs. Restraint**

Indulgence vs. restraint refers to “(...) the gratification versus control of basic human desires related to enjoying life.” (Hofstede, 2011: p. 8)

Hofstede’s models of organizational and national culture have been chosen in this context because they are widely known and have been generally accepted as comprehensive frameworks. Nevertheless, it is vital to note that they do not come without criticism. Some critics are only refining or correcting his theories while others are more radical, rejecting his work as a whole or warning that the almost exclusive use of his models is not advisable. (Knudsen, 2007: p. 304) Those criticisms state for example that his concepts of culture are too static by assuming a stability of the measured attributes and that they fail to differentiate dependent and independent variables. (Baskerville, 2003: p. 7) It is therefore important to keep the downsides of Hofstede’s theories in mind as well when working with them.

An important related concept is the one of cultural distance, often described with the CAGE framework that determines cultural, administrative, geographic and economic differences that are of importance when it comes to doing business internationally. (Ghemawat, 2001: p. 138)

- **Cultural Distance**
  Different languages, ethnicities, religions and social norms
- **Administrative Distance**
  Absence of colonial ties and shared monetary/political association; political hostility
- **Geographic Distance**
  Physical remoteness; lack of common border; weak transportation or communication links; climatic differences
- **Economic Distance**
  Different consumer incomes; different costs or qualities of natural, financial and human resources (Ghemawat, 2001: p. 139)

All in all, the permanence of cultural differences, whether in the organizational or national dimension, does especially matter for firms that operate internationally or form strategic alliances with companies from different countries and hence are exposed to numerous national cultures while doing their daily business. (Ghemawat & Reiche, 2011: p. 2)
Alliance employees, naturally, bring their national cultures to work which ultimately influences and forms their behavior. Hence, any international alliance is formed by national cultural differences. The intensity of said national cultural differences hinges on the extent of congruence or divergence between the partners’ cultures. “If the national cultures involved are distant from one another and are not congruent, then the national culture differences will be large and may create a cultural collision that may be detrimental (…)” to the alliance. (Meschi & Riccio, 2008: p. 253) In other words, several issues may arise in the context of strategic alliances in this matter that may influence the survival of an alliance. (Hanvanich et al., 2003: p. 4; Meschi & Riccio, 2008: p. 253)

To begin with, language barriers that alliance partners might face are the first thing that might cause problems. If the negotiating organizations are not able to understand and communicate with each other, the alliance is doomed before even getting started. (Elmuti & Kathawala, 2001: p. 208) Furthermore, cultural differences may unveil diverging management styles and practices that might give rise to misunderstandings, misinterpretations or ambiguities about the local market for example. (Hanvanich et al., 2003: p. 5) They also might impair information flow and organizational learning due to the fact that it is difficult to interpret the others’ comments and actions and to predict their behavior. This in turn decreases the likelihood of alliance instability or survival. (Hanvanich et al., 2003: p. 4)

Cultural clash can also be manifested or intensified through a set of competing values. An example in this case would be Americans negotiating an alliance with Japanese. Americans place emphases on being well-informed and focused during negotiations and thereby expect an open discussion. They want to take action and take over responsibilities. Japanese, on the other hand, give more weight to achieving consensus and group harmony and hardly ever take action immediately. They make decisions after consensus has been achieved. Such cultural problems might lead to interpersonal clashes which can seriously damage teamwork. (Elashmawi, 1998: p. 212)

Moreover, additional costs may arise from being unfamiliar with the local or host-environment respectively, adding up to the liability of foreignness costs that describe all further costs incurred by an organization doing business in a foreign country that are not incurred by local organizations. (Hanvanich et al., 2003: p. 4) Liability of foreignness is thereby associated with three types of hazards: relational, discriminatory treatment and unfamiliarity hazard. Relational hazard deals with the costs arising from interacting with
internal and external entities. Discriminatory treatment refers to foreign firms being treated worse in comparison with local firms on behalf of consumers, governments or suppliers for instance. Unfamiliarity hazard then refers to the aforementioned lack of knowledge on the local market. (Harima, 2015: p. 69-70)

More generally, during their first years of formation all alliances are confronted with the liability of newness, which describes the alliance’s mortality rate being quite high right after their formation that decreases gradually as time passes. The most noted explanation for this phenomenon is the low degree of internal and external institutionalization. “When they are first created, and during their early years, young organizations lack standardized managerial procedures and routines that are shared and well accepted by all the personnel. And they also lack external recognition and ties with the environment’s key stakeholders.” (Meschi & Riccio, 2008: p. 253) In combination with great cultural differences between partnering firms makes young alliances notably unstable due to the fact that the initial lack of managerial procedures and routines is critical for alliances facing cultural tensions and issues. In its early years the alliance does not possess ready-made tactics for dissolving problems and is not experienced enough in cross-cultural management. (Meschi & Riccio, 2008: p. 253)

3.2.2. Opportunism

The high rate for alliances failure can also be partly attributed to deceitful behavior by the allying firms. (Das, 2005: p. 706) When speaking of deceitful behavior, the term opportunism almost automatically comes to one’s mind, with opportunism being referred to “(…) a lack of candor or honesty in transactions, to include self-interest seeking with guile.” (Williamson, 1975: p. 9) It is a main assumption of transaction cost economics, where risk of opportunism is expected from economic actors every time that such deceitful behavior is viable and lucrative. (Ali & Larimo, 2016: p. 87) The overall goal of opportunism, therefore, is to take advantage of circumstances and seek gain for oneself at the partner’s expense. (Das, 2005: p. 706-707)

Types of Opportunistic Behavior

For that matter, several types of opportunistic behavior can be distinguished:
Adverse Selection

Adverse selection of partners represents one serious issue concerning strategic alliances. Organizations that serve as potential alliance partners may misrepresent abilities, skills or other resources that they would contribute to the alliance. Adverse selection can therefore be considered as a form of cheating that exists whenever an alliance party assures to bring a particular resource to an alliance, that it does in fact neither control nor has the ability to acquire. (Barney, 2002: p. 381; Arend, 2004: p. 282-288) "For example, a local firm engages in adverse selection when it promises to make available to alliance partners a local distribution network that does not currently exist." (Barney, 2002: p. 381)

Moral Hazard

A similar phenomenon to the one of adverse selection is moral hazard which is yet another example for opportunistic behavior. Thereby, moral hazard describes the situation where an alliance party owns capabilities or resources that are of a high quality and considerable value but is not able to deliver them to its partners within the alliance or makes available capabilities or resources that are of a lower quality than usual. (Barney, 2002: p. 381-382; Gauld, 2007: p. 19)

Holdup

The third type of opportunism in a strategic alliance is called holdup. One speaks of holdup when a certain company invests more and higher in the strategic alliance while the others exploit these investments. So given that one party requires higher returns than initially agreed upon while not making any significant investments themselves, holdup occurs. (Barney, 2002: p. 383)

Consequences of Opportunistic Behavior

The threat that a partner might act opportunistically hampers the cooperative efforts of the alliance firms and may have serious consequences. (Das, 2005: p. 706-707; Luo, 2006: p. 57)

To begin with, the threat of opportunism confronts allying firms with increased coordination difficulty, uncertainty and imposes greater costs on them due to the greater need for reviewing, debating and supervising the partner’s behavior. Moreover, the fear of allying firms for a partner behaving opportunistically is detrimental to the vital building of
trust as well as the establishing of forbearance. Also, opportunism prevents the development of reciprocity and repeated commitment. (Luo, 2006: p. 57-58)

In addition, opportunism acts as a notable obstacle for developing confidence within the alliance and increases the risk for conflicts among the parties. (Beamish & Banks, 1987: p. 4; Luo, 2006: p. 58) Partners acting opportunistically weaken the basis for cooperation by doing solely their own thing and focusing on their individual interests. “This failure to see beyond the short-term optimization of self-interest inhibits the cooperative effort that is essential to alliance success and is often instrumental in causing alliance dissolution.” (Luo, 2006: p. 58)

**Determinants of Opportunistic Behavior**

Generally, it can be said that the potential for an alliance partner to act opportunistically exists at all times. However, it may be influenced – in terms of increased or decreased – by several factors. (Ali & Larimo, 2016: p. 87)

Das and Rahman (2010) have proposed a framework consisting of three sets of determinants, that each affects the potential for opportunistic behavior in an alliance in a distinct way: economic, relational and temporal. (Das & Rahman, 2010: p. 58)

**Economic**

An allying firm has the need to secure economic benefits or at least to avoid economic losses. Given that this need is acute, the firm might harm its partners in order to pursue its self-interest. “The larger the potential economic gains to be made, the more an alliance partner would be driven toward opportunism.” (Das & Rahman, 2010: p. 63) The economic set of determinants encompasses equity involvement, asymmetric alliance-specific investments, mutual hostages as well as payoff inequity.

- **Equity Involvement**
  
  If an organization invests equity in the alliance, it gets harder to withdraw from the partnership. Hence, with an equity stake in an alliance, the organization is less likely going to jeopardize the agreement by behaving opportunistically and exploiting its partner.
• **Asymmetric Alliance-specific Investment**
  In case one organization believes that its own investments, however, are greater than the investments made by the other firm – that is, investments are asymmetric – the potential for opportunism will increase.

• **Mutual Hostages**
  Firms holding each other mutual hostages through exchanging their determining resources, on the other hand, is known to be negatively associated with opportunistic behavior.

• **Payoff Inequity**
  A partner that perceives its payoffs as inequitable (in terms of under-compensated) though may try to secure an equal payoff – often through deceitful behavior. (Das & Rahman, 2010: p. 63-65)

**Relational**

Relational determinants, such as cultural diversity and goal incompatibilities, note that an alliance firm’s feelings towards its partner might influence opportunistic behavior. (Das & Rahman, 2010: p. 65)

• **Cultural Diversity**
  Cultural diversity may increase partner opportunism mainly due to two reasons. As already elaborated before (see Chapter 3.2.1. Cultural & Organizational Differences) cultural differences might give rise to misunderstandings and misinterpretations. Such misunderstandings and misinterpretations can lead to an opportunistic reaction on behalf of one alliance partner. Moreover, organizations may hold more positive feelings for an alliance partner from the same or a similar cultural background, while being concerned about one from a different cultural background. Put simply, cultural diversity can lead to a self-absorbed, ethnocentric approach for treating alliance partners.

• **Goal Incompatibilities**
  If the pursuit of one goal hampers the pursuit of another, then these goals are incompatible. With such incompatible goals, one alliance partner might try to achieve its own goals by behaving opportunistically. Thus, incompatible goals are seen as counterproductive and can ultimately cause alliance failure. (Das & Rahman, 2010: p. 65-66; Brouthers et al., 1995: p. 21-22)
**Temporal**

The temporal set of determinants for partner opportunism deals with the time dimension, including alliance horizon and pressures for quick results. (Das & Rahman, 2010: p. 66)

- **Alliance Horizon**
  Traditionally, strategic alliances have explicit dates for terminating them. Some, however, have an ‘open end’. In this context, alliance horizon refers to the expected or intended duration of the partnership, which can range from short to long to – as mentioned – open-ended. While a short alliance horizon might encourage deceitful behavior, a long alliance horizon may prevent opportunism. This is due to the fact that with a long alliance horizon, partners will be more inclined to preserve the partnership and have more time to restore equity. (Das, 2006: p. 17; Das & Rahman, 2010: p. 67)

- **Pressures for Quick Results**
  “(…) alliances are time-consuming projects because partner firms have to learn to work together smoothly and efficiently. Unfortunately, that takes more time than most firms like.” (Das & Teng, 1999: p. 59) An organization that is under pressure for quickly achieving results, might take on deceitful means to take advantage of the alliance. With opportunistic behavior providing immediate results, it is therefore often resorted to given that an alliance firm needs or wants to achieve quick results. (Das & Rahman, 2010: p. 67)

The following figure again sums up the determinants of opportunistic behavior. The plus-and-minus signs in brackets indicate that the particular determinates is likely to increase or decrease respectively the potential for opportunistic behavior.
Luo (2007) concluded that the level of opportunism in an alliance is also largely affected, that is increased, by the environment’s volatility. Since emerging markets often have especially volatile markets, international alliances formed in an emerging market or with a partnering firm from an emerging market, are especially prone to opportunism. (Luo, 2007: p. 40)

In that matter, three interrelated but still distinct constructs have been identified which characterize the environment’s volatility in an emerging market, namely:

- **Information Unverifiability**
  If markets are lacking regulatory opaqueness, market economy institutions as well as transparency of government decision-making processes and treat firms differently based on their location, ownership or business type; then it is challenging to obtain, analyze and verify information about the environment. Information unverifiability is hence concerned with the extent to which true information on micro- and macro-business environments is hard to verify. (Luo, 2007: p. 43)

- **Industry Structural Instability**
  Industry structural instability relates to the degree to which the main structural attributes of an industry (e.g. profit, output or sales growth) are instable or vary. (Luo, 2007: p. 43)
• Law Unenforceability
In some cases commercial laws (e.g. contract law, corporate law or property right law) are not strictly enforced by legislative and governmental bodies. This can be due to a variety of reasons, such as institutional, historical, political or socio-cultural reasons. “This enforcement uncertainty (…) can be partly ascribed to long traditions of untrustworthy legal and governmental systems, lack of independent law enforcement, the deficiency of supervision mechanisms, and frequent unjustified law changes.” (Luo, 2007: p. 44)

These volatility hazards commonly cannot be controlled by an organization itself and thus an alliance party might increase its opportunistic behavior in order to lessen exposure to said volatility. This might be even more the case if the alliance acts in a less promising industry or is highly dependent on the particular country environment. (Luo, 2007: p. 40)

All in all, it has been recognized that every organization has the potential to behave deceitfully and opportunistically to some extent. This potential, however, can be dormant or latent. Many organizations omit opportunistic behavior because of fear for the partner finding out which might lead to a reputation loss or the termination of the alliance contract. Nonetheless, an organization entering a strategic alliance with another firm is – irrespective of its own behavior – required to be mindful of the partner’s attitude. (Das, 2005: p. 707)

3.2.3. Decision-Making Biases
In some cases, also the poor understanding of the partnering firms’ behavior is a contributing factor to the failure of international strategic alliances. This is due to the fact that this poor understanding biases the firms’ decision making and thereby affects the alliances’ stability. (Chao, 2011: p. 351)

Cooperation in the form of a strategic alliance can be seen as the interaction between two or more partnering firms and thus results in a sequence of strategic decision-making processes. Hence, it is crucial to adopt a dyadic perspective in order to explain decision making within the context of an alliance. In that sense, dyadic decision making can be defined “(…) as strategic decision making which requires a focal firm to take account of its partner’s contingent behavior. Insufficient consideration of the partner’s behavior can lead to a variety of mistakes in judgment.” (Chao, 2011: p. 351) Thereby, both competition and cooperation are being taken into consideration with alliance partners competing and
cooperating at the same time. Also, firms are characterized by limited cognitive ability as well as bounded rationality leading to their decision making being guided by certain assumptions about the overall environment or the partner’s behavior. Given that an organization misjudges the behavior of its partner, it will ultimately suffer from the consequences resulting from this misperception. “In the various stages of the alliance life cycle, such misperceptions can foster decision-making biases, which in turn, can cause dysfunctional behavior that ultimately impacts the alliance’s performance in a negative way.” (Chao, 2011: p. 352)

It is mainly due to the ambiguous intentions as well as the partners’ behavioral unpredictability and the therewith associated uncertainty that bring forth dyadic decision-making biases. Those decision-making biases at the various stages of the alliance life cycle account for alliance failure in the form of less-than-expected productivity or unexpected termination for example. (Chao, 2011: p. 351-352)

Generally speaking, numerous heuristics and biases with the potential of shaping the outcomes of organizational decision making have been acknowledged by cognitive psychologists and researchers who highlighted the aforementioned bounded rationality, that is the limited ability to process information. (Schwenk, 1984: p. 3-4) When confronted with uncertainty, heuristic principles – or “rules of thumb” – are often being relied on by decision makers with the intention of reducing the complexity of problems. “In general, these heuristics are quite useful, but sometimes they lead to severe and systematic errors.” (Tversky & Kahneman, 1974: p. 1124)

Based on this discussion, three particular decision-making biases, relevant to dyadic decision making, can be identified – overconfidence, single outcome calculation and adjustment and anchoring. These biases have the potential to be amplified at the various alliance life cycle stages and bring forth dysfunctional behavior. (Chao, 2011: p. 353)
**Overconfidence**

Whenever people overestimate their actual performance or have excessive, greater-than-average belief about their ability, overconfidence occurs. (Moore & Healy, 2007: p. 2) In terms of dyadic decision making, with an organization not giving enough consideration to the uncertain behavior of the alliance partner, it is prone to three types of overconfidence:

(I) *Type 1*: estimating the likelihood of a good outcome resulting from the alliance too optimistically;

(II) *Type 2*: overrating the ability to manage the alliance in order to provide the favored outcome;

(III) *Type 3*: overrating the advantages of the alliance relationship and having too much trust in the partner. (Chao, 2011: p. 354)

In the formation stage of the alliance life cycle, the first type of overconfidence occurs, which in all likelihood will cause the partnering organizations to view the ultimate outcome highly positive. If an organization does not intend risking to damage or lose the relationship with its partner and abstain from the final profits, they are inclined to neglect their own rights in the process of formation. They, for instance, may be hesitant to bring forth diverse opinions when being confronted by a new request by their partner(s). Thereby, they might agree to a compromise on the request. “Hence, the focal firm may keep making bigger and bigger concessions to the other partner, because the lure of the expected final gain distorts its judgment.” (Chao, 2011: p. 355)

The second type of overconfidence expresses itself at the operation stage where it enters the learning process. A potential source of this kind of overconfidence is superstitious learning, referring to a misunderstanding of what has been learned from experience. (Heimeriks, 2010: p. 58) An organization’s successful experience relating to prior alliances results in a rise of confidence that upcoming alliances will succeed as well. “This judgment is to some extent superstitious, and it tempts the firm to overestimate the extent to which it can do a good job managing the future alliance.” (Chao, 2011: p. 357) When “(…) the subjective experience of learning is compelling, but the connections between actions and outcomes are mis-specified (…)”, superstitious learning happens, involving “(…) situations in which subjective evaluations of success are insensitive to the action taken.” (Levitt & March, 1988: p. 325-326) In this case, a focal firm is particularly prone to be overconfident regarding its capability of managing the alliance competently or to underrate the
partnering firm’s capability of learning from the partnership. Accordingly, the focal firm is also prone to be the loser of the learning race. (Chao, 2011: p. 357)

The third type of overconfidence also emerges at the operation stage, precisely during the development of crucial control mechanisms. Overly trusting a partner, may lead to neglecting the development of such formal control mechanisms and relying too much on informal ones in terms of governing interactions among partners which in turn can foster opportunistic behavior. (Chao, 2011: p. 358)

**Single outcome calculation**

While searching for a solution to a strategic problem, decision makers are prone to a managerial bias called single outcome calculation, where they “(…) may focus on a single one of their goals or values and a single alternative course of action for achieving it.” (Schwenk, 1984: p. 15) Thereby, they fail to evaluate all possible alternatives and might even persuade others by coming up with arguments that increase the attractiveness of this single alternative. A potential source of single outcome calculation within the context of dyadic decision making is the fear of rejection on behalf of other parties involved, which in turn decreases the likelihood of raising concerns or rejections of the preferred single solution and hence impedes the appearance of alternatives. (Chao, 2011: p. 354)

With regard to a strategic alliance, single outcome calculation may threaten its stability in the final stage of the alliance life cycle, where the alliance performance is traditionally assessed. “When a solution is proposed to a current problem, the preference for local search can drive decision makers to inflate the positive aspects of a proposed solution while deflating the negative aspects.” (Chao, 2011: p. 359) A solution that is suboptimal, however, fails to resolve the problem and may even lead to bigger ones. (Chao, 2011: p. 359)

**Adjustment and anchoring**

The tendency of making insufficient adjustments within the process of decision making and thus showing bias towards and affecting the ultimate outcome for the benefit of the initial anchor, is referred to as adjustment and anchoring. (Tversky & Kahneman, 1974: p. 1128) Put differently, in some cases decision makers trust in primary assessments when it comes to guiding subsequent behavior without fully taking into consideration situational changes than might occur later on. Instead of adapting their plans with regard to new
information revealed to them later on, decision makers tend to rely on the initial anchor and only making minor revisions around it. Therefore, decision makers might deny the gap between expected and actual performance resulting from the adjustment and anchoring bias. “However, identifying the performance gap and adjusting one’s behavior accordingly is of critical importance to effective decision making as alliances evolve.” (Chao, 2011: p. 354)

Again relating to strategic alliances, adjustment and anchoring may affect the learning process during the operation stage. It has been shown that alliance partners benefit and learn the most from each other in the long run. (Khanna et al., 1998: p. 194) When it comes to dyadic decision making organizations are required to examine and observe the learning of their partner(s) as well as accordingly adapt their own learning in a timely manner. Not being aware of changes in the partnering firms learning motivation timely may lead to dropping behind and obtaining fewer benefits than the partnering parties. On the contrary, adjustment and anchoring bias can cause decision makers to focus solely on ‘good signs’ while disregarding severe issues in the cooperation process when evaluating the alliance’s performance. “If decision makers keep neglecting the warning signs and fail to adjust their beliefs and actions accordingly, they tend to lose the learning race.” (Chao, 2011: p. 358)

Summing up, there are three overall decision-making biases in the context of dyadic decision making that is overconfidence, single outcome calculation as well as adjustment and anchoring. These biases lead to dysfunctional behavior consisting of “(…) making too many concessions, losing the learning race, encouraging a partner’s opportunistic behavior, and adopting suboptimal solutions.” (Chao, 2011: p. 359) Not restoring these kinds of dysfunctional behavior will in all likelihood lead to less-than-expected productivity or unexpected termination. In the end, the ultimate outcome, however, will depend largely on the degree of severity of the dysfunctional behavior. A mild or moderate dysfunctional behavior in the beginning of the alliance life cycle may easily be resolved later on. The same mild or moderate dysfunctional behavior in later or final stages, though, and the partnering firms may not have enough time to handle it. (Chao, 2011: p. 359-360)
3.2.4. Risk

Furthermore, the innately risky nature of international alliances and the thereof resulting complex management challenges can be classified as a key factor of failure. The several types of risk are all the more jeopardizing if firms are not aware of them and they are not being dealt with effectively. (Lee & Johnson, 2010: p. 272)

In the following paragraphs the different types of risk will be further described.

Performance risk, the first type of risk within a strategic alliance, refers to the likelihood of the alliance failing even though all partnering organizations are fully committed to the relationship. (Elmuti & Kathawala, 2001: p. 209) A study conducted by Das and Teng (1999) concluded that alliances might still fail due to internal and external factors, despite the best efforts of the alliance firms. They also concluded several sources of performance risk such as demand fluctuations, fierce competition, lacking competence in key areas or simply bad luck. Performance risk, however, is an inherent part of all strategic decisions. All in all, performance might always fall below the expectations. (Das & Teng, 1999: p. 51)
Another – related – type of risk associated with international strategic alliances is country risk which could possibly destabilize the whole business venture by altering the balance of benefits, contributions and roles of the alliance’s local and foreign partners. Country risk hence defines the risk emerging from environmental uncertainty that is potential changes in the business environment. Regulatory changes, governmental instability or corruption, currency devaluation, increases in interest rates, government default on payments, civil wars or mass riots or strikes would be examples for country risk. Such factors might impact the local demand or consumption negatively, which in turn can deteriorate the sales and financial performance of the alliance. Moreover, objectives and bargaining power may shift leading to increasing instability within the alliance. (Meschi & Riccio, 2008: p. 254)

Knowledge appropriation risk is defined “(…) as the assessment of downside implications surrounding a firm’s disclosure of proprietary knowledge in alliance activities and interactions” and yet another type of risk in the context of strategic alliances. (Lee & Johnson, 2010: p. 275) As explored before, learning from partners and sharing knowledge is a common motive in alliances however, allying organizations face the risk that the required knowledge disclosure to the partners undermines their own competitive advantages. If considering an extreme example, the partnering firm might simply absorb the other’s knowledge and walk away, then using it to compete against the former alliance partner. This will – to begin with – destroy the alliance and – further – compromise the other organization’s competitive advantage. The knowledge appropriation risk is therefore, closely related to the concept of opportunism elaborated before (see Chapter 3.2.2. Opportunism). As a result, it is crucial to take into account the possible negative consequences associated with this kind of risk. (Lee & Johnson, 2010: p. 275)

Last but not least, relational risk is inherent in strategic alliances, which deals with the chances of partnering organizations lacking the commitment for the whole alliance venture and their potential opportunistic behavior. (Das & Teng, 1999: p. 51) It results from ineffective alliance communication, unexpected time and costs of augmented coordination or individual organization politics. Allying firms also might need to react to unexpected strategy changes by one partner, for instance, which might be even more urgent if organizational efforts are not being coordinated effectively. “Deteriorating relationships that quickly impact performance, as well as politics within one or both companies, further heighten these risks.” (Cummings & Holmberg, 2012: p. 150)
3.2.5. Misunderstanding & Ambiguity

Another set of key factors of failure that need to be recognized are misunderstanding and ambiguity. Indeed, misunderstanding and ambiguity are crucial intrinsic aspects of strategic alliances that have a strong potential of leading to alliance failure due to the fact that they create gaps in expectations of partners. (Kumar, 2014: p. 84)

Generally speaking, ambiguity “(...) refers to a lack of clarity, or consistency in reality, causality, or intentionality.” (March, 1994: p. 178) Thereby, alternative states are merely hazily defined and may have multiple meanings. Thus, a situation that is characterized as ambiguous will lead to less confidence on behalf of the decision-maker that one thing is true or that information will lead to clarity. This naturally complicates the process of choosing among alternatives. (March, 1994: p. 178-179)

As elaborated before, alliances evolve through the three consecutive developmental stages of formation, operation and outcome that are concerned with the negotiation (formation), the execution (operation) as well as the assessment or termination respectively (outcome) of the alliance. (Das & Teng, 2002: p. 727-728) Each of these three alliance stages is associated with a certain kind of ambiguity that calls for effective management thereof. Poor management of these certain kinds of ambiguity will lead to even greater likeliness of alliance failure. (Kumar, 2014: p. 84)

The stage of formation is associated with the so-called partner ambiguity, at the stage of operation interaction ambiguity arises and the final stage of outcome deals with evaluative ambiguity. (Kumar, 2014: p. 85) Each of these ambiguity types will further be elaborated in the following.

● Partner Ambiguity

Partner ambiguity deals with both the appropriateness and suitability of the partnering firms. (Kumar, 2014: p. 86) One crucial question thereby is if they demonstrate a high level of compatibility, complementarity as well as commitment. (Kale & Singh, 2009: p. 47) An important role in this context plays the negotiation stage which is particularly characterized by ambiguity and hence can be in many cases a rather long and time consuming process. As a result, whether partner ambiguity is existent or not is checked most forcefully during that stage with the partners initiating the setup of an alliance contract. (Inkpen & Ross, 2001: p. 137-139) The sources of ambiguity during that time are
indeed numerous and varying. One example is the immanent tension between the creating and claiming of value which may lead to the partnering firms being skeptical or hesitant of sharing information and knowledge. However, the sharing of information and knowledge is crucial to successful negotiations in particular and strategic alliances in general. Still, the immanent ambiguity related to such sharing of information and knowledge may complicate the process. (Lax & Sebenius, 1986 cited in Kumar, 2014: p. 86)

Partner ambiguity also varies according to the specific type of alliance. Koza and Lewin (1998: p. 256) concluded that strategic alliances often focus on either exploration or exploitation with the former being much more challenging to negotiate. (Koza & Lewin, 1998: p. 256) This is due to the fact that exploration comprises the discovery and development of or the search for new, innovative technology, methods or possibilities. Exploitation on the other hand only involves exploiting the current field of work. (March, 1991: p. 71)

Cultural barriers or distance respectively even worsen ambiguity among partners with them grappling with making sense of the proceeding negotiations. (Kumar, 2014: p. 87) Numerous Asian and Latin American countries and cultures – for instance – require individuals or organizations to spend a considerable amount of time in developing a relationship with one’s partner; otherwise effective negotiation may be difficult or even impossible. (Chen et al., 1998: p. 293-294)

„The negotiating process also highlights the importance and relevance of fairness considerations during the negotiating phase.“ (Kumar, 2014: p. 87) Thereby, fairness may deal with issues regarding the distribution of potential benefits and profits resulting from the cooperative agreement or whether the partnering firms interact with and treat each other respectfully. Given that one of the partners perceives the alliance as unfair or feels not being treated with respect, the negotiation is highly likely to fail. “Further, while contracts underpin all alliances, the allying firms may differ in their natural inclination towards a reliance on contracts or relying on relationships as a way of governing the alliance.” (Kumar, 2014: p. 87) With cooperating organizations having different preferences concerning alliance governance, the search for strategic consensus can become a great challenge. (Kumar, 2014: p. 87)
● **Interactional Ambiguity**

Once the alliance enters the operation stage, interactional ambiguity is the predominant type, referring to unfavorable process discrepancies that threaten the alliance’s success. “A process discrepancy represents a deviation between an expected event and an actual event and suggests that the alliance partners are not getting along well with each other.” (Kumar, 2014: p. 87) Again, the sources of interactional ambiguity are multifaceted and include many of the aforementioned issues such as cultural differences, opportunism, risk or decision-making biases but also prior history and experience, concerns regarding fairness and inadequate managerial mechanisms, which hinder the effective coordination of activities and bring forth ambiguity with regard to which specific mechanisms are the inadequate ones and who should be held responsible thereof. (Kumar, 2014: p. 87)

● **Evaluative Ambiguity**

Whenever an alliance lives to see an outcome discrepancy that can be described as unfavorable, evaluative ambiguity emerges. (Kumar & Nti, 1998: p. 363) In this context, outcome discrepancy refers to the fact that the alliance did not achieve results that satisfy one of or all the partnering firms. Evaluative ambiguity thus deal with the future of the alliance in terms of deciding whether it should persist or not given that results are below expectations. Thereby, the managers responsible are required to ask the following fundamental questions: “Is an unfavorable outcome discrepancy reflective of environmental volatility or is it indicative of a deep-seated problem? Does the unfavorable outcome discrepancy represent realistic or unrealistic expectations for the alliance?” (Kumar, 2014: p. 88)

However, some even emphasize the potential value of ambiguity in strategic planning and decision-making and hence argue that ambiguity is a double-edged phenomenon. (Abdallah & Langley, 2014: p. 235) Eisenberg (2007) claims that – under certain circumstances – there may be considerable advantages to “(...) allowing multiple interpretations on the part of the receivers.” (Eisenberg, 2007: p. 7) He states that ambiguity may in fact be a way to bring in line needs for coherence and coordination with the liberty to assure creativity and flexibility. This is based on the argument that whenever people have multiple perspectives and standpoints, strategic ambiguity supports “(...) unified diversity (…)” by “(...) fostering agreement on abstractions without limiting specific interpretations.” (Eisenberg, 2007: p. 9) Furthermore, he argues that strategic ambiguity
makes change easier due to the fact that it allows shifts with regard to the meaning of goals for example but at the same time retaining a sense of continuity. (Eisenberg, 2007: p. 9; Abdallah & Langley, 2014: p. 237)

All in all, it can be said that it is not possible to eliminate ambiguity completely. However, there are certain mechanisms that may be helpful when it comes to managing ambiguity more effectively (see Chapter 3.3.6. Management of Ambiguity).
3.3. Key Factors of Success

According to Grunert & Ellegaard (1992) the concept of key factors of success – sometimes also referred to as critical success factors – can be employed in four diverging ways:

1. as a notable characteristic of an organization,
2. as an essential component of a management information system,
3. as a heuristic tool used by management to sharpen thinking,
4. as a portrayal of the necessary resources and skills to be successful in a particular market. (Grunert & Ellegaard, 1992: p. 2)

For the purpose of this master’s thesis, the fourth view will be adopted.

When it comes to the overall success of strategic alliances, studies commonly face difficulties of evaluating it. While some take the alliance’s longevity as a benchmark for success into consideration, others examine its influence on the partnering firms’ competitiveness or strategic position respectively. (Hoffmann & Schlosser, 2001: p. 359) The key factors of success that will be examined in the following are contributing to either alliance’s longevity or partnering firms’ competitiveness or strategic position, or even both.

3.3.1. Thorough Planning

Thorough planning is an integral part of strategic management and is commonly defined as a formal procedure with the intention of producing an articulated result. (Mintzberg, 2000: p. 12) Hence, thorough planning mainly is to be associated with the formulation stage of the alliance lifecycle and thereby deals with its sub-phases such as strategy, partner search and selection, dialogue and negotiation (see Chapter 2.3. The Strategic Alliance Process). The alliance literature identifies several aspects to be crucial within the planning process, namely:

- Partner selection and the therewith associated partner fit
- Strategy development
- Negotiation
- Exit Planning

These aspects, all of which have been deemed necessary and key factors of success respectively, will be further elaborated in the following.
3.3.1.1. Partner Selection

The first crucial aspect of the thorough planning process is partner selection. Selecting the right partner can be seen as the key factor for a successful international strategic alliance. However, it needs careful screening of potential partners and thus, can be a quite time-consuming process. (Dacin et al., 1997: p. 4-5)

Tjemkes et al. (2012) describe partner selection as a five-step process, which can be seen in the following:

**Figure 8: Decision-Making Steps: Alliance Partner Selection (Tjemkes et al., 2012: p. 37)**

According to this five-step process, selecting a partner begins with the preparatory activity of developing a partner profile, which describes the ideal alliance partner with regard to the organization’s own intentions and requirements. (Tjemkes et al., 2012: p. 37) A main aspect here are the so-called partner selection criteria, such as competitive strength (e.g. cost reduction), marketing system and status (e.g. access to marketing or distribution channels, good reputation), local operation expertise (e.g. local market or regulatory
knowledge) and technological expertise. (Chand & Katou, 2012: p. 169) During all five steps of the partner selection it is also of utter importance to consider cultural factors because they strongly affect an alliance’s success. (Dasi-Rodríguez & Pardo-del-Val, 2015: p. 1525)

This step is followed by the formulation of long and short lists of potential partners. The first gives an overview through summarizing all possible partners and alternatives, which is important because it indicates a strong bargaining position. Trade associations, intermediaries, business networks or simply the Internet can thereby operate as sources to come up with such a long list of possible partners. A short list, on the other hand, allows organizations to carry out in-depth analyses of potential partners. “Against the backdrop of the partner selection criteria in Step 1, the firms can compare information about these potential partners to reduce their long list to the short list.” (Tjemkes et al., 2012: p. 38) This requires organizations to gain as much relevant, publicly available information on possible partner firms as possible, assess to what extent they meet the developed partner profile and decide which firms are most suitable for the short list.

The third and fourth step both deal with the concept of partner fit by developing a framework and conducting an analysis thereof. The framework is necessary to prepare for assessing the potential partners on the short list, while the analysis deals with reanalyzing existing and gaining additional information that could be of interest or necessity as well as identifying the ultimate fit. (Tjemkes et al., 2012: p. 38-39) Due to the fact that partner fit is such an essential aspect of alliance partner selection, the next sub-chapter will deal solely with this topic.

The final and fifth step then demands the organization to carry out a risk assessment of the possible partners. A great partner fit on every criteria is rather unlikely, so the evaluation facilitates the identification and discussion of possible risks and hazards. (Tjemkes et al., 2012: p. 39-40)

Since selecting a partner is highly associated with uncertainty, there are also certain mechanisms that are able to reduce it such as the relational and the contextual mechanism. The relational mechanism states that firms might reduce uncertainty when selecting a partner by embedding their alliances in already given social relations or networks. The contextual mechanism on the other hand describes the principle of reducing uncertainty through confiding in the possible partner’s reputation, which ought to
be a reliable and vital information source when it comes to selecting and screening alliance partners. (Mitsuhashi, 2002: p. 116&124)

3.3.1.2. Partner Fit

When it comes to partner fit, alliance literature has identified two interrelated concepts, each of which has its own logic. The first concept bears on partnering firms’ resource complementarity used to increase the effectiveness of an alliance. The second concept, on the other hand, pertains to the firms’ compatibility in terms of firm characteristics. (Tjemkes et al., 2012: p. 30-31)

Dyer and Singh (1998) thereby perfectly sum up the overall concept of partner fit: “Although complementarity of strategic resources creates the potential for relational rents, the rents can only be realized if the firms have systems and cultures that are compatible enough to facilitate coordinated action.” (Dyer & Singh, 1998: p. 668)

I. Resource Complementarity

Resource complementarity has been defined as allying firms’ distinctive resources that – if taken together – yield a higher return than they would have if used individually. (Dyer & Singh, 1998: p. 666-667) Based on this definition, a strategic alliance functions as an option for an organization missing specific resources which would be needed to create a sustained competitive advantage. (Mowery et al., 1998: p. 510-511; Tjemkes et al., 2012: p. 31) Hence, resource complementarity is an important criterion for selecting a partner and partner fit. Organizations are required to have a good fit of resource foundations and provisions. (Tjemkes et al., 2012: p. 31)

According to a study conducted by Hitt et al. (2000) there are considerable differences between emerging and developed countries in terms of what resources their firms prioritize. Emerging market firms give more weight to financial and intangible assets, technical capabilities, willingness to share expertise and a capability for quality. Developed market firms, on the other hand, emphasize unique competencies, previous alliance experience, industry attractiveness and cost of alternatives. (Hitt et al., 2000: p. 462) “Thus, to increase an alliance’s value creation potential, firms seek the specific partners with which they can align their particular resources.” (Tjemkes et al., 2012: p. 31)

Though, not all alliance resources can be taken advantage of effectively, resulting in four different types of resource complementarity:
a. **Complementary Resource Alignment**

In this case, organizations contribute dissimilar resources, whose complementarity lets them create and capitalize on synergy effects and those non-redundant resources.

b. **Supplementary Resource Alignment**

Here, organizations contribute similar resources which allows them to achieve economies of scale or increase their market power.

c. **Surplus Resource Alignment**

This occurs when organizations bring dissimilar resources to the alliance, but do not utilize them fully.

d. **Wasteful Resource Alignment**

The fourth type suggests that organizations with similar resources partner and under-perform. (Das & Teng, 2000: p. 49-50)

**II. Compatibility**

Coalignment, congruency or contingency between companies are all often used synonyms for compatibility fit; a concept in strategic management that is gaining more and more in importance. (Zaman & Mavondo, 2008: p. 2) It thereby refers to the extent to which allying firms share similar characteristics. Research suggests that alliance success depends heavily on such an effective and efficient fit because it has been seen as crucial to balance all parties' backgrounds and interests and thus, creating a win-win situation. “Within the context of alliances fit is very much related to concepts such as complementary balance, mutual benefits, harmony and dependency. (Douma et al., 2000: p. 581)

Douma et al. (2000) have concluded that a successful international strategic alliance requires a good fit in five different domains: strategic, organizational, cultural, operational and human fit. Alliance managers are required to address all five types of fits within the partnership, since an insufficient fit in a single domain can cause the alliance to fail. (Douma et al., 2000: p. 581; Tjemkes et al., 2012: p. 32)
Figure 9: The Generic Fit Framework (Douma et al., 2000: p. 582)

It must be noted that this generic fit framework takes on a dynamic rather than a static view. An insufficient fit at the alliances’ start-up phase may be strengthened thanks to an effective management of alliance dynamics, while a good fit can deteriorate over the course of time.

All aspects of compatibility partner fit just mentioned will be further discussed in the following:

**Strategic Fit**

Simply put, strategic fit means matching strategy and content and benefitting from the considerable performance implications. With regard to strategic alliances, strategic fit refers to the alignment of organizational capabilities and resources with the partner’s complementary capabilities and resources and the efficiency thereof. “Specifically, in alliances, the coalignment posits higher effectiveness (performance) for organizations that have reconciled the competing needs of the partnering firms.” (Zaman & Mavondo, 2008: p. 2)

Tjemkes et al. (2012) list a few factors that indicate a strategic fit of organizations. These indicators include for example proper competitive positions; highly compatible goals with regard to the overall business as well as the alliance; a shared understanding of the basic principles of business; mutual dependence of each other’s resources and capabilities; compatible strategic missions and visions and alike views on developments in both
present and future. (Tjemkes et al., 2012: p. 32) Douma et al. (2000) offer a similar list, which they call the drivers for strategic fit:

**Drivers for Strategic Fit**

1. Do the alliance partners have a shared strategic vision on developments in the alliance environment?
2. Are the partners’ alliance and corporate strategies compatible?
3. Is the alliance of strategic importance to both partners?
4. Are the partners mutually dependent for achieving their objectives (complementary balance)?
5. Do the joint activities have added value for the clients and the partners?
6. Will the alliance be accepted by the market (buyers, competitors, government)?

| Table 4: Drivers for Strategic Fit (Douma et al., 2000: p. 583) |

The degree of strategic fit can then be determined with the help of these six drivers. Thereby, three situations are possible: In the first the partnership is characterized by a good strategic fit between the allying firms, meaning that there is a good basis for cooperation. The second is where there is a limited fit and the partnering firms need to reflect whether the strategic fit principally can be strengthened or not. If it cannot, cooperating would not be advisable. The third situation refers to a mixed fit that is a combination of the two aforementioned scenarios. Even with a limited or a mixed fit, organizations might in fact decide to form an alliance. However, such a decision will require greater effort with regard to the alliances' design and its implementation process. (Douma et al., 2000: p. 585)

So, overall, in this context, a good strategic fit can be seen as a basic requirement for every strategic alliance due to the fact that it connotes that the organization’s individual interests have been weighed carefully against possible advantages and risks of the partnership. All parties have recognized the value that the alliance adds to their individual business as well as their particular role they play for an alliance success. “Selecting a partner with good strategic fit increases the long-term value creation potential of alliances by signaling that partners have converging long-term interests and are not likely to engage in behavior that poses a competitive threat.” (Tjemkes et al., 2012: p. 32)
Organizational Fit

Organizational fit then refers to the alignment of organizational structures. (Tjemkes et al., 2012: p. 34) Again, a list of drivers for organizational drivers exists, which can be seen in the following:

<table>
<thead>
<tr>
<th>Drivers for Organizational Fit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are organizational similarities and differences addressed in the alliance design?</td>
</tr>
<tr>
<td>2. Does the alliance design provide strategic and organizational flexibility?</td>
</tr>
<tr>
<td>3. Has the complexity of the alliance design been reduced as far as possible?</td>
</tr>
<tr>
<td>4. Does the alliance design enable effective management control for both partners?</td>
</tr>
<tr>
<td>5. Are potential strategic conflicts overcome by the alliance design?</td>
</tr>
<tr>
<td>6. Does the alliance design enable the partners to achieve their strategic objectives?</td>
</tr>
</tbody>
</table>

Table 5: Drivers for Organizational Fit (Douma et al., 2000: p. 586)

This shows that, first of all, it is important to address organizational differences so to facilitate an effective and efficient cooperation. Moreover, alliances need to be strategically and organizationally flexible as a dynamic view on fit is crucial. This is tightly related to the third driver, which refers to the alliance’s design complexity and states that, generally speaking, complex alliances will need to deal with greater problems when adapting to changes. Organizational fit also implies that the alliance design must furthermore enable effective management control on behalf of all alliance parties. To secure stability in the long-term, the fifth driver states that the allying firms and the alliance’s design need to address potential strategic conflicts. The final driver for organizational fit is closely related to the concept of strategic fit because while negotiating heatedly, partners often make concessions or temporarily forget their underlying goals and objectives. (Douma et al., 2000: p. 586-587) Hence, prior to sealing the deal on the alliance, it is recommended “(…) that alliance partners, once again, carefully test whether the chosen design ultimately enables them to achieve their strategic objectives.” (Douma et al., 2000: p. 587) However, also the fit of the respective alliance management capability needs to be assessed. Research suggests that with one partnering firm having no experience in managing an alliance, the chances of a successful alliance will decrease. (Draulans et al., 2003: p. 161)
Nevertheless, in the majority of cases the allying firms distinguish themselves in one or another organizational characteristic. The overall objective, however, is to reach an extensive understanding of where the differences lie and introduce potential corrective measures. (Tjemkes et al., 2012: p. 34)

**Cultural Fit**

Hofstede’s dimensions of organizational and national cultures, *(see Chapter 3.2.1. Cultural & Organizational Differences)*, outline managerial and personal tendencies within an organization, portrayed by a range of expected or preferred behaviors. When allying firms differ greatly along those dimensions – and thus in their organizational behaviors, beliefs and values – the results may be misunderstandings, problematic interactions or, generally said, conflicting behaviors. (Pothukuchi et al., 2002: p. 246) Therefore, a fit of organizational as well as national culture is a key factor for alliance success as well. If alliance partners are characterized by similar organizational attributes, they will in all likelihood enjoy greater synergies. (Saxton, 1997: p. 447) Or as Cartwright and Cooper (1993) already put it “(...) the degree of culture fit that exists between combining organizations is likely to be directly correlated to the success of the combination.” (Cartwright & Cooper, 1993: p. 60)

Dealing with diverging cultures can be facilitated by adopting various approaches such as allowing cultures to co-exist in a non-equity based alliance or engaging in a cultural assimilation process in a joint venture, where the positive elements of all cultures merge into a new one. Moreover, initiating activities for raising cultural awareness may be a success-contributing factor. Such activities can be cultural training, employee transfers or joint sessions for instance. (Tjemkes et al., 2012: p. 35)

**Operational Fit**

Operational fit refers to an organization’s procedural capabilities such as operational standards and systems, working procedures, effective management and other operational business aspects. (Sarkar et al., 2001: p. 362; Tjemkes et al., 2012: p. 34) A good operational fit is an indicator for effective cooperation and collaboration among alliance partners on the operational level and thus increases chances of alliance success due to the fact that links between the firms’ operations are transparent. When two manufacturing companies, for instance, decide to cooperate, their joint value creation largely hinges on whether they are able to integrate their operational facilities or not. If their operational fit is
good, they are able to collaborate in an efficient way, thereby becoming capable of resolving operational problems quickly, lowering coordination costs and even discovering possible areas for improvements. “Thus, good strategic (…)” and cultural fit “(…) is a prerequisite for long-term commitment; operational fit is critical for determining the extent to which alliance partners can realize the potential benefits.” (Tjemkes et al., 2012: p. 35)

**Human Fit**

Human fit ultimately deals with to what extent individuals or teams collaborating within the alliance have converging experiences, backgrounds or personalities. (Tjemkes et al., 2012: p. 36; Douma et al., 2000: p. 581-582) Managing human fit is equally important to the other types of due to the fact that employee behavior has a direct impact on customer satisfaction or profitability, for example. “Common backgrounds, experiences, and personalities support employees’ mutual understanding, ease interactions, and streamline employee behavior. In addition, human fit encourages collaboration in alliance teams, which often determine alliance success.” (Tjemkes et al., 2012: p. 36)

The figure below illustrates and again sums up the most important facts about the two interrelated concepts of partner fit:

![Figure 10: The Concepts of Partner Fit (adapted from Thomas, 2014: p. 25)](image-url)
3.3.1.2. Negotiation

Once the right partner, with whom a good partner fit persists, has been selected, a successful negotiation is the next aspect that has to be considered since the process of negotiation and its outcomes build the foundation for the alliance’s future progress. (Tjemkes et al., 2012: p. 44) Generally speaking, negotiation means “(...) the deliberate interaction of two or more complex social units which are attempting to define or redefine the terms of their interdependence (...).” (Walton & McKersie, 1965: p. 3) It is suggested that interdependence is a main part of every negotiation and negotiations would not even by necessary if there were no interdependence. (Das & Kumar, 2011: p. 1236)

So put simply, negotiating is a crucial part of the thorough planning process because alliance partners are independent and reaching an agreement calls for the representatives of each allying firm to establish a dialogue and negotiate. The aim thereby is to reach an outcome that meets the interests of all parties through means that are acceptable for everyone. (Tjemkes et al., 2012: p. 44)

To do so, the negotiating partners need to adjust their expectations, find an appropriate negotiation strategy and react to the other party’s offers. Low expectations, for instance, might permit the partner to profit disproportionately from the negotiated alliance. Overstated expectations, however, might hinder organizations to reach an agreement. Likewise, one party making a small concession might cause anger, but a big concession might lead to a revision of expectations by the other party. (Das & Kumar, 2011: p. 1236)

What is important to begin with, is to decide who needs to be involved in the overall negotiation process as stakeholders and to identify the ones who are able to either support or block the agreement’s successful implementation. Getting the insights of those close to the action and those implementing the agreement in the end is thereby vital as well as them having a positive working assumption beyond blaming others and pointing fingers at them. “Negotiating parties need to be able to work together with a collaborative mindset, not with an either/or mindset but with a both/and mindset, which will enable them to share information, explain reasoning behind ideas, and do joint problem solve looking forward.” (Ore, 2009: p. 2)

The development of such a positive working relationship can be facilitated by a number of basic rules with regard to expected behavior, time management and ways of interpreting data or resolving disagreements for example. Moreover, negotiators are required to be
unconditionally constructive to promote a positive working relationship which is characterized by:

- creating a positive environment to foster prosperous communication;
- understanding and identifying all stakeholders’ diverse interests;
- generating creative options;
- educating all parties about alternatives they have. (Ore, 2009: p. 2)

In that sense, being unconditionally constructive is associated with attempting to understand others, balancing emotions with reason, being trustworthy and accepting, consulting with each other before making decisions as well as being open to persuasion and to learn from the others. (Ore, 2009: p. 2)

Another important step for the negotiating partners is to find an appropriate negotiation strategy, which refers to an actor’s attitude toward harmonizing and integrating the partners’ interests. Based on the particular literature, five broad categories of negotiation strategies can be derived, namely collaborating, competing, avoiding, accommodating and compromising. To begin with, collaborating refers to a primary focus on the interests of both oneself and the partner and thereby emphasizing problem solving. Competing, on the contrary, suggests a high concern for one’s own interests and imposing them on the counterpart so the other has to back down. Not going after both parties’ interests and refusing to deal with the issue are the main aspects of the avoiding strategy. Accommodating then indicates a high concern for the partner’s interests, while oneself backs down. The last strategy, compromising, refers to moderate concerns for the counterpart’s interest and agreeing to split the difference. (Tjemkes et al., 2012: p. 45)

When comparing these five types of negotiation strategies, it seems that collaborating would be prosperous for negotiating alliances due to the fact that all parties put a strong focus on each other’s interests and thereby maximize the negotiation outcome. Developing a win-win alliance requires the partnering firms to negotiate generously and make sure that all actors receive a good deal even though it may not lead to immediate great outcomes. However, it establishes the basis for success in the long-term. “Although collaborating cannot guarantee a successful negotiation even if employed by all partners, it is likely to result in outcomes associated with trust-building.” (Tjemkes et al., 2012: p. 45)
A key aspect of negotiating is furthermore the sharing of information with the two objectives of strengthening the partners’ relationship and obtaining a joint understanding of the superior goals. While sharing information it is important to be open and honest and share all relevant information, because hiding it might affect the process negatively over the course of time. It is moreover advisable not to force a deal through legal threats. Meetings and negotiations in the beginning are characterized by softer aims, for instance getting to know the other partner in terms of alliance vision and culture. Sharing of information should also be a balanced matter, with all parties contributing equally. (Tjemkes et al., 2012: p. 53)

Once the negotiations have been completed, it is also vital that the outcomes and results are documented “(…) in a preliminary alliance contract (legally binding) or Memorandum of Understanding (limited legal enforcement) which contains an outline of the negotiated points and, if required, issues that need further negotiation.” (Tjemkes et al., 2012: p. 55)

Last but not least, the negotiation process needs to be completed by deciding on whether to really enter an alliance and initiating the stage of specifically designing the alliance. To determine whether the negotiation objectives have been achieved or not, the negotiating parties need to confirm inter alia:

1. A clearly articulated and understood mission statement
2. Clarity regarding the alliance design (e.g. governance form, control)
3. Consensus about (resource) inputs
4. Clear understanding of crucial aspects (such as ownership rights or protection of intellectual property) and of the legal, operational, technological, marketing and decision-making procedures
5. Possible solutions on how to deal with conflicts
6. Sufficient understanding of how the alliance affects the organizational processes

(Tjemkes et al., 2012: p. 55)

3.3.1.3. Strategy Development

The next important aspect of thorough planning is to develop the alliance strategy and align it with the organizations’ growth or internationalization strategies respectively. Since strategic alliances are mainly formed to enhance organizations’ growth and enter foreign markets, the alliance strategy needs to be rooted in the long-term growth strategy of the
company. Thereby, Cools and Roos (2006) suggest the answering of the following questions:

- “What are the prospects for organic growth in the core business?
- Are there more attractive growth paths outside the core business?
- How risky are those options?
- When do alliances make more sense than full-fledged M&A?
- What types of companies would make the best partners, and what is the appropriate time frame for the alliance?” (Cools & Roos, 2006: p. 2)

Moreover, the question how integrated the alliance will be with the parent firms is required to be asked. While some alliances act very autonomously and independently from the parent firms, others are highly integrated with them and share production facilities or staff for instance. Whatever the case may be, it is essential to align the alliance with the overall company strategies and have clearly defined and shared goals and objectives. (Elmuti & Kathawala, 2001: p. 212)

The alliance strategy itself then should be formalized by deciding which external sources of resources are going to be deployed in order to support the chosen activities and to achieve the alliance goals. “An alliance strategy summarizes these decisions, often formalized in the form of a business case that describes the scope of activities taken into account, the objective of the alliance, the nature of the partnership and a cost-benefit analysis.” (Tjemkes et al., 2012: p. 27-28)

Bamford et al. (2004) suggest prior to sealing the deal, the team launching the alliance as well as those who will manage it, need to jointly develop a detailed business plan with the same standards of accuracy, elaborateness and logic of any other capitalist venture. It is advised for those responsible to meet off-site for a few days and define specifically how and where the alliance will compete, how it may expand beyond the initial scope, “(…) set financial targets, plan capital expenditures, and create a blueprint for the organization. This work is then translated into a detailed business plan.” (Bamford et al., 2004: p. 94)

3.3.1.4. Exit Planning

Basically, it is fairly well-known how to get into a partnership, getting out, however, can sometimes be quite difficult. Thus, exit planning needs to be an integral part of the overall thorough planning process as well. Otherwise, it may lead to a major alliance breakdown.
Gulati et al. (2008) thereby provide a framework to systematically think about disengaging from a strategic alliance and state that most exits are to be characterized as easy, in terms of inexpensive and fast, or hard, meaning expensive and lengthy. (Gulati et al., 2008: p. 147-150) “For example, a hard exit provision may require a firm to buy out its stake at a significant premium, with the buy-out spread over several months. Alternatively, an easy exit provision may require no capital transfers and only one month’s notice of termination.” (Gulati et al., 2008: p. 150)

The general question, nevertheless, must not be if a given exit should be easy or hard. Rather, the question must be when and for which partnering firm the exit should be easy or hard. Put differently, a well-structured exit plan comprises several contingency-based exit provisions, which determine how difficult an exit for each allying firm should be. Hence, an alliance agreement should take into account not only a single exit clause, but several ones, with a certain clause being activated given that a specific contingency is met. Gulati et al.’s (2008) framework – which should be applied right at the formation stage of the alliance – suggests four quadrants “(…) that unify the contingencies based on the optimal set of exit provisions applicable to them.” (Gulati et al., 2008: p. 150) Their underlying idea is that the exit difficulty for the firm itself and for its partner(s) should vary, according to the given context. As a result, exit provisions may be either symmetric, with the exit being either easy or hard for all parties, or asymmetric, with the exit being easy for one party and hard for the other. (Gulati et al., 2008: p. 150)

**Symmetric Exit Provisions**

The first symmetric exit provision scenario is rather simple. Successfully meeting the set alliance goals, an expiry of the alliance term or a market shift which leads to an impossibility of attaining the alliance’s goals and thus dooms the partnership unnecessary, would be examples for such straightforward contingencies that should make for an easy and smooth exit for all parties. Hence, whenever such situations come up, with the alliance goals becoming impossible to achieve or the overall alliance turning into a liability for everybody – all parties should be able to easily exit. (Gulati et al., 2008: p. 152)

The second symmetric scenario has both the firm itself and its partner(s) deal with significant and costly, and thus hard, exits. Such hard, symmetric exit provisions are characterized as being very effective and are thought for the two situations: “(…) when the alliance is progressing successfully toward its goals; and when the alliance’s value relies
heavily on the unique contributions of both partners making it costly for one partner if the other abandons the alliance.” (Gulati et al., 2008: p. 153) In both situations granting an easy access is not recommendable due to the fact that there is no reason for letting any of the parties intercept the successful alliance process and destroy its value. Furthermore, letting only one of the allying firms do so, gives it a power advantage which may again diminish the alliance’s value. (Gulati et al., 2008: p. 154)

**Asymmetric Exit Provisions**

Even though a symmetric exit provision might seem suitable for every situation, it is indeed not. In some cases the alliance’s success can be encouraged by favoring one party in terms of the exit’s difficulty. Asymmetric dependence, a party breaching the contract or a sudden change of direction with regard to a firm’s strategy may be examples for such situations. (Gulati et al., 2008: p. 154)

The first of such asymmetric exit provision scenarios stands to reason within an alliance that is marked by a significant disproportion among the partnering firms and their dependence. Given that one organization is heavily dependent on the other and desperately needs its input, the partner providing the scarce and hard-to-obtain input should face a difficult exit. So generally speaking, this would hinder smaller firms from entering alliances that are fully to their detriment and formed as an option by bigger firms. (Gulati et al., 2008: p. 154)

The second asymmetric exit provision scenario ought to be applied if a partner violates a particular agreement within the contract. Then, the other party should be granted an easy exit. “In such cases, the perpetrator should be forced to choose among several courses of action, based on the partner firm’s preference: staying in the partnership and paying a penalty; paying a penalty and exiting, or buying out the other firm’s stake through some form of put option stipulated by the partner firm.” (Gulati et al., 2008: p. 155) Whatever the case may be, the violator should have to face a hard – that is expensive – exit, whereas the injured partner needs to be free to exit quickly and easily. (Gulati et al., 2008: p. 155)
However, it is also crucial to avoid the following blind spots with regard to exit planning:

- To begin with, in many cases alliance managers forget to think about distinct exit strategies during the formation stage. That is, they become subject to the so-called *planning-stage honeymoon*. In favor of securing the deal at all costs, alliance managers often define their alliance terms only vaguely. Such vagueness may give alliance managers a sense of security at that certain moment, but on a number of occasions leads to disastrous dynamics when the alliance is dissolved. It is therefore necessary at the formation stage already, to sit down and come up with a plan for unexpected events and overcome the fear of discussing exit strategies before the deal is completed. (Gulati et al., 2008: p. 160)

- “Second, most alliance contracts are based on the assumption of a static business relationship, hence *missing a moving target.*” (Gulati et al., 2008: p. 160) While it proceeds, the economics underlying the alliance may be changing. Many alliance managers miss out on considering the overall alliance dynamics and its evolution.
and underestimate how much they are reliant upon it. Hence, it is advisable to be attentive during all phases of the alliance’s lifecycle. (Gulati et al., 2008: p. 160)

- Additionally, the *Quantification Dilemma* is an issue, meaning that alliance managers frequently fail to quantify the alliance’s value correctly. The results may be an inability to restructure the alliance when necessary, provocation of an exit or a false valuing of stocks and flows when disengaging. (Gulati et al., 2008: p. 160)

- Last but not least, the employees initiating and negotiating the alliance are often not the ones in charge of running it. “With respect to exit provisions, this creates (...) a Functional Funnel, wherein the managers of the alliance not only have no ownership of alliance exit provisions, but also sometimes have no idea what they are and how the alliance got set up that way.” (Gulati et al., 2008: p. 161)

### 3.3.2. Effective Learning and Dealing with Knowledge Management Challenges

Information and knowledge are integral parts of all organizations by being able to bring them competitive advantage. “And all enterprises seeking for sustainable competitive advantage, want to learn and gain new skills and knowledge.” (Tavallaei et al., 2015: p. 175) A main motive for entering an international strategic alliance is the learning from partners which can contribute considerably to the overall outcome of the alliance. Effective learning and dealing with knowledge management challenges can thus be characterized as a crucial key factor of success.

Generally speaking, knowledge creation within or among organizations is to be viewed as a process, during which the individual knowledge is extended and taken into the knowledge base of the organization. Forming an alliance means acknowledging that the partnering firm possesses useful and valuable knowledge and information. Given that the knowledge and information would not be useful or valuable, forming an alliance would be unreasonable. (Inkpen, 1998: p. 71; Nonaka, 1994: p. 16)

Basically, there are three views of alliance knowledge:

1. The first view considers knowledge regarding ways of designing and managing alliances. (Lyles, 1988: p. 301-316)

2. Also, companies can wish to gain access to the knowledge of partnering firms, however, they may not want to internalize that knowledge in the own firm and its
operations. An example in this case would be a company mainly focused on distributing that enters an alliance with a manufacturing firm to guarantee a good supply of products. “Through the alliance, the distributor gains access to manufacturing skills. If the distributor has no acquisition intent associated with its partner’s manufacturing skills, the manufacturing knowledge embodied in the alliance outputs has limited value to the distributor beyond the terms of the collaborative agreement.” (Inkpen, 1998: p. 71-72)

3. Furthermore, a company can take advantage of knowledge from an alliance to improve its strategy as well as its operations. This kind of knowledge – known as alliance knowledge – is different from the second kind due to the fact that it is of value outside of the alliance as well. It remains, however, inaccessible in the absence of an alliance agreement. (Inkpen, 1998: p. 72)

To then acquire such alliance knowledge, accessibility plays a crucial role which is limited both by partner protectiveness and knowledge tacitness: (Inkpen, 1998: 73)

Because of competitive reasons, organizations within an alliance could be overprotective of their knowledge. “In a situation of high competitive overlap between the partners, one or all firms may be very reluctant to share knowledge because of the risk of knowledge spillover to a partner.” (Inkpen, 1998: p. 73) With the allying firms potentially being competitors already or possibly becoming a competitor in the future, it appears logic that there might be only limited incentives to give others access to one’s knowledge. In fact, a high competitive overlap might even cause firms to try hard to avoid knowledge leakage. An important factor in terms of mitigating partner protectiveness is enhancing the trust among alliance firms (see Chapter 3.3.5.2. Informal Governance). “When a new alliance is formed, there will often be a sense of hesitancy by the partners in terms of sharing knowledge, particularly if the partners have no prior collaborations.” (Inkpen, 1998: p. 74)

When it comes to knowledge tacitness, it has to be said that creating organizational knowledge comprises an ongoing interplay of explicit and tacit knowledge. Explicit knowledge can be easily communicated with words, data or codes and is characterized as systematic. Tacit knowledge, on the other hand, cannot be formalized or made visible easily and thus is hard to communicate. In an organizational context, it often involves intangible factors in the form of individual beliefs, experiences or values. Whenever it is difficult to articulate or describe a process within an organization, it points at a high
tacitness of the underlying knowledge. When it comes to using and implementing explicit knowledge, there will in many cases be a great tacit dimension inherent to it. An alliance partner trying to acquire a great deal of tacit knowledge will face great difficulties in the acquisition. However, often a great deal of tacit knowledge also indicates a great value associated to it. (Inkpen, 1998: p. 74)

Still, accessibility is not enough for effective learning – what is also important is the allying firms’ effectiveness at learning and acquiring knowledge. Some organizations may suffer from a lack of absorptive capacity or receptivity, which refers to the capacity to learn. (Hamel, 1991: p. 96) “Three factors influence learning effectiveness in the alliance context: knowledge connections between a firm and its alliance, the relatedness of alliance knowledge, and the cultural alignment between parent executives and alliance managers.” (Inkpen, 1998: p. 75)

In terms of the establishment of knowledge connections, it can be said that creating organizational knowledge calls for sharing and disseminating experiences of individuals. In contrary to the majority of assets, organizational knowledge has the potential to grow when being shared. (Quinn et al., 1996: p. 7) Organizational units sharing their knowledge with others, lets them amplify, alter and clarify that knowledge. However, in order to pass over or exchange knowledge, knowledge connections must be present between the allying firms. Such connections may give individuals involved in the alliance the possibility to share experiences and observations they have made. Knowledge that has connections with other knowledge may be debated, discussed or even discarded. However, it can also be expanded or moved upwards within the firm. Nevertheless, individual knowledge is by nature fragile, thus it could happen that new knowledge will be ignored or characterized as irrelevant in case of missing knowledge connections. “With knowledge connections in place, new knowledge has a higher probability of survival and integration into an organization’s knowledge base.” (Inkpen, 1998: p. 75)

When it comes to the question if the alliance knowledge is related to what is already known, research has shown that what may be learned is directly linked to what is known already due to the fact that existing knowledge indeed allows effective use of new knowledge. In other words, acquiring new knowledge in a familiar field is a lot easier than in an unfamiliar one. It will be harder to acquire unrelated knowledge which also will have only limited value since a common ground for understanding it is lacking. Thereby, knowledge of the partner and about alliance management plays an important role. Given
that organizations have previously worked together, they will – in all likelihood – have established a common understanding regarding each other’s capabilities and skills. This then initiates further learning and knowledge acquisition. (Inkpen, 1998: p. 76)

Moreover, cultural alignment between the allying firms is of utter importance. A lack of cultural alignment between diverse organizational and national cultures may lead to distinct assumptions concerning the objectives and performance as well as the overall alliance partnership. As a result, attempting to learn may cause a collision of cultures and a frustrating learning process. (Schein, 1996: p. 16; Inkpen, 1998: p. 77)

The just described alliance knowledge acquisition process is again visualized in the following figure:

![Figure 12: The Alliance Knowledge Acquisition Process (Inkpen, 1998: p. 72)](image-url)
Thereof, six underlying points can be derived that are crucial for effective learning:

- Assessing and valuing the knowledge of partnering organizations
- Determining accessibility of that knowledge
- Evaluating its tacitness and possibility of transfer
- Establishing knowledge connections among the partnering organizations
- Drawing on prior knowledge to make learning easier
- Aligning organizational and national cultures of all firms involved (Inkpen, 1998: p. 78)

Still, the question is why some allying firms are better at learning and dealing with knowledge management challenges than others. In this context, there are some more factors and circumstances that have a positive influence on the learning process:

First of all, it is important that a systematic approach exists which provides a guideline for both the learning process and the knowledge transfer, since in many cases learning takes place “(…) by design rather than by default (…)” (Hamel, 1991: p. 92) Thereby, an extra team or unit might be established to execute several tasks with the purpose of analyzing, managing and facilitating the learning process, such as special training programs. (Tavallaei et al., 2015: p. 178) Second, the aforementioned absorptive capacity or receptivity is crucial. This refers to the partnering firm being able, willing and prepared to retrieve the knowledge as well as having a learning intention and a student’s attitude. (Hamel, 1991: p. 96) An efficient organizational infrastructure, which encompasses communication and information technology to enable knowledge diffusion and transfer, can be helpful in that matter. (de Caldas Lima, 2008: p. 86) In addition, clear, flexible and realistic expectations regarding the alliance and its outcomes as well as quality of staff – i.e. their communication and technological skills – are essential, due to the fact that they should be able to establish formal as well as informal relationships among each other. These relationships need to be based on mutual trust and be able to learn from each other while interacting during meetings or training programs for example. Flexible expectations must not be influenced by a restricted agreement. Put differently, there should always be room for answering new opportunities that might occur in order to be able to survive in a dynamic and global environment and make bilateral learning happen. (Tavallaei et al., 2015: p. 178-179)
However, also personnel movement, meaning rotating personnel between the allying firms, might be helpful in terms of sharing knowledge. Rotating personnel facilitates the understanding of business matters from multiple perspectives. Thus, knowledge flows better and can easier be put into action. To be considered a rotation, though, the personnel movement needs to take place on both sides. (Inkpen, 1996: p. 130; Nonaka, 1994: p. 29)

Furthermore, support on behalf of the government should be existent “(…) for preparing the infrastructure basis such as creating good political relationships with other nations in order to cooperate with foreign companies and even there is a need for financial investment on these kinds of international alliances from the government’s side to support local partners.” (Tavallaei et al., 2015: p. 178) However, not only the government needs to invest and be involved, also the allying firms’ managers are required to be directly engaged in the alliance’s learning process. This is especially the case in ‘young alliances’ that do not have sufficient experience yet. Engaging managers, even though costly for the organizations, is helpful given that they “(…) have open insights and have capacity for reforming home organizational context to make room for new ways of thinking, new expectations and new knowledge (…).” (Tavallaei et al., 2015: p. 178) Generally, effective learning needs leadership commitment, with a minimum of one strong personality in a leading position who facilitates the overall knowledge creation and can create and initiate linkages between the strategies of the partnering firms. (Inkpen, 1996: p. 133)

Mazloomi Khamseh et al. (2014) go even further in detail by providing a framework which distinguishes four different alliance types according to the two diverse learning focuses – exploration and exploitation – and the firms’ relative resource contribution, which may be similar or dissimilar. Based on this framework they identified specific factors that contribute to advantageous learning. (Mazloomi Khamseh et al., 2014: p. 37)

As already explained earlier (see Chapter 3.2.5. Misunderstanding & Ambiguity) exploration comprises the discovery and development of or the search for new, innovative technology, methods or possibilities. Exploitation on the other hand only involves exploiting the current field of work. (March, 1991: p. 71) In terms of the firms’ relative resource contribution, similar refers to the allying firms pooling similar resources with the intention of deepening their knowledge and taking advantage of the joint size. Dissimilar resource contribution, on the other hand, means them sharing complementary resources.
which they do not own themselves and cannot be easily obtained otherwise. (Mazloomi Khamseh et al., 2014: p. 38)

The following tables sum up the most important facts about each learning type as well as the specific factors contributing to advantageous learning:

<table>
<thead>
<tr>
<th>Similar Resource Contribution by Partners</th>
<th>Dissimilar Resource Contribution by Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Learning together by joint efforts of knowledge creation.</td>
<td>• Learning from interfirm knowledge acquisition and knowledge combination.</td>
</tr>
<tr>
<td>• Similarity of shared efforts makes exploration deeper and faster in the area of knowledge.</td>
<td>• Dissimilarity facilitates exploration through exposure of the firm to novelty.</td>
</tr>
<tr>
<td>• Risk of failure and investment costs on an uncertain knowledge creation project are divided among partners.</td>
<td>• The internal capacity of the firm for knowledge creation and learning is important, because without effective internal processes of learning, external knowledge cannot be acquired and embedded in the firm’s activities and innovation processes.</td>
</tr>
<tr>
<td>• Careful design of the governance of cooperation (e.g., by a mix in business and capital alliances) is the determinant for avoiding opportunistic behavior, knowledge leakage, and free-riding.</td>
<td></td>
</tr>
</tbody>
</table>

Table 6: Four Types of Alliance Based on the Learning Outcome (adapted from Mazloomi Khamseh et al., 2014: p. 43)
### Similar Resource Contribution by Partners

- Learning outcomes are mainly how to manage a strategic alliance with a competitor.
- Partners share similar resources and knowledge to gain scale economies in their existing business. Other objectives could be achieving a critical mass for entering a new market and competing jointly with the incumbents.
- The intent to cooperate by competitors should be accompanied by the intent to coordinate. Coordination of resources, activities, and decisions at different levels (individual, teams, org’l units, partner firms) is essential for scale economies and size effect.

### Dissimilar Resource Contribution by Partners

- The learning outcome of the alliance is increasing the firm’s specialized existing knowledge base.
- Cooperative specialization (let the partner provide peripheral knowledge and focus the firm’s effort on core knowledge base).
- Determinant factor of success is efficiency in managing the compatibility issues of the partner’s knowledge and the firm’s own knowledge components. Interoperability is essential.

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**Table 7: Four Types of Alliance Based on the Learning Outcome (adapted from Mazloomi Khamseh et al., 2014: p. 43)**
3.3.3. Experience

Closely related to effective learning and dealing with knowledge management is experience, or more precisely cooperative experience, which can be classified as yet another key factor of success for international strategic alliances. Indeed, experience is not only closely related to effective learning but as a matter of fact a particular dimension which can be described as learning from having previously cooperated. (Lai et al., 2010: p. 247) However, due to its often ascribed potential for enhancing alliances’ success, it deserves a chapter on its own because as Harbinson and Pekar (1998) put it accordingly: “The more alliances you do, the better you get at them.” (Harbinson & Pekar, 1998: p. 41)

Generally speaking, an organization learns through direct experience. Literature on learning-by-doing, otherwise called the experience-curve, shows that cumulative experience enhances productivity, mainly due to cost reduction. As organizations gain experience they become better at attributing “(...) outcomes to changes in inputs and processes. With this experience, firms can adopt better processes as they are discovered.” (Sampson, 2005: p. 1011) Also, experience plays in vital role in reducing ambiguity within the strategic alliance (see Chapter 3.2.5. Misunderstanding & Ambiguity and Chapter 3.3.6. Management of Ambiguity), with firms step by step being taught experiential lessons in order to improve their organizational and managerial approaches or metrics, especially for guiding decisions in the future. (Sampson, 2005: p. 1013; Lai et al., 2010: p. 247)

In that matter, Lai et al. (2010) distinguish between three different types of experience that are of utter importance for international strategic alliance success, namely general international strategic alliance experiences, country-specific experiences and type-specific experiences. (Lai et al., 2010: p. 249-250)

- **General International Strategic Alliance Experiences**

  Each experience gained from an alliance gives organizations the chance to draw conclusions or consequences with regard to the key measures and their effectiveness. “With feedback generated from the trial and error process of numerous undertakings, a firm refines its cooperative mechanisms, modifies its interactions, and reconfigures resource allocation to achieve better subsequent alliance performances.” (Lai et al., 2010: p. 249) Institutionalizing varying experiences into cooperation routines hence, lets them augment the firms’
knowledge base in order to improve the overall execution of the alliance. As a result of this expanded alliance background, the firms’ capability to foresee and react to contingencies arising from the cooperation improves as well. Also, it offers them further approaches and metrics that can be used to optimize choices in consecutive alliances or partnerships. (Lai et al., 2010: p. 249)

So basically, repeatedly participating in strategic alliances shows the allying firms a variety of practices and outcomes in terms of alliance management. (Sampson, 2005: p. 1013) Thereby, they develop a "(...) broad repertoire of experiences (...)", which lets them draw conclusions about the probable outcomes of such alliance management practices. (Anand & Khanna, 2000: p. 298) It follows that substantial alliance experience enables organizations to recognize successful processes with regard to information or technology exchange for example and allows them to manage complex situations that are afflicted with uncertainty. In addition, prior experience may provide insights on the best ways of disseminating information obtained from their alliances within the organization, thereby advancing the overall alliance outcome. “Therefore, it follows that the more extensive a firm’s prior alliance experience, the greater the firm’s ability to select appropriate management processes for current and future alliances. Collaborative benefits are improved as a result.” (Sampson, 2005: p. 1013)

Moreover, with each alliance conducted and each experience gained, environmental information can be better obtained timely, referring to a dynamic capability perspective, with dynamic capabilities being defined as "(...) the firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments.” (Teece et al., 1997: p. 516) This information again, allows firms to improve the adaption of operations and to learn surviving in a global environment that is constantly changing. (Feldman, 2003: p. 748-749)

Such a reactive adjustment is especially vital for allying firms due to the fact that in many cases alliances are indeed set up in order to address environmental changes and challenges imposed on organizations in competitive and rapidly shifting industries. When taking advantage of experiential learning, firms become able to adapt to such changes and challenges and hence can stay competitive. (Lai et al., 2010: p. 249)
• **Country-Specific Experiences**

Indeed, being continuously involved in alliance partnerships offers great opportunities for an organization to learn. However, the perks of experiential learning must not be seen as self-evident. In fact, lessons learned in the past may be used faultily in future agreements that exist in an inherently diverse context. Discrepancies between international alliances like this matter especially with respect to country differences that could come up. (Lai et al., 2010: p. 249) This is due to the fact that countries all around the world vary greatly in their cultural, political, economic and geographical conditions (see Chapter 3.2.1. Cultural & Organizational Differences). (Ghemawat, 2001: p. 138)

In terms of culture, for example, it has been widely recognized that many countries are characterized by ways of behaving, thinking and interpreting, which are rather different from how another country behaves, thinks and interprets. (Ronen & Shenkar, 1985: p. 435) By repeatedly observing, giving and receiving feedback as well as finely modifying, an organization reportedly may improve its understanding of foreign partner firms in terms of their ways of behaving, thinking and interpreting which will in all likelihood increase chances of a successful local partnership. (Lai et al., 2010: p. 250) Furthermore, prior country-specific experience plays an important role when an organization decides in the first place whether or not it will enter a particular country or partner up with a foreign firm or not. This is due to the fact that prior experience reduces the cultural uncertainty level in the country perceived by the organization’s managers. (Hong & Lee, 2015: p. 437)

However, countries do not only differ in terms of culture, but also in terms of general institutional systems like economics, politics or technology. (Hitt et al., 2006: p. 223) Again, differences in institutional systems have the potential to interfere profoundly with the success of an international strategic alliance. (Globerman & Nielsen, 2007: p. 455-456) Thus, it has been recognized that country-specific experiences function as a relevant and effective “(...) counter-measure to mitigate threats from the institutional differences.” (Lai et al., 2010: p. 250)

Still, the benefitting effect of country-specific experience may vary according to the partnering countries’ economic status. In other words, country-specific experience gained in an emerging country may have a different effect than country-specific experience gained in a developed country. Research has shown that strategic
alliances among firms from developed countries and emerging countries can be primarily found in the emerging country firms’ local markets or regions respectively where they grant their partnering firms from developed countries access to the market and their networks of distribution or production for example. Certainly, developing country firms also team up with emerging country firms because of their resources and competences, which they seek to integrate into their own practices and processes. (Khanna et al., 1998: p. 196; Lai et al., 2010: p. 250) The relevance of being familiar with the environment in emerging countries is thereby recognized by these motives; however, developed country firms often have difficulties with it due to their environmental background being principally different. This highlights the fact that acquiring experience in partnerships with emerging countries is crucial with the role of experiential learning being even more important given a high level of complexity and unpredictability within the alliance. (Lai et al., 2010: p. 250)

- **Type-Specific Experiences**
  In addition to experience related to country-specific knowledge; experience associated with specific types of alliance activity is of particular importance. International strategic alliances are formed to support a variety of purposes, such as marketing, research and development, distribution, supply or technology transfer (see Chapter 2.2. Types of Strategic Alliances). These different purposes naturally impose diverging challenges on the allying firms. As a result, the experience and knowledge that can be obtained from them also varies. Lai et al. (2010) argue that an alliance acting in a different context than the one undertaken prior, may suffer from an inability to benefit from the experience and knowledge previously gained. “In contrast, engaging in alliances of the same activity type enables the generalization of experiential lessons, thus increasing the likelihood of positive outcomes.” (Lai et al., 2010: p. 250)

Some argue however, that alliance experience does not equal alliance experience. Put differently, the relative quality of the organization’s experience – called the valence of alliance experience – plays an important role. That is, organizations will benefit more from previous deep and positive alliance experiences in terms of effective cooperation than from a history of superficial and negative experiences. The argument behind this premise is that a strong performance or a positive experience makes the implementation of
particular processes or strategies easier, which are found to improve outcomes. Also, positive experience reinforces behavior and thus leads to repetition, through which an organization becomes able to ultimately take advantage of experience and improve their alliance capabilities for instance. A poor performance or a negative experience, on the other hand, may prevent the replication and exploration of current or new strategies, thereby hindering the building of capabilities and the overall learning processes. Research has shown that capability building and learning processes still occur, but to a much lower rate than at organizations with positive experiences. (Gammoh & Voss, 2013: p. 969 & 978-979)

All in all, it can be noted that experience from prior alliances and learning thereof is crucial to achieving outstanding benefits from a partnership. Thereby, experience is tightly linked with alliance management capability, that is “(...) a set of specific skills useful in alliance relationships. These skills are built through experience in these inter-firm relationships.” (Gammoh & Voss, 2013: p. 968) Hence, alliance management capability as a key factor of success for international strategic alliances will be covered in the following.

### 3.3.4. Alliance Management Capability

Due to the inherent complexities and uncertainties, an international strategic alliance represents a considerable managerial challenge when it comes to managing projects beyond the boundaries of a single organization. (Rothaermel & Deeds, 2006: p. 431) As indicated earlier alliance experience gives rise and is tightly linked to the construct of alliance management capability or otherwise called alliance competence. (Gammoh & Voss, 2013: p. 968) Alliance research has shown that those firms who steadily achieve greater success with their alliances than their competitors, possess distinguished organizational capabilities to manage their partnerships. Put differently, they hold alliance management capabilities which are often described as being a source of competitive advantages. (Schreiner et al., 2009: p. 1395; Anand & Khanna, 2000: p. 306)

Fundamentally, alliance management capability “(...) is a toolbox of acquired skills that allow managers to meet the demands of the cooperative venture without causing undue stress on the organization and its employees.” (Gammoh & Voss, 2013: p. 964) Hence, alliance management capability is the ability to organize a successful strategic alliance. (Draulans et al., 2003: p. 152) Thereby, it has been argued that it is a distinct dynamic capability, which has the potential to intentionally create, broaden or alter an
organization’s resource base, and enlarge it by including the allying firm’s resources as well. (Schilke & Goerzen, 2010: p. 1195; Helfat et al., 2007: p. 66)

Over time, two equally important streams of research have emerged that address different issues related to alliance management capability. (Schreiner et al., 2009: p. 1396) The first one explores what particular skills are in fact parts of alliance management capability. (Schreiner et al., 2009: p. 1396; Schilke & Goerzen, 2010: p. 1196) The second one, on the other hand, deals with the development of alliance capability within firms and examines how and why it occurs. (Sluyts et al., 2011: p. 875; Draulans et al., 2003: p. 152)

In terms of what particular skills are in fact parts of alliance management capability, it has been inter alia conceptualized as a multidimensional construct comprising skills of communication, coordination and bonding; three main aspects for managing an alliance. (Schreiner et al., 2009: p. 1396-1397)

These skills have been deemed necessary due to prior research which has identified three widespread management challenges: to begin with, numerous alliances may suffer from coordination lapses due to the cognitive, cultural or physical distance or the divided formal governance structures that are associated with ambiguous roles, procedures and responsibilities, as well as inappropriate and boundary-spanning connections and mechanisms. (Schreiner et al., 2009: p. 1400; Luo, 2006: p. 55; Gerwin, 2004: p. 241) Such coordination lapses hinder the successful implementation of joint actions necessary to benefit from all allying partners’ activities, with sometimes the cost of coordination failures going beyond the benefits of the overall alliance. (Thompson, 1967: p. 55; Park & Ungson, 2001: p. 44) As a result, holding appropriate know-how and skills of coordination is crucial for managing strategic alliances. (Schreiner et al., 2009: p. 1400)

Moreover, the information asymmetries inherent to alliances give rise to opposing effects which are magnified by an absence of communicating and sharing information. This keeps the allying firms from learning about the other’s idiosyncrasies and developing a joint understanding with regard to effective cooperation. Inappropriate communication also makes the assessment of opportunities and uncertainties associated with the alliance challenging. (Schreiner et al., 2009: p. 1400; Mohr & Spekman, 1994: p. 135; Park & Ungson, 2001: p. 38) Hence, managing strategic alliances requires lateral communication
skills, which facilitate the maintenance of the partnership during repetitive negotiations, for instance. (Schreiner et al., 2009: p. 1400)

Last but not least, alliances may fail because of underdeveloped personal relationships requiring them to have bonding capabilities. Bonds facilitate the establishment of a psychological attachment within the relationship “(…) and serve as a conduit for creating and maintaining expectations of mutual cooperation, developing trust and reciprocity between partners, as well as facilitating knowledge sharing between them; all of which possibly counter the effect of other internal or external hazards affecting the alliance.” (Schreiner et al., 2009: p. 1400)

**Coordination Capability**

Since coordination lapses can lead to critical drawbacks within an alliance, the capability to coordinate and manage any interdependencies among the allying firms is essential. Thereby, coordination refers to being able to identify and reach consensus on task requirements inside the partnership and the working procedures necessary to execute said tasks for example. This includes the definition of roles and responsibilities of each person or party involved as well as their adaption in times of change. (Schreiner et al., 2009: p. 1401; Gerwin, 2004: p. 245) Thus, coordination capability involves knowledge and skills to harmonize the interdependencies among the allying firms with suitable devices for coordination so they can be managed. Nevertheless, a greater common adaption between the parties is necessary for more complex interdependencies. (Thompson, 1967: p. 55) For example, routine work, such as vendor relationships or a software provider, where organizations may formulate formal rules to handle inquiries across their boundaries. “But for non-routine tasks that require more information processing, fast decision making, and mobilization of resources, a firm could establish a cross-company management team that will quickly review major opportunities or risks as and when the need arises.” (Schreiner et al., 2009: p. 1401) An organization with a good coordination capability is able to recognize alternate mechanisms of coordination at the beginning of the partnership already and may assess and adapt them dynamically while the relationship evolves and the organization better understands the interdependencies and how they have to be managed. (Schreiner et al., 2009: p. 1401)
Communication Capability

Generally speaking, communication refers to “(...) the formal as well as informal sharing of meaningful and timely information between firms.” (Anderson & Narus, 1990: p. 44) Based on this definition, it has been characterized as a glue, holding together an alliance. “Given its importance in alliances, alliance management capability entails a firm having the necessary know-how and skills to credibly convey relevant knowledge and information about itself to the partner in a timely, accurate, and complete manner.” (Schreiner et al., 2009: p. 1401) This in turn will lower uncertainty regarding the partner’s capacities, motivations and working style as well as diminish any worries regarding the potential future payoffs of necessary investments. Communication on an open and honest basis facilitates the partner’s understanding of alliance obligations and rules and lets them recognize needed adaptions easier, given that the situation changes. Moreover, communication capability comprises the deployment of a diversity of communication modes instead of being dependent on a single method in the alliance context and adapting or matching it to the given circumstances. Some alliances, for instance, call for rather formal communication modes, such as continuous status updates or prescheduled meetings. However, also informal communication modes may play an important role, like hall talk or plain coffee breaks in between meetings, or maybe scheduled social events. These formal and informal communication modes are characterized by different information richness and may have varying capacities in terms of influencing behavior. Nevertheless, they complement each other and help the organization to provide an extensive and believable picture of itself to the allying firm. (Schreiner et al., 2009: p. 1401)

With communication being an integral part of informal alliance governance, it will be further dealt with in the particular chapter (see Chapter 3.3.5.2. Informal Governance).

Bonding Capability

Comprehensive and repeated contact between the partnering organizations and its members, combined with affect and interpersonal liking is what constitutes close personal bonds. (Granovetter, 1973: p. 1361) Processes of social integration – in which individuals psychologically connect with each other while pursuing similar or common goals – can help with developing such bonds. (Harrison et al., 1998: p. 96) In that sense, attraction and psychological linkage occurs whenever someone anticipates deriving value from a
partner; for example gaining access to useful resources or drawing similar benefits. “Failure to afford these benefits may inhibit the development of strong bonds between partners, render their existing relation unstable, or even lead to their dissolution.” (Schreiner et al., 2009: p. 1401-1402) The process of developing such bonds, however, takes up a lot of time and resources due to the fact that they begin small and build up gradually by repeating satisfactory interactions and nurturing them. (Ring & Van de Ven, 1994: p. 101)

Hence, bonding capability means the organization’s competence “(…) to develop strong bonds with partners by consistently providing reliable and timely responses to a partner’s work-related needs, being proactively responsive to its concerns, spending time on connecting with a partner and remaining in frequent contact, as well as attending seriously to their views, ideas and circumstances so as to signal respect and appreciation for the other.” (Schreiner et al., 2009: p. 1402) Building up strong bonds also requires the partners’ to take efforts beyond the basic obligations to fulfill the other’s needs, even though there might be no immediate, short-term benefits resulting thereof. However, such a behavior induces reciprocity norms. Furthermore, although bonding behavior largely depends on the individuals within the organizations, it might also be found at the level of the firm itself. Given that a company’s norms place emphasis on cooperation and fairness, employees will – in all likelihood – perform such behavior while repeatedly interacting with partners. (Schreiner et al., 2009: p. 1402; Barney & Hansen, 1994: p. 179)

Schilke and Goerzen (2010) add two more skills they deem essential parts of alliance management capability, that is sensing and transformation capabilities. (Schilke & Goerzen, 2010: p. 1197)

**Sensing Capability**

Sensing capability refers to being highly alerted and responsive to environmental information. (Schilke & Goerzen, 2010: p. 1197) In this context, alertness is defined as “(…) proactive attentiveness (…) about the environment; figuratively ‘having one’s antennae out’.” (Zaheer & Zaheer, 1997: p. 1496) Being responsive then is described as how quick an organization reacts to such environmental information. (Zaheer & Zaheer, 1997: p. 1496) Sensing capability allows the organization hence to increase its understanding of the environment as well as to recognize requirements and valuable opportunities within the market. As a result, sensing capability can be seen as an integral
part of the alliance management capability construct and alliance success as a whole either. This is due to the fact that it is crucial to determine suitable alliance partners who hold the needed competences and resources. “Firms that are able to sense alliance opportunities early enjoy first-mover advantages on the market for strategic partners, which, in turn, may translate into superior alliance success.” (Schilke & Goerzen, 2010: p. 1197) Such a proactive alertness and responsiveness is again closely related to the argument that alliance management capability is a distinct dynamic capability. (Schilke & Goerzen, 2010: p. 1197)

**Transformation Capability**

Even though prior research indicated that structural changes within an alliance are to be interpreted as a predictor of failure; such transformations are viewed as natural phenomena in these days. Changing market conditions, such as rivalry or host-country for example, sometimes make the restructuring of an alliance necessary or even desirable. (Schilke & Goerzen, 2010: p. 1197; Reuer & Zollo, 2000: p. 166-167) Therefore, expecting that a perfect partner fit (see Chapter 3.3.1.2. Partner Fit) can be achieved at the very beginning is actually rather unrealistic. Instead, establishing such a ‘perfect’ partner fit calls for flexibility, constant interaction and adaption. (Schilke & Goerzen, 2010: p. 1198; Doz, 1996: p. 80-81)

When it comes to the development of alliance management capability, researchers emphasized that like “(…) any other competence the management of alliances is a skill that can be built up and which can become a significant source of competitive advantage.” (Draulans et al., 2003: p. 152) It has already been indicated at the end of the previous chapter that (deep and positive) alliance experience plays a key role. Gammoh and Voss (2013) argue that practicing and gaining experience in the vital skills and abilities of alliance management capability is inter alia what makes an alliance perfect. (Gammoh & Voss, 2013: p. 979) However, also specific alliance training is proposed as an activity to undertake for organizations in order to build up alliance management capability. Such a training may be external, by academics or consultants for instance, or internal, such as by specialists within the company. In this context, alliance training means the active pursuit of building up and disseminating knowledge regarding alliance management capabilities through attending or introducing alliance training; recruiting alliance specialists (internally or externally) at the level of middle management and assessing alliances, not only on an individual basis but against each other as well. This is especially relevant for
inexperienced organizations. “An alliance training can help to avoid the more general pitfalls of partnering. Most training programs cover the various steps in the alliance process, types of alliances, joint business planning, the role of trust and managing cultural differences.” (Draulans et al., 2003: p. 160) Nevertheless, also the alliance department or manager itself can facilitate the building of alliance management capability through establishing a supportive infrastructure for the alliance’s management so to improve the overall process. This can be done by creating guidelines and manuals, for example, which codify essential alliance know-how, and spreading these out in the firm. In that way, the alliance department or manager functions “(…) as a collector of lessons-learnt over various alliances and units.” (Sluyts et al., 2011: p. 882)

The following figure again sums up the most important determinants within the construct of alliance management capability:

![Figure 13: The Alliance Management Capability Construct](image-url)
3.3.5. Alliance Governance

When forming an international strategic alliance, numerous questions arise whose answering is essential for success. Among them are questions such as how the alliance’s adaptability and stability will be ensured; if they should rely on contracts or trust; what level of control is required; what topics need to be covered in the contract and how those decision shall be taken. Put simply, what is the right governance structure for the alliance? (de Man & Roijakkers, 2009: p. 75) “Governance refers to combinations of legal and social control mechanisms for coordinating and safeguarding the alliance partners’ resource contributions, administrative responsibilities, and division of rewards from their joint activities.” (Todeva & Knoke, 2005: p. 125) In this context, there are two general views on governance: the formal governance, which deals with control and contracts, and the informal governance, handling trust, commitment and communication. (de Man & Roijakkers, 2009: p. 76)

The ideal balance of formal and informal governance has been widely debated. Some state that the views are substitutes, the majority of researchers, however, argue that they are complementary reasoning that control and contracts are only a part of the alliance governance structure, which should encompass intangible elements such as trust and commitment as well. (de Man & Roijakkers, 2009: p. 76; 91-92)

Both formal and informal governance will be discussed further in the following.

3.3.5.1. Formal Governance

The notion of the formal governance view is based on the transaction cost economics and its main assumption of opportunism (see Chapter 3.2.2. Opportunism) which needs to be settled through an adequate formal governance model that hinders the partnering firms from ill-treating the alliance and taking advantage of opportunities. Such governance models are based on several control mechanisms such as equity investments, incentive systems, management boards, formal operating procedures and contracts. The first four will only be shortly discussed, due to the fact that safeguards in the form of alliance contracts are a widely debated topic, they, however, will be discussed in greater detail. (de Man & Roijakkers, 2009: p. 77-79)

Investing equity gives a firm a formal say in the alliance and creates a kind of hostage situation, which leads to both partners being damaged if one of them behaves
opportunistically. Using incentive systems is another control mechanism that motivates managers and employees to contribute to the partnership. This motivation, however, is mainly extrinsic – where they are motivated by financial rewards or punishments for instance – rather than intrinsic, where people are inherently motivated by themselves or an inspiring alliance objective. Management boards as a control mechanism are related to supervising the alliance frequently. Formal operating procedures also play a crucial role in formal alliance governance depicting planning and budget cycles to guarantee the alignment of interests for instance. (de Man & Roijakkers, 2009: p. 79)

An alliance contract then operates as an institutional framework that codifies each firm’s duties, rights and responsibilities and specifies the goals, policies and strategies the alliance is based on. It should thereby facilitate exchange, prevent opportunistic behavior and reduce uncertainty. The contract operates as a protective measure against potential problems by limiting each allying firm’s ability to go after their private objectives at the expense of the common goals and benefits. (Luo, 2002: p. 904)

The alliance contract and its actual contents then hold a number of vital functions in dealing with exchange hazards. To begin with, the safeguarding of investments and property is a vital purpose by operating against misappropriation by a partnering firm. Second, contracts facilitate the mitigation of coordination concerns through planning the overall cooperation and straightening out each party’s expectations. (Mellewigt et al., 2012: p. 850-851) Additionally, the allying firms use the contract to demonstrate their mutual rights and obligations by specifying everybody’s alliance inputs; what issues and contingencies might come up and how they will be resolved and what outputs can be expected. The contract also determines the division of labor through allocating the individual firm’s responsibilities and roles and outlines constraints and obligations such as that information disclosures are limited before the alliance starts operating or how the alliance firms might interact with third parties. “The contract can also specify the way in which the alliance will end, firm’s claims on intellectual property, and possible limitations on firm’s competitive and hiring practices through non-compete and non-solicitation agreements, respectively.” (Reuer & Ariño, 2007: p. 315-316)

In short, an alliance contract that is well-designed is consistent with the partnership’s intentions and with each firm’s interests. (Ariño & Reuer, 2004: p. 37)
Nevertheless, even if the allying firms have a clear and mutual understanding of the partnership’s intentions and interests, setting up a contract that foresees all possible issues and contingencies is not feasible, regardless of the contract’s complexity. As a matter of fact, strategic alliances are formed to increase flexibility in an uncertain and fast changing environment which does not allow anticipating all possible eventualities. Hence, executives face a dilemma when designing an alliance contract. “On the one hand, the more complex the contract, the less room for opportunistic behavior in the face of unforeseen events. On the other hand, the more complex the contract, the more costly it is to write.” (Ariño & Reuer, 2004: p. 37-38) In fact, setting up an alliance contract consumes a considerable amount of resources by using the services of lawyers, accountants and consultants for instance. Also, executives need to devote their attention and time, drawing them away from other projects. Hence, it is important to balance the costs of setting up a complex contract against the hazards of opportunism resulting in a great variety of contractual complexity from alliance to alliance. An essential question, therefore, is to decide when it is appropriate and worth it to bear the high costs of setting up a rather complex contract. (Ariño & Reuer, 2004: p. 37-38; Reuer & Ariño, 2007: p. 326)

The first determinants that influence contract design and specifically contractual complexity are **alliance-specific investments**. (Reuer & Ariño, 2007: p. 316) Given that resources can be easily deployed in other projects – that is, asset specificity is low – partner identity and continuity is not that important. (Klein et al., 1978: p. 298) In other words, the partnering firm is not able to hold up the other organization. There is also no inducement to carry the costs related with setting up a complex contract trying to stabilize that partnership. Whenever the organization makes highly alliance-specific investments in an alliance, the partnering firm may threaten to leave the alliance or end it with the intention of capturing a greater value. Therefore, executives need to weigh the value losses resulting from potential opportunistic behavior with the additional costs of setting up a contract containing safeguards. The allying firms might, for instance, determine rights regarding ownership of intellectual property, how the alliance is going to be terminated, the alliance’s buyout price and the processes that will be used for resolving issues internally or externally. “The additional costs of building such provisions in the alliance contract will be justified for alliances involving a greater threat of opportunistic behavior due to transaction-specific investments.” (Reuer & Ariño, 2007: p. 316)
A lack of prior ties between the allying firms is the second factor determining contractual complexity. Prior ties, by definition a collaborative history or successive collaborative relationships, means that – in all likelihood – trust has emerged from those relationships and that the organizations have come up with inter-firm routines that facilitate the prediction of the other’s behavior. Moreover, they have developed a common knowledge which enables the firms to refine the terms of the contract at a lower cost. This results in reduced behavioral uncertainty and thus, a reduced need for more complicated contracts. Therefore, the additional costs of negotiating contracts are justified to a greater degree within strategic alliances among partnering firms that have no prior ties. (Ariño & Reuer, 2004: p. 39-40)

Third, the hazard of opportunistic behavior is affected by the absence or presence of time bounds on an alliance, making time boundedness the next determinant of contractual complexity and alliance contract design. Partnerships that are time-bound are less capable of being self-enforcing than partnerships that are open-ended. This is due to the lack of the shadow of the future that may contain opportunism. Consequently, time-bound alliances will have a greater need for formal enforcement mechanisms than open-ended alliances, where self-enforcement may in parts operate as a substitute for formal governance. All in all, partnerships that are formed to last a pre-specified duration of time will presumably comprise a greater complexity regarding the contract than open-ended partnerships owing to the fact that “(…) (a) time-bound alliances are subject to a greater threat of opportunistic behavior given the limited scope for self-enforcement; and (b) time-bound alliances are easier to design given the enhanced ability of firms to foresee relevant contingencies and arrive at suitable responses.” (Reuer & Ariño, 2007: p. 317)

Fourth and last, the strategic importance of the alliance determines the formal governance that is the contract design. Alliances that are strategically very important encompass a greater deal of risk than minor undertakings, thus, managers have an increased inducement to constitute the alliance scope as well as its rights and obligations and monitor the partnership more actively and closely. Also, they set forth the governance mechanisms that alleviate controlling the alliance involving the means used to resolve potential issues and disputes and to manage the alliance’s development for example. Because of all these arguments, it is worth the trouble of bearing the additional costs of designing more complex contracts for alliances with a high strategic importance so as to
make sure the collaboration delivers the desired outcomes. (Ariño & Reuer, 2004: p. 41-42)

However, it is important to note that a contract will certainly almost be incomplete to a certain extent due to the limited cognitive capabilities people possess which will not allow them to – as stated before – to foresee all possible issues and contingencies. (Furlotti, 2007: p. 81)

Again, the differences between the alliance partners’ differences in country, industrial and institutional backgrounds also play a significant role when it comes to choosing an appropriate formal alliance governance mode. Choi and Contractor (2016) concluded that the choice of governance is not ascribable to solely one factor, but rather country differences – in terms of culture, geography and institutions – are of importance, just like firm factors. Whenever allying firms operate in industries that are rather dissimilar to each other, the likelihood of a more-integrated, that is complex, alliance decreases for example. Given that they are from geographically distant locations, however, they will need such a more-integrated alliance governance mode that is able to moderate the coordination and communication barriers between the cooperating firms. (Choi & Contractor, 2016: p. 217 & 225)

3.3.5.2. Informal Governance

The informal governance refers to the soft side of alliance management and deals with relational capital in the form of trust, commitment and communication which foster cooperation in a way that cannot be specified in formal contracts. (Cullen et al., 2000: p. 223-224; Delerue & Perez, 2009: p. 135) Apart from investing in formal governance mechanisms such as incentive systems and contracts, allying firms are required to make investments in relational capital. Relational capital thereby draws on the relationship between social actors and its quality. It encompasses the way the firms interact which enables the partnership to function effectively on a day-to-day basis and requires the allying firms to invest in effort and time in order to build up positive feelings within the alliance relationship. “Although often ignored completely or subordinated as secondary to financial considerations, the alliance cannot optimize performance without adequate relationship capital.” (Cullen et al., 2000: p. 224) In fact, there are several aspects of relational capital, however, trust, commitment and communication have been considered as the major issues. (Cullen et al., 2000: p. 223-224)
Trust and Commitment

Generally speaking, trust has been defined as “(...) the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor." (Mayer et al., 1995: p. 712)

It has been characterized as an essential ingredient for successful international strategic alliances and found to be playing a vital role for creating and managing interorganizational partnerships. This is due to the fact that trust lowers both cost and delays related with formal governance mechanisms in the form of incentive systems and legal contracts through reducing complex realities more economically and quickly than authorities or bargaining for instance. It also makes the behavior of the partnering firms more predictable which results from their common involvement, the existing harmony among them as well as the safe perspective dominating the alliance. (Volery & Mensik, 1998: p. 989 & 993) This results in the partnership exhibiting greater flexibility and becoming cheaper and more reasonable. In turn, too little trust might revoke the benefits of the cooperation and impede the reaping of savings and synergies. (Meier et al., 2016: p. 231-232; Parkhe, 1998: p. 434) Not trusting enough furthermore lowers the inducement to act reliably and work harder; in short it creates “ill will”. (Lewis, 1990: p. 247) All in all, trust is a vital principle within organizations that lets firms cope better with the unpredictability of the partner’s behavior in an uncertain and erratic environment. (Meier et al., 2016: p. 232; Parkhe, 1998: p. 418)

Commitment is a closely related concept to trust and refers to “(...) the extent to which employees are dedicated to their employing organizations and are willing to work on their behalf, and the likelihood that they will maintain membership.” (Jex & Britt, 2008: p. 153)

The commitment of employees and especially management of each organization participating in the alliance is a main informal governance mechanism contributing to the partnership’s ultimate success. In fact, so that an alliance can really be called ‘strategic’ it is required to significantly impact the firm’s overall strategic plans, which have to be formulated, implemented, managed as well as supervised by a fully committed management. This is due to the fact that without a fully committed management, the alliance will hardly receive its needed managerial resources such as capital, manufacturing, marketing or labor resources and will thus not be able to reach its goals. (Elmuti & Kathawala, 2001: p. 210)
However, the commitment on behalf of the management it is not only essential to secure the necessary resources for the alliance, but also to persuade every other employee within the organizations that the alliance is of high importance. In the majority of cases, alliances are considered as being outside the mainstream firm which may result in employees viewing them less important and less worthwhile than the firm’s core business. If the management demonstrates full commitment with regard to the partnership venture and assumes a strong leadership, they will be able to change this viewpoint to the better. (Elmuti & Kathawala, 2001: p. 210)

Resulting from the previous discussion it can be concluded that the development of trust and commitment is an important task for alliance management. (Meier et al., 2016: p. 232; Zucker, 1986: p. 59) In this context, three basic categories of mechanisms that develop and build trust exist: process-based, characteristic-based, and institutional-based trust. (Parkhe, 1998: p. 419)

To begin with, process-based trust originates from the prior, ongoing or future processes of interfirm exchanges. Thus, it refers to the organization’s cooperative history, reputational effects, communication and the alliance’s expected continuity. Further, characteristic-based trust emerges from similar societal and corporate cultures which promote trustworthy relationships. Last, institutional-based trust draws on formal mechanisms, for example alliance-specific investments and contractual safeguards. (Meier et al., 2016: p. 232; Parkhe, 1998: p. 419-425)

**Figure 14: Trust-Building Mechanisms in Strategic Alliances (Meier et al., 2016: p. 233)**

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Trust-Building Mechanisms in Strategic Alliances

Process-Based
(a) Cooperative History
(b) Reputational Effects
(c) Communication
(d) Expected Continuity

Characteristic-Based
(e) Similarity of Societal Culture
(f) Similarity of Corporate Culture

Institutional-Based
(g) Alliance-Specific Investment
(h) Safeguards
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Process-Based Trust

The daily interactions among allying firms is considered a main source of trustful behavior which has the potential to create or destroy trust. (Meier et al., 2016: p. 233; Parkhe, 1998: p. 419)

A cooperative history – or prior ties (see Chapter 3.3.5.1. Formal Governance), is an informal mechanism that is likely to improve the development of trust within the interorganizational partnership. Firms that have already cooperated with each other are acquainted and familiar with each other, meaning they know their counterparts better, are able to predict the other’s behavior and are more confident regarding the other’s trustworthiness compared to those who do not share such past first-hand experiences. (Gulati & Sytch, 2008: p. 169)

By reinforcing positive experiences, cooperative history can act as a path to trust. (Meier et al., 2016: p. 234; Parkhe, 1998: p. 419-420)

Since not all organizations possess cooperative histories and first-hand experiences, firms that have not previously cooperated are confronted with a “blind date”-situation and therefore, are devoid of reliable information with regard to their partner’s trustworthiness. In this case, an organization’s good (or bad) reputation can serve as a basis for second-hand experience from which initial trust may arise. “When resorting to a partner’s good reputation, companies expect future behavior to be consistent with what they know about reliable behavior in previous relationships and base their own commitment on this information.” (Meier et al., 2016: p. 234)

Moreover, continual communication that is of high quality is considered one of the informal mechanisms for developing process-based trust by exchanging and aligning information, goals and values. (Meier et al., 2016: p. 235) Due to its high importance this point will be further elaborated later.

Similarly, the expected continuity contributes to the overall level of trustworthiness. Expecting profits in the foreseeable future is likely to foster collaborative behavior in the present. In turn, trust and cooperation will be negatively affected through an approaching termination date of the alliance. (Parkhe, 1998: p. 422)
**Characteristic-Based Trust**

Cultural similarity on both a country- and corporate level is a crucial factor for the development of trust in international strategic alliances and anticipated to breed trust (see Chapter 3.2.1. Cultural & Organizational Differences). According to Zaheer and Zaheer (2006) "(...) it is clear that national culture powerfully influences trust." (Zaheer & Zaheer, 2006: p. 24) Due to the fact that national culture influences the individual's perception of trustworthiness, the level and nature of trust between organizations is affected by the cultural context. (Zaheer & Zaheer, 2006: p. 24) And since an individual's behavior is molded by culture, employees will in all likelihood trust each other more given that come from similar cultural backgrounds, that is given that they share equal beliefs, values, norms, meanings, symbolisms and the same language. This facilitates the overall cooperation and the promotion of an efficient working atmosphere, in short: it facilitates the creation of alliance value. (Meier et al., 2016: p. 236-237)

Summing up, the concepts of trust and commitment hold a crucial function within partnerships between organizations. However, it is all the more crucial given that these partnerships are formed between organizations from diverging countries and backgrounds. Firms that come from diverging countries are likely to display great differences regarding culture, norms, business practices as well as institutions. These differences may affect the level and development of trust, in many cases negatively. In other words, a focal parent organization may trust its alliance partner to a greater or lesser extent, on the basis of the common propensity to confide in the former's country of origin. Furthermore, partnering organizations that come from diverging countries might also vary in their apprehended trustworthiness, which refers to social categorization and is associated with nationality stereotypes. That is, if the partnering firm's country of origin is socially categorized as being a trustworthy country by the foreign organization, the level of trust is assumed to be higher. However, relying on such stereotypical classifications and applying them to particular partners from different countries may lead to false judgment. Also, the categorization effect can be mitigated by experience achieved through prior or current relationships with organizations from the particular foreign country. (Ertug et al., 2013: p. 264-265)
Institutional-Based Trust

Institutional-based trust is highly related to the formal governance mechanisms discussed previously (see Chapter 3.3.5.1. Formal Governance), such as alliance-specific investments and contractual safeguards. (Parkhe, 1998:p. 425) Alliance-specific investments lower the allying firm’s flexibility to go after alternative projects to a considerable extent while increasing the cooperation’s efficiency through tying and strengthening bonds between the partners. As a result, they will experience a higher extent of reliability and predictability concerning the other’s behavior which fosters reciprocity and ultimately leads to a greater level of trust. (Meier et al., 2016: p. 237-238)

Contractual safeguards are often considered as the opposite of trust-building mechanisms, however many researchers argue that they develop hand in hand and actually operate as the foundation for developing trust. (Meier et al., 2016: p. 238) With partnering firms being vulnerable and susceptible to opportunistic acts, formal governance mechanisms can act as a moderator and facilitate the monitoring or trustworthy behavior which will decrease the risk of cooperation. (Mellewigt et al., 2007: p. 837)

Communication

International strategic alliances with partnering firms from foreign countries are confronted with a number of communication challenges, such as the previously often mentioned misunderstandings and uncertainties arising from cultural differences for example. The quality of communication internally – within each firm – and laterally – between the partnering firms, thus, is of great relevance. (Butler, 2010: p. 698)

As stated before, communication is considered an important element of alliance management capability and is often referred to as a glue, holding together an alliance. This is because it is crucial for developing trust by facilitating the strengthening of the organizational partner’s bond by acting as an asset that allows firms to learn from each other and improve coordination. Developing effective communicative skills, hence, is vital for the organizations to obtain a satisfactory and successful business partnership. In this context, two diverging dimensions of communication can be distinguished: communication frequency and communication efficacy. (Choi et al., 2010: p. 12; Griffith & Harvey, 2001: p. 88)
**Communication frequency** is made up of formal and informal communication. Formal communication refers to written, formal rules as well as standardized procedures and to the degree to which it flows between the allying firms. It decreases ambiguity and role conflicts, lowers the risk of opportunistic behavior on behalf of the partnering firm and positively affects cross-functional cooperation. Moreover, it improves the level of trust through lowering the falsification and withholding of crucial information. (Choi et al., 2010: p. 12; Menon et al., 1999: p. 22; Mohr & Sohi, 1995: p. 395-396) Informal communication on the other hand draws on the spontaneous and personalized communication among the allying firms including hallway talks or word-of-mouth; in short: ad hoc communication. This type of communication gives the organizations greater opportunities to adapt to their partner’s needs and again protects the firms from opportunism and gives them a better understanding of their counterpart by clarifying their roles. (Choi et al., 2010: p. 12; Mohr et al., 1996: p. 109-113)

As stated before (see Chapter 3.3.4. Alliance Management Capability) both formal and informal communication are characterized by different information richness and may have varying capacities in terms of influencing behavior. (Schreiner et al., 2009: p. 1401) However, they complement each other and the combination of formal and informal communication will give the allying firms the chance to strengthen their bond which increases the exchanged information’s credibility, the level of trustworthiness and the overall cooperative atmosphere. (Choi et al., 2010: p. 12; Tucker et al., 1996: p. 59-60)

The second dimension of communication, **communication efficacy**, is strongly affected by the presence of a so-called two-way communication defined as the degree to which the allying firms give each other (immediate) input or feedback by carrying ongoing dialogues. As stated before, the exchange of information might be hampered due to misunderstandings provoked by national and organizational cultural differences or idiosyncratic business norms and practices. A two-way communication provides the allying firms with the opportunity to clarify their intentions and achieve a better understanding of each other’s decisions through constantly giving feedback – may it be positive or negative. In short, the presence of a two-way communication is a great indicator for effective communication by letting the alliance partners share more accurate and credible information. (Choi et al., 2010: p. 13; Fisher et al., 1997: p. 60)

Communication efficacy, however, is also positively influenced by participative communication, referring to the degree to which the allying firms are involved in joint
decision-making processes. This lets them unite for setting goals and exchanging important and timely information, which allows the partners to straighten out alliance goals and common operational plans while lowering the risks of conflict and opportunistic behavior. Moreover, each alliance partner will feel involved which will in turn again increase trust, commitment and compliance for the business relationship. (Choi et al., 2010: p. 13; Mohr et al., 1996: p. 103)

Hence, two-way communication and participative communication both foster "(...) an atmosphere in which each partner can optimally make use of the resources available within the (...)" international strategic alliance. (Choi et al., 2010: p. 13)

3.3.6. Management of Ambiguity

As stated beforehand (see Chapter 3.2.5. Misunderstanding & Ambiguity) it is not possible to eliminate ambiguity and the particular types thereof completely. However, there are certain mechanisms that may be helpful when it comes to managing ambiguity more effectively. Hence, management of ambiguity can be classified as a crucial key factor of success for international strategic alliances.

A framework by Kumar (2014) suggests that handling partner ambiguity requires the partnering organizations to reach strategic consensus with each other. “Management of interactional ambiguity is predicated on developing a working consensus with one’s partner, while evaluative ambiguity invites the firms to engage in reframing.” (Kumar, 2014: p. 88) The framework will be further depicted in the following.

- Managing Partner Ambiguity

When it comes to managing partner ambiguity, it is fundamental to reach strategic consensus among the partnering organizations. Such a strategic consensus encompasses a shared alliance vision and lets the negotiating parties come up with a shared task definition and the necessary means to achieve their goals. The alliance formation will be facilitated by clarity on these matters. (Kumar, 2014: p. 88) Moreover, confidence may also be encouraged by strategic consensus in terms of handling unexpected events and problems that could arise during the alliance’s operation phase. Thereby, it also diminishes any reluctance regarding the agreement on behalf of the allying firms. (Williamson & Meyer, 2012: p. 44; Kumar, 2014: p. 88) An ideal strategic consensus also deals with the probability of a possible exit from or termination of the
alliance given that it fails to bring forth the intended benefits or becomes a burden for one or all parties respectively. (Gulati et al., 2008: p. 149)

However – even though it might seem simple – reaching strategic consensus can pose as a difficulty for numerous reasons. To begin with, the partnering organizations may have different point of views when it comes to making sense of ambiguity. “Different perspectives will lead to divergent interpretations and the actors will try to push forward an interpretation that is consistent with their own interests.” (Kumar, 2014: p. 88)

Furthermore, their attitudes concerning the perceived control over the alliance are a possible obstacle. For example, one partner might prefer to retain full control in order to draw more benefits or prevent any opportunism. The other partner though, might rather go for shared control. For the sake of alliance development, such conflicting attitudes and issues have to be sorted out. (Das & Teng, 1998: p. 493; Kumar, 2014: p. 88)

There are several measures that – if taken – can facilitate the achievement of strategic consensus. These include “(...) top management support, task partitioning, developing relationships, and the use of external frameworks such as structures or protocols.” (Kumar, 2014: p. 88)

- **Top Management Support**
  Support on behalf of the top management is fundamental for developing strategic consensus due to the fact that it shows commitment and stimulates positive perceptions during the negotiation process. (Kumar, 2014: p. 88)

- **Task Partitioning**
  In order to achieve strategic consensus, those who negotiate the alliance are demanded to handle several issues regarding governance, strategy and technology facing the partnership. As explained previously, *(see Chapter 3.2.5. Misunderstanding & Ambiguity)*, ambiguity presupposes that certain problems or situations may be hazily defined and have multiple meanings that could stand in conflict. One alternative for handling these potentially conflicting meaning is the engagement in “task partitioning”. There, the diverse issues are divided up and handled sequentially, starting with the easier ones and finishing with the more difficult ones. (Segrestin, 2005: p. 666; Kumar, 2014: p. 89) “This gives the negotiation process more flexibility and allows for the possibility of a successful
agreement. In particular, it allows for some quick wins that can strengthen the basis for an alliance agreement.” (Kumar, 2014: p. 89)

- **Developing Relationships**
  Moreover, developing relationships is a crucial point since it promotes commitment and makes bonding easier. This in turn enhances mindfulness of the partnering firms with respect to each others’ concerns and needs. Hence, they may act more straightforward regarding the goals underlying their motivation to enter the alliance and be more open to share information and knowledge, which will lead to more clarity and a better understanding so that ambiguity can be minimized and strategic consensus may be developed more easily. Also possible during the process of developing relationships is the assessment and exploration of each other in terms of the partners’ managerial approaches as a whole and how they differ. “If the approaches are broadly similar, strategic consensus will be easier. If not, then it gives partners the opportunity to explore allying with another potential partner.” (Kumar, 2014: p. 89)

- **Use of External Frameworks**
  Already existing agreements, templates and protocols are part of external frameworks that can serve as a structure guiding the process of negotiating. Thereby, they – through offering a pre-existing framework within which the allying firms can try to come to terms – reduce ambiguity as well. (Kumar, 2014: p. 90) An important approach here is the so-called win-win negotiation which aims at finding an alternative or solution that is acceptable and beneficial to all alliance partners, making them feel like everybody won in one way or another. (MindTools, n.d.)

Summing up, if a positive negotiation outcome is to be achieved, managing partner ambiguity is inevitable. In that sense, managing partner ambiguity depends largely on strategic consensus which can be reached with the help of mechanisms such as top management support, task partitioning, building relationships and external frameworks, including agreements, templates and protocols. These mechanisms each bear a unique role but – at the same time – reinforce each other. Partners who were successful in terms of developing a relationship, for instance, might easily decide which external frameworks, i.e. protocols or templates, to use for supporting the negotiations. (Kumar, 2014: p. 90)
Managing Interactional Ambiguity

Even though reaching strategic consensus during the formation of the alliance can limit the emergence of problems during the operation phase and is thus of utter importance, there still might come up some issues resulting from diverging expectations and understandings. In addition, the team that negotiated and agreed upon the alliance might not even be involved in the operation phase, leading to possible conflicts among the operating alliance personnel. (Kumar, 2014: p. 90)

As explained beforehand, (see Chapter 3.2.5. Misunderstanding & Ambiguity), interactional ambiguity refers to unfavorable process discrepancies that threaten the alliance’s success. Hence, it poses the following elementary question: Does the partnership head in the right direction? In general, issues regarding communicating, coordinating and bonding effectively are with all likeliness to be associated with interactional ambiguity. (Schreiner et al., 2009: p. 1397; Kumar, 2014: p. 90)

What is essential for managing interactional ambiguity in an effective way is the achievement and development of a working consensus that facilitates a stable order of interactions which minimizes aforementioned unfavorable process discrepancies. (Patriotta & Spedale, 2009: p. 2; Kumar, 2014: p. 90)

“Working consensus refers to the emergence of a behavioral pattern between the alliance partners that is characterized both by stability and predictability; it requires the allying firms to detect unfavorable process discrepancies in a timely fashion.” (Kumar, 2014: p. 91) Engaging in joint problem solving as well as learning to effectively manage their feelings is thereby equally important for alliance managers. (Kumar, 2014: p. 91)

- Detecting Unfavorable Process Discrepancies Timely

Ignoring unfavorable process discrepancies is going to – in all likelihood – lead to a multiplying of the conflicts and issues, which in turn will give rise to several matters of consequence. To begin with, those who are directly affected by and involved with these conflicts and issues might feel left out and sense that their problems are not being taken care of. As a result, their anxiety will be emphasized and they will feel hard-done by and resentful. Also, their morale as well as their perceptions regarding the alliance’s legitimacy will be affected resulting in an overall low level of commitment and effort with regard to the alliance. (Kumar & Das, 2007: p. 1430-1432; Kumar, 2014: p. 91)
Moreover, rumors will spread and suspicion will be raised as the conflicts and issues aggravate. In other words, employees will wonder about the reasons that cause the management to neglect these conflicts and issues and if they are even committed and capable of handling them. Detecting unfavorable process discrepancies timely will call for the management to communicate effectively as well as be alert and proactive. (Kumar, 2014: p. 91)

- **Management of Feelings**

Negative feelings, for instance anger, anxiety or tension, may also be caused by unfavorable process discrepancies, especially when suspecting opportunistic behavior *(see Chapter 3.2.2. Opportunism).* (Kumar, 2014: p. 91) Thereby, anger is often accompanied by reactive aggression, while anxiety is associated with uncertainty, pessimistic appraisal or maybe even withdrawal from a specific situation. (Fung et al., 2015: p. 821; Gambetti & Giusberti, 2014: p. 273) Aggression then may lead to the other party behaving similarly, ultimately causing the conflict to escalate. An allying firm that abandons the partnership, however, leaving problems behind that are yet not solved, can cause even more dissatisfaction and anger. (Kumar, 2014: p. 91) In that sense, Patriotta and Spedale (2009) state that by “(…) being considerate and respectful, in fact, an individual creates a moral obligation for other interactants to reciprocate in kind and therefore facilitate the legitimization and approval of his/her own face.” (Patriotta & Spedale, 2009: p. 5) With special regard to international strategic alliances – that are characterized by organizations dealing differently with feelings according to their culture – it is necessary to solve these conflicts and issues with the help of a cultural mediator. (Kumar, 2004: p. 107) The Japanese and the Chinese culture, for example, are known for avoiding overly expressing their feelings and emotions. (Kumar, 2014: p. 92)

- **Joint Problem Solving**

Whenever process discrepancies come up, it is inevitable to jointly solve problems regarding ambiguity. Generally speaking, international alliances are predispositioned to attributional, behavioral and interpretational conflicts, which arise from the partner’s discrepancies in value orientation. The allying firms may perceive and feel different about the emerging process discrepancies. “They may offer different but culture-dependent causal explanations for existing (…) process
discrepancy. And finally, the alliance partners also may differ in the way that they react to reduce these discrepancies." (Kumar & Nti, 2004: p. 358)

One of the most effective ways to manage process discrepancies and achieve consensus thereof is indeed to engage in joint problem solving, with the partners appraising the issues impartially. In this context, organizational routines play a crucial role by developing and strengthening interfirm coordination and thus joint problem solving. (Kumar, 2014: p. 93) Thereby, organizational routines can “(…) be defined as repetitive, recognizable patterns of interdependent actions (…)” that allow a firm to handle problems arising during the operation phase of the alliance. (Feldman & Pentland, 2003: p. 95) Moreover, interpersonal linkages are of utter importance since unfavorable process discrepancies might entail an emotional component and therefore require sensitivity for handling them. (Kumar, 2014: p. 93)

In conclusion, managing interactional ambiguity calls for a working consensus in order to limit ambiguity arising from unfavorable process discrepancies. “Unfavorable process discrepancies, if not dealt with expeditiously, will increase the ambiguity confronting alliance managers and place the alliance in jeopardy." (Kumar, 2014: p. 94)

• Managing Evaluative Ambiguity

Among other things, whether the alliance is a success is dependent on the allying firms reaching their goals. In general, it is hard to fully identify and evaluate the reasons for either success or failure: is it because of the external environment or due to lacking commitment? A high level of evaluative ambiguity requires effective sensemaking. “Are the unfavorable outcome discrepancies that the alliance is experiencing temporary or do they reflect a deeper underlying problem? If there is a deeper problem, then should the firm exit?” (Kumar, 2014: p. 94)

A strategic and working consensus developed in the previous phases should facilitate this evaluation process since then partner and interactional ambiguity have already been repressed. Furthermore, the organizations involved share a perspective regarding the alliance and its development and thus view discrepancies in a similar way, which includes reframing. Overall, the meaning of an event or a behavior depends largely on the context – the frame – in which it is put. Reframing, thus, means giving something a new meaning, that is a new frame. (Ötsch & Stahl, 1997: p. 3) This is especially helpful in ambiguous
situations because it stops the parties from pledging to a procedure that might be disadvantageous for the alliance. “Thus, if an alliance is experiencing an unfavorable outcome discrepancy, its significance could be reframed, for example, by suggesting that many alliances in this industry are experiencing similar difficulties. If so, then external forces may well be more to blame than the internal functioning of the alliance.” (Kumar, 2014: p. 94)

Such a reframing can be behavioral and/or cognitive:

- **Behavioral Reframing**
  Behavioral reframing is related to a change regarding the level of effort, i.e. appoint additional resources – or modifying the governance structure so to enhance effectiveness if there are any unfavorable outcome discrepancies. An alliance specialized in R&D that cannot achieve a technological breakthrough in a certain time period, may need the partners to put in more resources. “Alternatively, the governance structure may not be conducive to effective decision making, and behavioral reframing may thus be needed to restructure the alliance.” (Kumar, 2014: p. 95)

- **Cognitive Reframing**
  Cognitive reframing includes the altering of alliance performance criteria, which traditionally entail quantifiable metrics such as market share or profitability, and intangibles, like the learning outcome or the achievement of strategic goals. Using several different criteria makes sure that the alliance is not merely judged on explicit quantifiable metrics. An alliance, for instance, might not succeed but still gave the allying firms the opportunity to learn from each other which benefits them in the future for upcoming business relationships. Put differently, sensemaking lets the alliance partners handle outcome discrepancies in a more creative way. Moreover, establishing a longer time-horizon is crucial since then the organizations have enough time to get familiar with the other’s manners and characteristics. This in turn facilitates the development of a common frame with regard to alliance evaluation. (Kumar, 2014: p. 95)
The following figure again summarizes the three types of ambiguity, including their origins and what can be done to effectively manage them in order to reduce ambiguity.

Figure 15: Alliance Development - Stages and Ambiguity (Kumar, 2014: p. 86)

**3.3.7. Continuous Performance Feedback**

If international strategic alliances are ought to succeed, their performance must also be continuously assessed and evaluated against the partnerships’ short- and long-term goals and objectives. Continuous performance feedback provides the organizations with essential information whether appropriate actions need to be taken or not. Such appropriate actions range from doing nothing to adapting the alliance design or management and even ending the partnership. (Tjemkes, 2012: p. 100; Elmuti & Kathawala, 2001: p. 211) Cools and Roos (2006) suggest a framework consisting of three overall questions for performance feedback:
“Is the alliance meeting its strategic and financial goals?
Has anything happened to challenge the strategic logic of the alliance?
Should the alliance continue full speed ahead or is it time to exit?” (Cools & Roos, 2006: p. 4)

Nevertheless, answering these three question is quite complex, mainly due to the versatile nature of alliance performance feedback. (Tjemkes, 2012: p. 100) Hence, it is vital to go further into detail when assessing and evaluating alliance performance.

Generally speaking, when it comes to measuring an alliance’s performance, it is inevitable to develop a detailed view of its economics in advance. “The process should go beyond the usual cash flow metrics to include transfer-pricing benefits, benefits outside the scope of the deal (for instance, sales of related products), the value of options created by the alliance, and start-up and ongoing management costs.” (Bamford & Ernst, 2002: p. 32) But in these days, it has already become common practice for organizations to take advantage of both financial and non-financial measures to evaluate the performance of international strategic alliances due to the fact that such information facilitates the evaluation and monitoring of the continuing performance. (Larimo et al., 2016: p. 880; Bamford & Ernst, 2002: p. 32)

In that matter, it has been suggested to take advantage of the balanced scorecard approach in order to reach such a balanced view of alliance performance. That balanced view can be achieved by including four distinct dimensions of performance fitness, that is financial, strategic, operational and relationship fitness. “Financial and strategic metrics show how the alliance is performing and whether it is meeting its goals – but may not provide enough insight into exactly what, if anything, isn’t going well. Operational and relationship metrics can help reveal the causes of problems and uncover the first signs of trouble.” (Bamford & Ernst, 2002: p. 33) Taken together, these four dimensions of performance fitness form an integrated picture to evaluate international strategic alliances that also operates as a framework to monitor the alliance’s progress towards its objectives and creates incentives for all allying firms to reach those objectives. (Bamford & Ernst, 2002: p. 33; Kaplan et al., 2010: p. 118)
I. Financial Fitness
Financial fitness is measured by using metrics such as cash flow, sales revenues, return on investment, net income or the expected net present value of the alliance. Furthermore, alliances need to supervise whether they are meeting their overall financial goals as for instance increasing revenues or reducing costs. Additionally, the financial dimension can entail partner-specific metrics like sales of related products or transfer-pricing revenues. (Bamford & Ernst, 2002: p. 33-34)

II. Strategic Fitness
Customer loyalty, market share and launches of new products are non-financial metrics which facilitate the evaluation of an alliance’s strategic fitness. Also, the competitive position as well as access to new customers or markets can be measured by using other metrics that might take some imagination to devise. (Bamford & Ernst, 2002: p. 34-35)

III. Operational Fitness
Metrics that measure an alliance’s operational fitness demand explicit goals associated to the performance review and the employee compensation. Examples of such metrics include the number of staff members recruited or customers visited, product quality and manufacturing throughput. (Bamford & Ernst, 2002: p. 35)

IV. Relationship Fitness
“Questions such as the cultural fit and trust between partners, the speed and clarity of their decision making, the effectiveness of their interventions when problems arise, and the adequacy with which they define and deliver their contributions all fall under the heading of relationship fitness.” (Bamford & Ernst, 2002: p. 35) These issues can be assessed through a partner-satisfaction survey, for instance, that contains inter alia questions on alliance management or partner loyalty. This information then helps to undock problems and come up with detailed plans to handle them. (Bamford & Ernst, 2002: p. 35)

The importance of the particular fitness dimension as well as their depth of evaluation will vary according to the size and objectives of the alliance. For example, a joint venture who aims to reduce costs ought to focus mainly on the financial and operational fitness dimension. Alliances aiming at entering new markets, however, will presume negative financial returns in the beginning anyways and hence should place more weight on strategic goals like getting into distribution channels or increasing market share. “Smaller,
short-term alliances might have simple scorecards with only four or five metrics; larger ventures with substantial assets or revenues deserve something more detailed.” (Bamford & Ernst, 2002: p. 35)

To assess the importance of each dimension as well as their depth of evaluation it can be helpful to appoint a project team that deals with the exact design of the scorecard. That project team might consist of all alliance managers and selected employees from all allying organizations’ departments of strategic planning, corporate communications and project management. Moreover, an external consultant may provide an objective perspective. (Kaplan et al., 2010: p. 118) Also, creating an effective balanced scorecard for an international strategic alliance, again requires having well-defined and measurable goals and objectives. Additionally, benchmarks for alliance performance can be helpful to assist in evaluating the alliance results. (Elmuti & Kathawala, 2001: p. 212)

A sample alliance scorecard can be seen in the following:

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**Figure 16: Sample Alliance Scorecard (adapted from Bamford & Ernst, 2002: p. 34)**
What needs to be taken into consideration, however, is that allying firms from diverging national backgrounds and highly distant cultures may each prefer different measures. More specifically, they might choose the use of financial measures, which are objective, clear and easy to read, over the use of subjective or non-financial measures, which may be interpreted differently. Thus, one partner might be satisfied with an alliance’s result, while the other is not. (Larimo et al., 2016: p. 881) Because of that, it is again necessary to create a common understanding and once the performance has been assessed and evaluated, to communicate the results and provide constructive feedback. This step might even be formally integrated into the alliance’s evaluation process. “Since lines of communication will comprise a hybrid network for the alliance relationship, it is even more important to assure that results of the evaluation are communicated to all partners at all relevant levels in the organization.” (Cravens et al., 2000: p. 539) Additionally, refinement of the performance feedback is essential due to the fact that if the feedback process remains static, it has only a limited effect on a positive alliance outcome. Changes in the environment or with regard to personnel and strategy may drastically influence the type of information on which the alliance’s assessment and evaluation is based. Moreover, alliance managers may choose to prioritize a different set of evaluation criteria as time passes. Thus, besides communicating the evaluation results, regularly assessing whether the evaluation items used are appropriate or need to be refined, has a positive effect on the overall alliance success. (Cravens et al., 2000: p. 539)
CONCLUSION

The last part of the master’s thesis at hand will handle the conclusion with reference to both the introduction and the literature review by summarizing the most important facts and deriving several implications for management.

4. Summary

Summing up, it can be said that the competitive pressure for businesses around the world has increased constantly over the last few years, even decades, mainly attributable to globalization and its ramifications. To keep up with this accelerated competitive pressure, firms, hence, are forced to take advantage of different strategic alternatives such as international strategic alliances meaning cooperations with partnering organizations from other countries and regions.

Such international strategic alliances come in distinct types – non-equity alliances, equity alliances and joint ventures – which all have their own advantages and disadvantages. A firm’s general propensity for entering an alliance, however, is subject to the influence of several factors which can be classified in three general categories: firm characteristics (e.g. firm size and resource position, corporate culture), industry characteristics (e.g. threat of new entrants, cost structure) and environmental characteristics (e.g. degree of market uncertainty, rate of technological change). The overall strategic alliance process then is often considered as consisting of mainly three stages, that is formation, operation and outcome which all are of utter importance for the final alliance outcome. Indeed, strategic alliances have the potential to positively influence a firm’s competitive position through pooling the partners’ resources and skills which could be complementary or related – depending on whether their intention is to further improve their strengths or lower their costs. This basic motive of international strategic alliances – the pooling and sharing of resources – however, comes with a variety of facets that play a contributing role, for example sharing risks and costs, exploiting economies of scale, building market power, learning from partners or entering new and international markets and industries.

As a result, strategic alliances have emerged as important strategic manoeuvres with the number and popularity of such cooperative agreements formed being on the increase ever since. Nevertheless, strategic alliances have been viewed as the single most complex
entity in the entire business world due to their inherent risky nature and the astonishingly high rates of alliance failure.

This in turn raises the question of what hampers and fosters alliance success, referring to key factors of failure and success. Such factors have been identified and broadly discussed over the course of this master’s thesis and will again be summarized shortly in the following.

The most critical key factor of failure for international strategic alliances is cultural and organizational differences and the resulting clash of cultures along the dimensions of cultural dimensions (such individualism vs. collectivism, uncertainty avoidance, long term vs. short term orientation, and so on) and in terms of the administrative, geographic and economic distance. Such differences can hamper effective cooperation by leading to several problems, amongst others communication difficulties, competing values or additional costs arising from an unfamiliar environment.

Opportunism, that is taking advantage of circumstances and seeking gain for oneself at the partner’s expense, has been identified as another crucial factor causing alliance failure by confronting the allying firms with increased coordination difficulty, acting as a notable obstacle for developing confidence and increasing the risk for conflicts among the parties for example. The potential for opportunistic behavior in an alliance is thereby largely influenced by economic, relational and temporal determinants as well as by the environment’s volatility.

Moreover, decision-making biases, brought forth by the ambiguous intentions, the behavioral unpredictability and the therewith associated uncertainty, contribute to alliance failure. Overconfidence, single outcome calculation as well as adjustment and anchoring are examples for such decision-making biases. These can lead to dysfunctional behavior possibly resulting in less-than-expected productivity or unexpected termination for instance.

Naturally, the inherent risky nature of international strategic alliances also plays a shaping role. In this context, several types of risk have been discussed, including performance risk, country risk, knowledge appropriation risk and relational risk. If not being aware of those risks and handling them effectively, the can seriously jeopardize the alliance’s success.
Subsequently, misunderstanding and ambiguity have been discussed within an own subchapter – even though they play a determining role for almost every other key factor of failure in one way or the other by creating gaps in expectations of partners and complicating the choosing process among alternatives. Partner, interactional and evaluative ambiguity have been distinguished further which are associated with the alliance stages of negotiation (formation), the execution (operation) as well as the assessment and termination (outcome) in that order.

When it then comes to the key factors of success, the primary issue is a thorough planning process which is associated with partner selection and partner fit, strategy development, negotiation as well as exit planning. Thereby, selecting the right partner is the first vital component which consists of five consecutive steps namely, developing a partner profile, constructing lists of potential partners, developing a partner fit framework, conducting a partner fit analysis and last but not least, assessing the risk. In this context the partner fit refers to two interrelated concepts. The first concept is resource complementarity, meaning the taking together of distinct resources to increase effectiveness. The second concept is firm compatibility in terms of cultures, employees, strategies, organizational structures and operational standards and procedures. Both of them are ultimately necessary to realize alliance benefits. After having selected the right partner, the focus needs to lie on a successful negotiation in order to build a foundation for future cooperative success. Hence, the partners need to adjust their expectations, find an appropriate negotiation strategy and react to the other party’s offers. Moreover, the negotiator plays a vital role by having the potential to create a positive working relationship in which an acceptable negotiation outcome can be reached that is satisfactory to all parties. Naturally, also the alliance strategy needs to be formulated as well as aligned with the organizations’ growth or internationalization strategies. Even though it might seem inappropriate at the first thought, exit planning is ought to be a part of a thorough planning process as well so to avoid a major alliance breakdown. It is thereby important to consider when and for which alliance partner the exit should be easy (inexpensive and fast) or hard (expensive and lengthy).

With learning from competitors being one of the main motives for entering a strategic alliance, effective learning and dealing with knowledge management challenges can be characterized a key factor of success also. Here, partner protectiveness and knowledge tacitness play a limiting role to learning and knowledge accessibility which need to be
handled. However, the firms’ effectiveness at learning and acquiring knowledge is also important and largely influenced by knowledge connections, knowledge relatedness and cultural alignment. Having a systematic approach as well as clear, flexible and realistic expectations; moving personnel and receiving support on behalf of the government are then further examples that foster and promote a successful learning and knowledge acquisition process.

In addition, experience – learning from having previously cooperated – is ascribed a positive effect on alliance success. General international strategic alliance experiences, country-specific experiences and type-specific experiences can thereby be distinguished, that help the allying firms to reduce ambiguity, adopt better processes and improve organizational and managerial approaches.

Alliance experience, then, together with alliance training and managers gives rise to the construct of alliance management capability, which has been deemed a source of competitive advantage either. For that matter, alliance management capability means being capable of organizing a successful strategic alliance and entails coordination, communication, bonding, sensing and transformation capabilities.

Furthermore, the right alliance governance structure – of both formal and informal governance – is vital for success. In other words, the allying firms need to decide which legal and social control mechanisms to deploy. Formal governance deals with control mechanisms such as equity investments, incentive systems, management boards and contracts, while informal governance handles the social side of trust, commitment and communication. Ideally, both sides should complement each other to ensure the best outcome by mainly preventing opportunistic behavior on behalf of one of the allying firms.

Since misunderstanding and ambiguity are inherent in international strategic alliances, the management thereof has also been described as fostering the success of such a cooperative venture. Reaching a strategic and a working consensus as well as engaging in reframing are essential to handling said ambiguity. To do so, it is important to, inter alia, receive top management support; engage in task partitioning; develop relationships; manage feelings; solve problems jointly and so on.

The last, but all the more important, key factor of success for international strategic alliances that has been discussed is continuous performance feedback which provides the organizations with information whether actions (e.g. doing nothing; adapting the alliance
design or management; ending the relationship) need to be taken or not. This can be done with the help of a balanced score card approach for the alliance measuring the financial, strategic, operational and relationship fitness.

This review of key factors of failure and success for international strategic alliances shows that there are indeed numerous parameters that have the potential to influence the cooperative outcome either negatively or positively. However, it can also be noted that all of the key factors of failure and success which have been discussed in the master’s thesis at hand are highly interrelated in the way that they have the potential to reinforce each other.

Cultural and organizational differences are closely linked to misunderstandings and ambiguity with the former bringing forth the latter through competing values for example. Additionally, the informal governance mechanisms of trust and commitment are an integral part of lowering the partnering firms’ protectiveness of knowledge which increases its accessibility and thus improves the learning effectiveness. Moreover, experience itself has been described as a key factor of success. Nevertheless, it is highly intertwined with the concept of alliance management capability by acting as a determining factor thereof. Then again, communication capability has been introduced as an aspect of alliance management capability but is also a main mechanism of informal governance. The key factors of failure and success, though, can also weaken one another. As indicated before, both formal and informal governance mechanisms lower the threat of opportunistic behavior through a combination of control and contracts as well as trust, commitment and communication. Further, the management of ambiguity can prevent a fatal misunderstanding on behalf of one of the allying firms. Hence, it is actually not possible to completely keep all key factors of failure and success apart because in one way or the other they are all part of a greater, more complex process.

4.1. Implications for Management

What implications for management can be derived from the master’s thesis at hand is that international strategic alliances can indeed be characterized as important measures to attain and maintain competitive advantages within a globalized business world through pooling resources and creating synergies. However, the inherent risky nature of such business cooperations and their high rates of failure indicate that organizations must not enter or form international strategic alliances simply because they are on-trend at the
moment. It is crucial to take into careful consideration all possible options beforehand that exist beyond international strategic alliances such as a merger or acquisition for example. Besides being aware of all other options, companies also need to become clear about their motives for entering or forming an alliance, how it fits with their current strategy, what their expected returns are and – naturally – which factors hamper (e.g. cultural and organizational differences, opportunism, ambiguity and misunderstandings, decision-making biases) and foster (e.g. thorough planning, effective learning, experience, alliance management capability, alliance governance, management of ambiguity and continuous performance feedback) their success in order to be able to fully leverage an alliance’s potential.

Generally speaking, the hitherto discussions of the respective key factors of failure and success are porcupined with implications – or suggestions – for (international alliance) managers in terms of what is important to consider when entering and ultimately operating such a cooperation. Nevertheless, the most important aspects will be again listed in the following:

- Be aware of potential cultural and organizational differences and the therewith associated issues such as language barriers, diverging management styles, competing values and so forth that may ultimately lead to misunderstandings, ambiguities as well as decision-making biases;
- Conduct a thorough planning process in order to find the right partner with a high partner fit;
- Negotiate exhaustively so to establish a common ground and reach consensus by inter alia clarifying goals, objectives and expectations which builds the foundation for further collaborative success;
- Gain as much alliance experience as possible and establish connections or ties respectively with possible alliance partners;
- Invest in building personal bonds through repeated contact and open communication for example;
- Find the right balance with regard to formal and informal governance modes
- Assure the full commitment on behalf of the management boards and invest in trust-building mechanisms;
- Continuously review the alliance’s performance and – if necessary – adapt the alliance’s design or management.
References


