UNIVERSITY OF STRATHCLYDE

DEPARTMENT OF MARKETING

STRATEGIC ALLIANCES
MOTIVATIONS, MANAGEMENT
AND
INTENATIONAL COMPETITIVENESS:
THE BRITISH EXPERIENCE, 1980-1989

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Submitted According to the Regulations
for the
Degree of Doctor of Philosophy
1991

ABSTRACT

Globalisation and fierce competition necessitate MNEs to rethink their strategies as well as their organisational structure in order to survive in an increasingly complex business environment. This has been accompanied with an overt wave of strategic alliances signaling that these strategic means represent an important weapon for the multinational company to use in the Global battle.

However, the British involvement in such a wave is not as clear as that of other countries, for most of previous research has been done on US and Japanese firms. The current study rectify this shortfall by revealing the incidence of British-foreign alliances during the period 1980-1989. The main objectives of the study are to examine the motivations of these alliances, to uncover the management practices of such strategies, and to determine their impacts on the international competitiveness of the British partners.

During the course of the last decade British MNEs have formed 337 strategic alliances with foreign firms, mainly belonging to the "Triad Region" of the US, Europe, and Japan. Most of the alliances were concentrated in just four industries; electronics, aerospace, telecommunications, and automotives.

Technological complexity and the high cost of R&D as well as globalisation and fierce competition are the main motivations for British firms forming strategic alliances.

Strategic alliances' success lies in two main considerations: one is balancing the attention in the three crucial stages of the management process (planning, formation, and operation and control), and two is understanding the issues that link one stage to the other, i.e. preparation for the formation stage and development of the plan and management team of the alliance.

The alliance performance is influenced by the scope of its activities as well as the ability of the firm to effectively manage such a strategy. Strategic alliances have positive impacts on three significant issues, namely; the international competitiveness of the British partners, the management of the firms, and their technological capabilities. Further, firms that equally importantly consider the three management stages of their alliances or network of alliances are more likely to ensure the improvement and/or enhancement of their international competitiveness.

TO

MY MOTHER AND FATHER:

A VERY SUCCESSFUL ALLIANCE

ACKNOWLEDGEMENTS

I would like to thank my supervisor Dr Jim Hamill for his continual support, encouragement, and fruitful discussions throughout this project.

My thanks to all members of the Strathclyde International Business Unit (SIBU) for their invaluable advice throughout the constructive seminars. Particular thanks to Professor S. Young, Dr M. McDermott, and Mr C. Wheeler for their constructive criticism.

Special thanks to Professor D. Morris of INSEAD Business School (Fontainebleau; France) for his kindness in supplying me with useful information on British alliances.

I thank The Hariri Foundation for sponsoring me for this project and throughout my studies in the UK. Miss Mona Knio of The Hariri Foundation for her assistance and friendship, I salute you.

To all my friends, especially those who almost kept me sane during the production of this thesis, my many thanks.

Last but not least, to my family, without whom, none of this would have been possible.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION TO THE STUDY

One of the most significant characteristics of international business in the last decade is the frequent use of international collaborative strategies between multinational enterprises (MNEs) ranging from simple, but strategic, partnerships to full mergers and acquisitions.

This trend has been closely linked to the rapid change towards the globalisation of businesses and markets, the complexities and innovations in technology, and the increased pressure of international competition on even the world's largest MNEs. These factors are, no doubt, amongst the motivations underlying the emergence of international strategic alliances as a vital form of collaborative strategies. There are also other factors specific to particular circumstances or cases; (i.e. which can be related to a certain economy, certain industry, and/or certain firm).

The current research examines this emerging form of international strategy with specific reference to the experience of British MNEs for the period 1980-1989.

Therefore, it is inevitably necessary to shed some light on the circumstances of British industry and its MNEs in order to grasp the "particular cicumstances" within which British MNEs have been pursuing strategic alliances.

A review of the literature on UK industry and its multinationals indicates that, once proudly known as the first industrial nation, the British economy has been overtaken by its major competitors (Stopford and Turner, 1985; Muellbauer, 1986; Smith, 1986; and Reynolds, 1990). This has been accompanied with an economy which was buffeted, particularly over the last decade, by turbulent conditions: unemployment has risen to serious levels, industries that previously constituted the mainstay of the UK economy- like steel, shipbuilding, textiles, and metal manufacturing- have declined in importance, and the failure to match levels and rates of growth of productivity achieved by other industrialised economies- e.g., Germany and Japan.

The literature also indicates that UK share of the world-market, a measure of international competitiveness, is relatively low as compared to Japan, Germany, and the USA. One possible explanation for this decline in market share and consequently the deteriorating international competitiveness of British industry can be related to the level of spending on R&D. In less than twenty years, the UK has moved from being the second largest (in 1969), after the USA, to the fifth largest OECD R&D spender (in 1984) (Hughes, 1990). Moreover, Reynolds (1990) attributes the decline to poor product quality and design and low investments which have adversely affected the international competitiveness of British multinationals.

In addition, Hamill (1991) argues that in the early 1980s, unfavourable economic conditions (recession, import competition and an overvalued pound- a delibrate policy of the newly elected Conservative Government to control inflation) and the so-called **British Disease** (weak management, overmanning, wage inflation, low productivity, and industrial unrest) limited the growth prospects of British MNEs. He also states that these conditions adversely affected the international competitiveness of British industry and restricted its longer-term growth prospects as a result of the concentration on low technology, low added-value products and the geographical orientation of its companies which was still heavily based on slow growth, developing country markets, and the UK domestic market.

By the middle of the decade, the financial performance of the manufacturing sector had recorded a considerable improvement. This improvement was a result of widespread rationalisation by most companies (largely aimed at cost control), increased productivity and efficiency, and restricting (with the aid of

Government legislation) trade union power. By this period attention shifted from short-term concerns with survival to longer-term pursuit of growth which necessitated radical change in strategic direction.

The radical change in strategic direction was aimed at attenuating the "strategic gap" by focusing on longer-term growth strategies. Jauch and Glueck (1988) explain the strategic gap as being the difference (gap) between the expected outcomes of existing strategies and the desired outcomes of a change in strategy.

Hamill (1991) applies the strategic gap model to explain the rapid increase of British acquisitions in the US. He contends that mergers and acquisitions (and divestments) in the UK, but especially abroad, played a crucial role in achieving strategic objectives and closing the Strategic Gap by moving towards higher value-added product sectors with greater growth potential and new geographical portfolios (diversification away from markets with low growth potential in both the UK domestic market and in the traditional foreign markets of British companies in developing countries).

International strategic alliances which have been pursued by British MNEs during the course of the last decade fit tidily alongside mergers and acquisitions within that same model, for they are triggered by similar strategic considerations and are aimed at restoring and improving the international competitiveness of British industry.

Based on in-depth personal interviews with 29 British firms, supported by other published material, the current research focuses on investigating the British-foreign strategic alliances of the 1980s. The research also examines the motivations underlying British-foreign alliances and investigates the management process of the alliance strategy. Lastly, the study examines the contribution of such a strategy in closing the above mentioned "strategic gap" by highlighting the impacts of strategic alliances on the participating British firms.

1.2 DEFINITION OF INTERNATIONAL STRATEGIC ALLIANCES

In today's world of creative deal structuring, the distinction between strategic alliances and other forms of collaborative arrangements is often blurred. The complexity in distinguishing strategic alliances from the more conventional collaborations (i.e. joint ventures) arises out of two reasons. First, a strategic alliance has been given various definitions which may at the same time subsume a wide variety of companies' relationships, e.g. licensing, conventional joint venturings, mergers and acquisitions. Second, the use of the term strategic alliances is not uniform in all research studies. Some authors use strategic partnerships, hybrid organisations, competitive alliances, and others like to employ international coalitions, competitive or international joint ventures while all addressing just one business relationship; international strategic alliances (details on differentiating strategic alliances are provided in Chapter Three).

For this research, the adopted definition is:

International strategic alliance is an agreement between two or more compatible companies (mainly belonging to two or more developed nations) who cooperate through resource pooling and/or technology exchange, and share the operation and management of a long-term strategic relationship in a manner intended to create a superior competitive position for them. This relationship is more than just a license agreement and at the same time falls short of a merger.

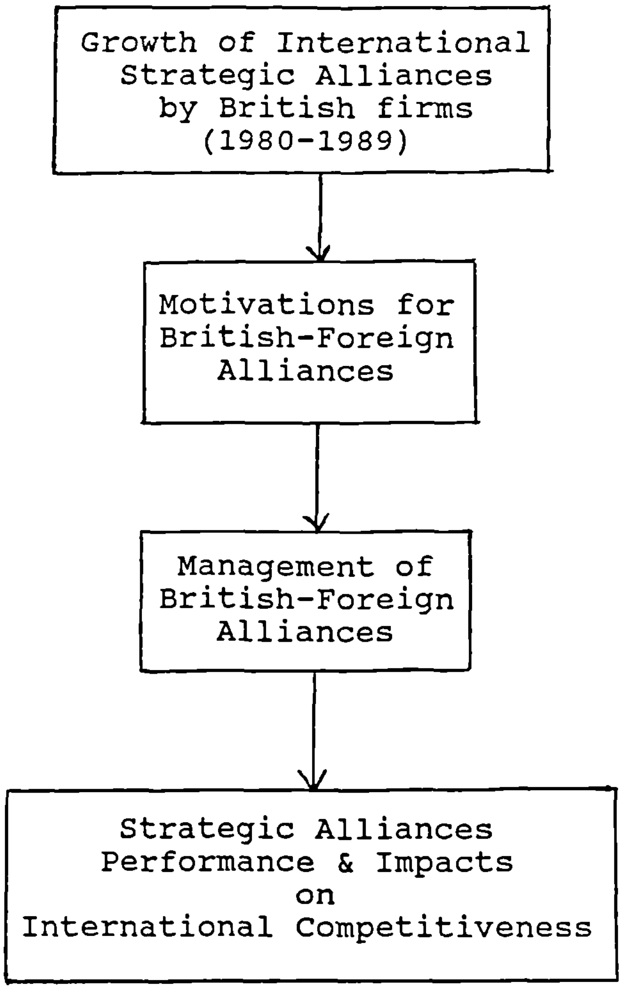
Source: Adopted from various definitions (see Figure 3.2, Chapter Three).

1.3 RESEARCH OBJECTIVES

The objectives of this research are schematically presented in Figure 1.1. The elements shown in the figure provide the basic issues for the focus of this study.

FIGURE 1.1

RESEARCH OBJECTIVES



The objectives of the current research are, therefore, as follows:

1. **To investigate the extent of British MNEs' involvement in strategic alliances with foreign companies.**

2. To determine the motivations of the UK partners for engaging in strategic alliances.

3. To examine how British firms manage strategic alliances with foreign partners, i.e., study the procedures followed by the British firms while:

   a. planning for strategic alliances, i.e., pre-alliance considerations and analysis;

   b. formulating their strategic alliances, i.e., negotiation procedures; and

   c. implementing, operating, and controlling those alliances, i.e., post-alliance management procedures.

4. To determine the impact(s) which international strategic alliances may have on the British firms (i.e. on their international competitiveness, management, and their own operations). And look into the relationship between the alliance management and the impact on the firm's international competitiveness.

The above listed objectives imply that there is a wider coverage in the scope of the variables affecting the understanding of international strategic alliances than previous research studies may have indicated. Moreover, the current research aims to assess the impact of these variables and to draw conclusions from the multi-dimensional focus taken by this study which will build on the work of previous researchers.

1.4 PRIOR RESEARCH

International strategic alliances have become increasingly popular as instruments of strategic and competitive actions. Researchers, studying collaborations and strategic alliances (e.g. Harrigan, 1986, 1988, 1990; Porter, 1986; and Lorange and Roos, 1988 and 1991), have been as enthusiastic about coalitions as the cooperating firms themselves. However, various other studies have warned of the danger incorporated in such strategies (e.g. Reich and Mankin, 1986; Doz, Hamel, and Prahalad, 1986 and 1989; Porter, 1986 and 1990).

The literature on the subject extensively covers the basic rationale of strategic alliances, their types, and industry and geographical distribution (Porter, 1986; Jain, 1987; Hergert and Morris, 1987 and 1988). Many researchers have investigated the control aspects, success and failure, and cultural implications of cooperative agreements, e.g.; Killing (1983 and 1988), Harrigan (1986, 1987, and 1990), Pucik (1988) and , Lorange (1988), while various others have concentrated their efforts on pinpointing important criteria for partners' selection (Walmsley, 1984; and Geringer, 1987).

So far, the literature has identified a number of distinct features of the alliances of the 1980s and 1990s. The motivations underlying such alliances are more strategic than in the more conventional forms of collaboration (joint ventures). Conventional collaborations, typically involving a developed country MNE and a developing country firm, are usually established as a foreign market entry strategy. Unlike traditional joint ventures, strategic alliances are between firms with complementary assets, skills, and knowhow, and entered into in the hope of strengthening the international/global competitiveness of the partners who are often of equal size and strengths with neither being a passive player in the deal (Dunning, 1988).

Some researchers have recently increased their interest in the pre-alliance design aspects and the formation process as well as in developing conceptual frameworks for managing strategic alliances and other cooperative agreements. Examples include the work of Geringer (1987), Harrigan (1986), Delvin and Bleackly (1988), and Doz, Hamel, and Prahalad (1986, and 1989).

Despite this new found *interest and prior* acadamic examination of the alliance strategy, the understanding regarding the strategic management of the whole alliance process needs improvement, for only a few research studies have been carried on the complete management process to include all stages of the strategy formation and implementation in one single research (e.g. Harrigan 1985, 1986). This drawback was first pointed out by Harrigan (1985) as she states that: "This shortfall in the strategic management literature reflects a serious weakness in what managers know about cooperative strategies", and later emphasised by several other authors such as Delvin and Bleackley (1988) and Hamel, Doz and Prahalad (1989).

However, the literature on the management process of strategically similar business forms (i.e. mergers and acquisitions) provides a useful basic ground which can be adopted to broaden the understanding of the strategic alliances' management. The similarities between strategic alliances and acquisitions are inherent in the 'debut' and the 'end results' of such strategies. The motivations underlying the strategic alliances and acquisitions of the 1980s and 1990s are strategic in nature and widely associated with long-terms synergistic objectives. Furthermore, the success/failure consequences of both strategies incorporate a major effect on the international competitiveness of the involved firms. In between those two ends lies the strategy management process which should embody genuinely akin procedures.

The literature on the management of the acquisitions strategy is far from scarce and includes several studies of significant relevance to the case of strategic alliances. Jemison and Sitkin (1986) identify three important pre-requisites for successful acquisitions. The **strategic fit** between the acquirer and target firm (or the partners to an alliance) and the need to achieve **organisational fit** between the two parties in terms of administrative systems, corporate cultures as well as personnel. While the **effective management of the acquisition process** is seen by the authors as the most important factor which starts from initial developement of an acquisition/alliance strategy through the identification and evaluation of target/partner to post-acquisition/alliance management and control.

Payne (1987) used Porter's Value Chain to identify potential sources of value added in acquisitions (alliances) through which the strategic fit and organisational fit can be pinpointed between the parties to an acquisition or a strategic alliance.

Moreover, the importance of acquisitions process perspectives was further stressed by Haspeslagh (1987). He argues that, in addition to important considerations such as strategic fit and organisational fit, the pre-acquisition process per se plays a significant role in subsequent procedures and strategy success.

There is extensive research on the part of the acquisitions and alliances performance that hardly goes beyond a mere empirical measurement of these strategies performance suggesting that many acquisitions and cooperative agreements fail, while many succeed (see Hamill, 1991). However, despite the continuous efforts of authors like Jemison and Sitkin (1986), Payne (1987), Haspeslagh (1987), Delvin and Bleackley (1988), and Hamill (1988, 1989, 1991) whose studies are rectifying this deficiency in detecting the pre-requisites responsible for successful acquisitions and alliances, there is still a need to identify the impact(s) these strategies may have on the pursuing firm, particularly regarding its international competitiveness.

The current research pulls together the work of the above mentioned and other authors in a systematic framework for detecting all the factors which influence the pursuit and management of strategic alliances which might have a considerable impact on the firm's international competitiveness. Therefore, the framework, presented in Figure 1.2, is a summary of the above literature and is explained in detail in Chapter Two, Three, and Four. This framework forms the basic "check model" for the investigation of the alliance strategy as pursued by the firms participating in the current research.

1.5 IMPORTANCE OF THE RESEARCH

While there is a growing volume of literature on international strategic alliances, there is a dearth of empirical evidence on the involvement of British companies in such arrangements. Although it is possible to quote examples of some highly publicised alliances involving British firms (Rover Group/Honda; JVC/Thomson/Thorn-EMI, Rolls Royce/Pratt & Whitney; BAe/Aerospatiale/MBB; etc...), the overall extent of involvement by British firms in international strategic alliances is not clear. More importantly, as indicated earlier in this chapter, there is a need for more research regarding the complete management process of such alliances.

The competitive implications of the extensive use of strategic alliances amongst the world rivals have recently been the concern of many authors in the area of international business. On one hand, some authors have proclaimed that international strategic alliances (particularly those set up with the Japanese) threaten the competitive position of many Western firms and endanger the future of their industry (Reich and Mankin, 1986; and Doz et al, 1986, 1989). On the other hand, the need for strategic alliances as an important "competitive strategy" for the current global arena was emphasised by several authors, e.g. Permlutter and Heenan (1986), Jain (1987), Boyrs and Beamish (1988).

Nevertheless, there is still little empirical evidence concerning the competitive implications of strategic alliances, particularly those regarding the British experience of these competitive strategies.

Accordingly, the importance of this research arises for two reasons: first, the focus on examining the incidence of British-foreign alliances in a full decade

(1980s), and second, the particular emphasis on identifying the influencing factors in managing strategic alliances by studying the complete management process of a sample of 29 British firms variously involved in strategic alliances and their impact(s) on the international competitiveness of the British partners. By so doing, this study places a balanced perspective on the strategic, organisational, behavioural, and managerial aspects of strategic alliances, providing a depth and richness that is so often lacking in the one-dimensional treatises produced by much of prior research studies.

Moreover, recent trends in international business have been directed to rethink the explanatory power of traditional theories of international production in order to explain this emerging but important form of business; e.g. the expansion of Dunning's eclectic paradigm, by broadening the scope of internalisation to include group internalisation (Dunning, 1988). In this context, the current research identifies significant prerequisite conditions that provide the sufficient and necessary motivations and management procedures for strategic alliances formation. These conditions, if incorporated in the theories of the MNE , will hopefully contribute to the current process of explaining international strategic alliances as a significant form of international economic involvement.

FIGURE 1.2

INTERNATIONAL STRATEGIC ALLIANCES: A SYSTEMATIC FRAMEWORK

FACTORS INFLUENCING THE GROWTH OF STRATEGIC ALLIANCES
Trends in the international business environement:

* Technological changes & innovations
* Globalisation of Markets
* Market integrations (e.g. 1992)
* Far Eastern challenge
* Changes in government policies

Global Competition

GROWTH OF INTERNATIONAL STRATEGIC ALLIANCES
(Motivations for strategic alliances)

* Complementary resources and skills
* Economies of scale
* Globalisation
* Technology and risk sharing
* Governmental encouragement
* Access to key markets
* Competitive pressure
* Formation of a single market in Europe

DECIDE FOR A STRATEGIC ALLIANCE

PRE- AND POST-ALLIANCE MANAGEMENT

(planning, negotiating, and implementing strategic alliances)
(Exhibit a)

ALLIANCE PERFORMANCE

INTERNATIONAL COMPETITIVENESS OF FIRM

EXHIBIT A

Phase 1: STRATEGIC CHOICE

* Review & clarify defined goals & objectives in light of the preferable strategy.
* Review & evaluate alternative strategic options on a cost/benefit basis.
* Decide to proceed with the Strategic Alliance option.

Phase 2: FIRM'S SELF-ASSESSMENT

* Review of existing business activities & construct value chain
  - Strengths
  - Weaknesses
  - Opportunities
  - Threats
* Identify cost drivers and possible sources of differentiation.
* Establish firm's own strategic advantages (Bargaining power of the firm).
* Identify firm's strategic needs (Complementary, supplementary needs, etc.).
* Review competitive environment.

Phase 3: DETERMINE ALLIANCE OPTIONS

* Review motivations for S.A. choice in relation to the firm's objectives.
* Review types of strategic alliances
  - Technology alliance
  - Production alliance
  - Marketing alliance
  - Multiple activity alliance
  - Single country or multicountry alliance
  - X alliance
  - Y alliance
* Determine appropriateness of proposed alliances.
* Decide on one type or combination of 2 or more.

Phase 4: REORGANISATIONAL ARRANGEMENTS

* Development of functionally organised work team (management team, engineering team, production team, etc.).
* Allocation of accountability and responsibilities to key personnel to be involved in later stages, and in the alliance operations.

Phase 5: DEVELOP THE ALLIANCE CRITERIA

* Involve all key executives, CEO, planning department, and other key personnel in drafting the alliance plan.
* Establish a set of guidelines for consequent screening and planning.

Phase 6: SCREENING & SELECTION OF PARTNERS

* Clearly defined goals and objectives.
* Identification of necessary partner's attributes.
* Identification of potential partners.
* Evaluation of potential partners:
  - assessment of benefits and costs that might be created from the alliance by potential partner.
  - impact on strategic positions of the company & the potential partners.
  - compatibility of potential partners' international strategy & their competitive advantage.
* Selection of the suitable partner.

Phase 7: NEGOTIATING THE ALLIANCE

* Outline of common &/or complementary objectives.
* Identification of prime factors or issues for a shared plan.
* Mesh goals & objectives of both firm & Partner.
* Renegotiate the shared plan.
* Explicit agreement.

Phase 8: ESTABLISHING SECURITY CONTROLS

* Enhanced understanding of partner's motives and objectives.
* Limit access to the firm's sensitive skills and technologies to only one path.
* Limit the transparency of firm's operations.

Phase 9: OPERATING THE ALLIANCE

* Clearly defined goals and objectives.
* Contribute sufficient resources to the alliance.
* Allocation of accountability & responsibilties.
* Implementation of effective "Information Retrieval" process.
* Transfer of key people to the alliance.
* Enhance carrer prospects of alliance employees.
* Control mechanisms & decision making.
* Enhance the capacity to learn & absorb skills from partner.
* Limit transparency of firm's sensitive skills, know-how, and technologies.
* Monitor progress of alliance:
  - regular reporting to/from right people.
  - revision of alliance agreement (may involve renegotiation of the agreement).
  - duration of alliance.
* Recognise limits of alliance.

Phase 10: POST-ALLIANCE ASSESSMENT

* Measuring the alliance performance: output, benefits, competitiveness of its products etc.
* Check the attainment of firm's objectives.
* Evaluate the alliance impact on firm's international competitiveness.
* Review firm's objectives.
* Renegotiate with partner.

1.6 RESEARCH DESIGN

The design of this research is divided into five parts: 1) the development of the database which includes the strategic alliances formed by British firms in the period 1980 to 1989, 2) sample design, 3) questionnaire design, 4) field work, and 5) data analysis and presentation. The database is explained in detail in Chapter Five of this research. However, the main information for the database was obtained from INSEAD Business School (Fontainbleau; France) including various data on British-foreign alliances up to 1986. This was then updated by the researcher to cover all deals to the end of December 1989 (the principal source of data was financial/business press, e.g. Financial Times, Acquisitions Monthly, The Economist).

Secondly, one of the important decisions in research design pertains to sampling or sample design. Sample design relates to the size of the sample necessary to generalise the findings from the sample data to the whole population (Clover and Balsley, 1979). i.e. the sample should be representative of the population it is selected from.

The database developed for this research reveals the involvement of seventy British firms in 337 different alliances with foreign partners. Of those seventy, sixty firms formed the population for this study, as ten of the companies have only recently formed their alliances. In order to select a representative sample each firm in the population was given an equal opportunity to participate in the research. Therefore, a letter seeking an interview with one of the company's senior executives or directors was sent to all sixty firms. Of those, twenty-nine firms agreed to participate in the study and thereafter formed the sample of this research. The representativeness of the sample was checked in terms of the company's size, the number of alliances it is involved in, and the industry it belongs to. Accordingly, the twenty-nine firms participating in this study forms a representative sample of the population of sixty British firms involved in strategic alliances with foreign partners.

Thirdly, questionnaire design requires the identification of items and issues of importance to the research problems and questions. This stage involved a full consultation of the literature on corporate strategy, strategic alliances, and other collaborative agreements as well as relevant strategies (e.g. mergers and acquisitions) in order to identify the issues that weigh a significant importance to the research questions. The end product of this stage was the aggregation of all the related assumptions and issues into a guiding questionnaire format which was used in the fourth part of the research.

The fourth part of the study involved in-depth interviews with senior executives from the sample firms. This method of data collection was seen as the most appropriate to achieve the required depth and richness of information to adequately and satisfactorily answer the research objectives.

The last part, i.e. data analysis, involved using a database software to build up the database and extract information to answer the first research question (extent of British involvement in strategic alliances). Moreover, given the highly qualitative nature of the information obtained through the interviews, the presentation of the results was mainly done on a topic-by-topic analysis. Simple frequencies were also deployed to detect the importance of some issues against others.

1.7 MAIN FINDINGS

The main findings of this study are fully presented in Chapters Six, Seven, Eight, and Nine. However, major conclusions from this study are summarised as follows:

- During the last decade, strategic alliances by U.K. firms have gained considerable importance, particularly in the period 1985 to 1988. Though the vast majority of these alliances are still concentrated in the high-tech sectors, other industries, like construction and engineering; services; and food, have recorded an increased trend towards the use of such strategies.

- British-foreign alliances are motivated by a variety of factors. Most important of all was the increased complexity in technology and product development, followed by the accelerated rate of globalisation, as well as the intensified pressure of competition. Further, strategic alliances are regarded as an important and complementary strategy in the overall strategies of the British firms.

- The alliance partners are selected according to a set of factors. These are:

    1. Partner's reputation,
    2. informal contacts with the partner, and
    3. previous business relations with the partner.
    4. compatibility of management teams,
    5. complementary technical skills and resources,
    6. competitive position of the partners,
    7. strategic complementarity of the partners,
    8. nationality of the partners,
    9. relevant partner's size, and
    10. compatibility of operating policies.

- Successful management of strategic alliances lies in two main considerations:

  a) Balancing the attention in the three crucial stages of the alliance management process (pre-alliance management, formation, and post-alliance management), and

  b) understanding the key issues that link each stage to the other (i.e. the preparation for the negotiation and the development of the alliance plan and management team) through which the strategic and organisational fits are confirmed.

- Degree of competitiveness, global position, acquisition and/or use of technology prevailed as the most important criteria for measuring the performance of strategic alliances. However, performance is influenced by two major factors: the scope of the alliance activities and the ability of the corporate management to effectively manage a network of several strategic alliances.

- Strategic alliances form an important strategic route into improving the firm's international competitiveness and enhancing its technological capability. The management skills and expertise are also improved by working closely with a compatible partner.

- Firms that equally importantly consider the three management stages of their alliances or network of alliances are more likely to improve and/or maintain their international competitiveness.

1.8 CHAPTER OUTLINE

The current chapter has put forth a summary of prior research studies on the subject of international strategic alliances and related strategies. It has outlined the research questions, highlighted the importance of the study, introduced the research design, and summarised the major findings of the study. The remainder of the research includes literature review (Chapters Two, Three, and Four), methodology (Chapter Five), analysis of results and findings (Chapters Six to Nine), and conclusions (Chapter Ten).

The literature review comprises three chapters. It examines the theoretical and empirical studies which have been undertaken in relation to international strategic alliances.

A large number of researchers attribute the rapid growth of strategic alliances to the increased trend towards globalisation of markets and competition. The starting point of this research will then be to investigate, in addition to the globalisation of markets, the various trends in the international business environment in order to gain an understanding of the increased popularity of the alliance strategy. Therefore, Chapter Two presents a broad review of those trends, the emergence of global competition and its implications on the strategies of the MNEs.

Chapter Three highlights the uniqueness of strategic alliances as opposed to other growth and collaborative strategies, identifies their different types whilst highlighting the emergence of what has been called network relationships. It also presents the alliance motivations and advantages, pinpoints the disadvantages that might be incorporated into such arrangements, and finally weights those disadvantages against the advantages that the partners aim at achieving through the strategic alliance route.

Given the researcher's interest in the complete management process of strategic alliances, the focus is on three key managerial considerations that have been emphasized as important for the alliance success, namely planning, negotiation, and implementation and control. Chapter Four combines the research of various authors who investigated the issues concerning the management of strategic alliances and other relevant strategies (e.g. joint ventures, mergers and acquisitions). In this chapter, some analogies are drawn exemplified by the decision to form the alliance, its strategic fit, partners' selection, organisational fit, and the alliance process perspective. Those analogies are used in a subsequent conceptualisation to develop a framework of how strategic alliances should be approached and managed.

The methodology of the study is presented in Chapter Five. This chapter reviews the research problems and its objectives and the research design. It also discusses the approaches adopted for field research and the analysis of the results.

Chapter Six presents the first part of the findings of this study, namely the overall extent of British companies' involvement in international strategic alliances. The analysis provides information on the number of alliances over the last decade, the types of arrangements, and the aims and motivations of the alliances. The information is also broken down by industry sector and geographical distribution of those alliances.

Chapters Seven to Nine of the research cover the second part of the findings which is mainly based on the in-depth interviews conducted with a sample of twenty-nine British companies.

Chapter Seven deals with the analysis of the factors that have driven the sample firms into forming strategic alliances where the results are compared to those of previous research. In this chapter, the motivations of strategic alliances are discussed with regard to the various industry sectors where the sample firms operate.

The research findings on the management process and its prime issues are presented and discussed in Chapter Eight. The chapter provides a number of guidelines and recommendations to managers approaching and managing strategic alliances with foreign partners and makes comparison with previous studies.

Chapter Nine investigates the performance and impacts of the studied alliances. This chapter examines the performance of the alliances as perceived by their managements, and also compares these findings with the performance of direct rivals. The impact of the alliances is analysed in terms of international competitiveness of the British firms, their management, technological capabilities, and their own separate operations.

Chapter Ten puts forth a review of the study and summarises its results. Further, the research implications and contributions, its limitations, and suggestions for future research are proffered in this chapter.

CHAPTER TWO

TRENDS IN
THE INTERNATIONAL BUSINESS
ENVIRONMENT

SUMMARY

International strategic alliances offer MNEs an important competitive mechanism in an increasingly complex business environment.

In the international business environment of the last decade, globalisation of markets, technological changes and innovations, the challenge caused by the Far eastern MNEs, the Single European Market, and changes in government policies, represent significant trends which have instigated an arena of global and fierce competition.

Fierce competition necessitates the MNEs to rethink their strategies as well as their organisational structure in order to survive in such a global arena. This has been accompanied by an overt wave of strategic alliances and mergers and acquisitions, signaling that these strategic means represent an important weapon for the multinational company to use in the Global battle.

2.1 INTRODUCTION

International strategic alliances represent an important alternative strategy in an increasingly changing and complex business environment.

The current environment of international business is characterised by the accentuation of a series of trends that have been gathering force during the course of the last decade. The trends include the globalisation of markets, technological changes and innovations, the challenge posed by the Far Eastern MNEs (particularly those from Japan, and the so-called "Little Dragons", i.e. Taiwan, Korea, Hong Kong, and Singapore), market integration (i.e. the Single Market of Europe), and the changes in government policies.

In this pace of dynamic changes, the message is that even the world's largest firms have to be more selective in their specialisation. However, specialisation is not restricted to choices of the best mix of products or the best combination of functions. Specialisation policy increasingly signals that, for certain important activities on which long-term strategic strength depends, coalitions between firms is important. MNEs are now joining forces to better exploit the leverage triggered by changes and to undertake operations on which their ability to outmanoeuvre each other in the future may depend.

This chapter will start by presenting an overview of the various trends and challenges which have been occurring in the international business environment. Second, it will review the implications of these trends on the multinational corporations. Lastly, the strategic response pursued by those MNEs will be examined.

2.2 TRENDS IN INTERNATIONAL BUSINESS

Multinational companies are now competing in a very complex and dynamic business environment where international competition has widely been replaced by a new buzz word "global competition" which in turn calls for the adoption of "global strategies". The trends which have triggered this phenomenon are presented in Figure 2.1 and explained in the following sections.

2.2.1 Globalisation of Markets

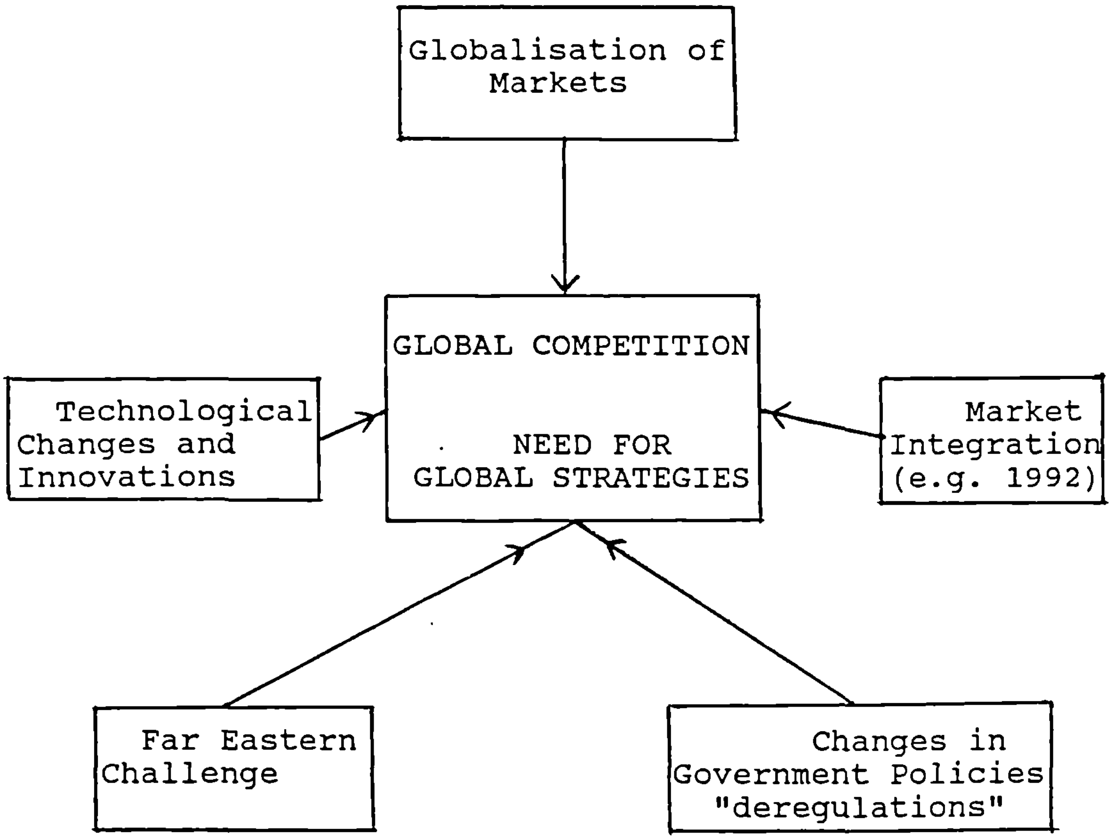
The absolute sense of the word "globalisation" means that the whole world is treated as one market where national boundaries and regulations tend to be irrelevant, standardisation of products is a fact, and corporate headquarters can be anywhere.

Existing approaches to explaining the shift towards globalisation emphasise several influencing factors. The most often suggested are: the homogeneity of markets (Ohmae, 1985, 1990), the steady decline in communication and transportation costs (Porter, 1980, 1986), removal of trade barriers (Owen, 1983 and Doz, 1986), and major technological advances (Levitt, 1983 and Dunning, 1988). Henzler and Rall (1989) grouped these influencing factors into three important dimensions; demand, supply, and economic environment (see Figure 2.2).

Henzler and Rall agree with Ohmae on the concept of market homogeneity which has emerged as a result of better education, higher income, more international travel, and more intensive exchange of information across many national boundaries. However, the similarity among markets and the convergence in customers preferences are not a cause for globalisation unless it is exploited by firms aiming at gaining a permanent competitive advantages on a larger scope. In his book "the Borderless World", Ohmae (1990) argues that within the current shift towards a more inter-linked world economy, many multinationals are behaving like model global citizens and developing products with a global perspectives in order to win the global race for consumer acceptance. Examples include, Seiko, Sony, IBM, Rolls Royce, ICI.

FIGURE 2.1

TRENDS IN
THE INTERNATIONAL BUSINESS
ENVIRONMENT



Source: The author.

FIGURE 2.2

FACTORS FAVOURING GLOBALISATION

Demand	
	Homogeneous requirements of industrial customers operating worldwide (e.g. machine tools, plant construction).
	Uniform technical standards.
	Homogeneous demand from consumer levels (consumer electronics, small cars, prestige goods, etc...).
Supply	
	Significant economies of scale: - R&D - Purchasing - Manufacturing - Distribution
	Advantages in access to resources opportunity for positive differentiation through special skills/features of business system.
Economic Environment	
	Low/no customs barriers. Free movement of capital.

Source: Henzler and Rall (1989).

The steady decline in communication and transportation costs, also, made the coordination of a more complex world-wide logistic system feasible and allowed rapid global transactions to take place. Improvements in telecommunications and logistical systems have considerably increased capacity to manage operations on a global scale. The spread of telex and FAX systems, as well as satellite linkages and international computer linkages, all contributed to the shrinking of distances and facilitate globalisation. Similarly, improvements in transportation systems and physical logistics such as containerisation and computerised inventory and handling systems have enabled significant cost savings as well as reducing time required to move goods across major distances.

Another enabling condition for globalisation is the continuous removal of trade barriers between countries located in the same region, one important example is the formation of a single market in Europe. Also, radical political changes (most evident in the USSR and East European countries, but also elsewhere; e.g. possible moves to Korean unification and development affecting the Asian part of the world) has provided opportunities for "world-marketable" products.

Lastly, advancements in technology and production methods has increased economies of scale in logistics, production, and R&D, hence increasing the efficient quantity of production which needs to be sold in a larger market-place. This has opened important opportunities for additional gains through globalisation. Therefore, technological change was the main development which allowed many products to standardise globally, as well as allowing the development of new product varieties to take place. This technological change has altered the sources of competitive advantage to the economical production, manufacturing, marketing, and transport of global volumes.

2.2.2 Technological Changes and Innovations

In several important respects, the concept of technological changes and technology innovations must precisely be understood before an analysis can be made of the effects this can bring on international business. A distinction, therefore, must be drawn between innovations which consist of the improvement of products and processes (incremental innovations) and radical innovations which trigger revolutionary changes. The first case refers to a regular updating and adapting of existing products and processes in response to the development of technology. This kind is a continuous process, known as technological change and it can be adapted or copied by rivals, rather than an innovative process in the strict sense of the term as in the case of radical innovations which tend to hold longer life cycles (Link and Tassey, 1987).

The last one and half decades have witnessed significant technological advances and changes that were capable of creating new competitors with new and highly competitive products which have played an increasingly crucial role in the strategies of many multinational as well as domestic firms. For example, NEC of Japan used the technological changes in the telecommunications switching business to build a strong presence in a wider market place. The same could be said for Ericsson, the Swedish electronics company.

The availability and cost effectiveness of technological developments have facilitated the global transmission of technology to a wider market place in the world, where production and marketing are rapidly moving towards being global (Dunning, 1988). This is not only true for mature industries, but also for others like consumer electronics, computers, semi-conductors, and recently the service sector.

In the high-tech industries, the cost of developing new products has also urged and accelerated the course of globalisation. Hamel and Prahalad (1989), in this context, argue that the high costs and the large amount of investment required for R&D and for initial finance enhanced the trend to serve the world market, to spread these costs over many national market places and to reduce the risk of technological obsolescence. This, if achieved, could allow the maintenance and enhancement of the firm's global competitive position, by exploiting its competitive advantages globally.

Moreover, the pace of technological change in some industries has become so rapid that product and process life cycles have become much shorter. This is particularly true in the new-technology-based industries of electronic engineering, robotics and computing. Whilst some industries may seem somehow secure from such changes, technological development in related industries can have a great effect. For instance, changes in the technology of materials in the packaging industry may provoke serious effects on the canning industry. To an ever increasing extent, multinational companies, especially the large ones, compete with one another across groups of product lines, and many of these multinationals rely on technology to generate their competitive advantages.

One implication of technological changes is the expansion of trade and the emergence of new competitors. By this change in technology and the logic of comparative and competitive advantage, world trade has grown much faster over the last two decades. This remarkable increase in international trade is reflected in the increased openness of almost all national economies to international influences, especially those generating new competitors, e.g. Taiwanese, Koreans. This technological advancement and its implications on international business is shown in the increased number of multinationals based in these countries.

2.2.3 The Far Eastern Challenge

One of the most important trends in the current business environment is the rise of the Far Eastern MNEs.

Over the last quarter of a century, Japanese firms have been exploiting every opportunity to gain competitive position and world market leadership Doz (1986). Firms from Taiwan, Korea, Singapore, Hong Kong are following suit by rapidly locating themselves among the world's largest industrial companies (Rowley, 1989; Peattie and Lee, 1990; McDermott, 1991). This is reflected in the global activities of such firms.

At the top end of technology scale, US dominance in semi-conductors and computers has been challenged by the Japanese, and now by Korean and Taiwanese firms. In semiconductors, the Japanese and Koreans are now significant global competitors in microchips, and the Japanese are playing an important role in hastening technological changes. In computers, Japanese firms are major global competitors in mainframes and in personal computers (PCs), while Korean and Taiwanese firms are producing inexpensive versions for the PC market. For instance, the leading edge (IBM-PC-Compatible) computer, which is enjoying great success in the US and elsewhere, is made by Daewoo Corporation of Korea.

Moreover, in the Far East itself, the rules of the game are changing. Japanese dominance in mature industries, such as steel, chemicals, consumer electronics, and automobiles, is being threatened by firms from Korea, Taiwan, and others like Thailand. For instance, Formosa Plastic (Taiwanese) has placed itself among the world's largest plastic firms, the largest selling import car in Canada is Korea's Pony made by Hyundia Corporation (Rowley, 1989). This trend in the Far East puts pressure on US, West European firms, and even Japanese MNEs to invest heavily in R&D and to engage in a never ending process of moving to higher value-added operations, using ever higher levels of technology. Such processes are contributing to the continuous changes and developments in technology which, in turn, is boosting up the costs of R&D.

2.2.4 Market Integration (1992)

As termed by Young and Hamill (1991) "subset of globalisation", the integrated community market of the 1992 is another important trend in the environment of international business.

The completion of the European Single Market means not just the simple elimination of constraints sapping business performance, but more importantly a new and pervasive competitive climate for the players of the single market (Cecchini, 1988). In this competitive climate, European MNEs will be competing to exploit new opportunities and better use available resources. Significant reduction in costs, improved efficiency within companies, new patterns of competition between entire industries and reallocation of resources, and increased innovations are the expected consequences of the single market.

The competitive pressures accompanying the integrated market of Western Europe is not just on European MNEs, it is also affecting non-European firms (e.g. Far Eastern and American) which are steadily, through various business relationships and investments, moving to secure a place in such an important part of the global market. Such process sharpens the rules of the global competitive game.

2.2.5 Changes in Government Policies

Changes in government policies has also contributed to the changes in international business. The biggest change over the years has been the formation of regional economic alliances such as the European Economic Community, the liberation of world trade through GATT (General Agreement on Trade and Tariffs) negotiations (Sheth and Eshghi, 1989), and more recently, the radical politcal changes in Eastern Europe and the USSR with their impact on demand for new technologies and supply of low cost and fairly skilled labour. This change diminished national geographical boundaries for products and services and widenned the market place for international competition.

Moreover, deregulation in certain industries such as **telecommunications** is another governmental factor affecting international business. Sheth and Eshghı (1989) argue that regulated monopolies and protected industries are practically gone and almost all developed countries are facing intense offshore competition, hence toughening the pressure of international competition and pushing it towards globalisation.

2.3 IMPLICATIONS OF THE TRENDS

The trends discussed above have triggered the emergence of a period of fierce competition which was facilitated by ambitious competitors with the long-term strategic intent to dominate their industry. These competitors were willing to give up short-term profits to secure an acceptable share in key-large markets and to engage in cross subsidization. Consequently, these conditions altered the success criteria for firms competing in international businesses (see Figure 2.3). For instance, the shift toward more flexible forms of production, greater emphasis on R&D, and more specialised, higher product lines has become significant for competing in an era of such a complex business environment. Coping with this change requires greater technological sophistication and faster response time on the part of the multinational enterprise.

FIGURE 2.3

SUCCESS CRITERIA FOR GLOBAL COMPETITION

1. Successful global competitors perceive themselves as multinational, understand that perception implications for their business, and are led by a management that is comfortable in the world arena.

2. Successful global competitors develop an integrated and innovative global strategy that makes it very difficult and costly for other companies to compete.

3. Successful global competitors aggressively and effectively implement their worldwide strategy, and they back it with large investments.

4. Successful global competitors understand that technological innovation is no longer confined to the United States, and they have developed systems for tapping technological innovation abroad.

5. Successful global competitors operate as though the world were one large market, not a series of individual countries.

6. Successful global competitors have developed an organisational structure that is well thought out and unique.

7. Successful global competitors have a system that keeps them informed of political changes abroad and the implications for their business.

8. Successful global competitors recognise the need to make their management team international and have a system in place to accomplish the goal.

9. Successful global competitors give their outside directors an active role in the affairs of the company.

10. Successful global competitors are well-managed.

Source: Bolt (1988)

Of the many implications of these changing conditions for the firm, there are two that deserve some treatment here, for they have been repeatedly related to the increased use of strategic alliances between competitors as well as to that of mergers and acquisitions. The first is the emphasis on higher levels of R&D to secure technological sophistication, and the second area is in organisational structure and global strategies.

An important strategic goal aimed at by today's MNEs is the identification and development of key technologies those that are likely to have major impact on exisiting businesses, and technologies that are capable of creating new commercial opportunities. The inevitable fact, therefore, is that companies today must get involved in a proactive way much further upstream in the R&D pipeline feeding their industries. However, the competition to be "first" to exploit key technologies is now great so that relying solely on internal R&D may hardly be the best mean to cope with technological complexities. In other words, whether it is the case that one firm's technological competence has outdistanced its rivals, or that innovations would be hard to replicate internally even if R&D spending was high, there is a growing need for fast access to technological innovation for firms to procure endurable competitive position.

Therefore, MNEs must resort to a variety of mechanisms to reorganise their structure and activities in a way that locates and exploits sources of R&D and other competitive advantages on a global scale. Global strategies such as mergers and acquisitions and strategic alliances represent a significant mechanism through which the multinational corporation is able to quickly configure and coordinate its activities and operations on that global scope. These global strategies are, therefore, contributing to the overt shift from a traditional organisational structure with an independent international division to one build around the world or global product divisions. This promises the firm a worldwide perspective on competition which improves competitive monitoring and response ultimately making the firm a more effective and aggressive global contender.

2.4 STRATEGIC RESPONSE TO THE TRENDS

Global competition forces multinational companies to reconsider their own strengths and seek the quickest and best mechanism to capitalise on them. They have to be strong in design and R&D to intercept the problem of shorter product lifecycles, must have developed systems for fast incorporation of technological innovations, and ought to encourage the global orientation of their mangement team. Simply, multinational companies have to look at the world as one large market rather than a series of individual and different areas.

In such an environment, firms must be large yet still specialised and streamlined. The name of the game is what it has always been in the past, optimum organisation, but with the pivotal diversion that this has to be performed under the global spotlight. Among the means to achieve this two are of particular importance: one is to adopt a strategy of absorbing competitors through acquisitions, and the other is to resort to carefully focused strategic alliances, both of which have frequently been named global and competitive strategies. Before discussing strategic alliances and acquisitions as a response to the new business circumstances, the following section presents the different models that have been developed to explain competitive strategies and helps understanding how strategic alliances and acquisitions fit into those models.

2.4.1 Competitive Strategies

Authors in the area of international business have been active in developing models of competitive/global strategies for the MNE to cope with the increasing shift toward global competiton.

Hamel and Prahalad (1985) classified three types of competitive strategies. These are:

- Building a global presence,
- defending a domestic position,
- overcoming national fragmentation.

In the world television industry, Japanese competitors have adopted a strategy of building global position presence, while US firms, e.g. GE, have concentrated on defending their domestic market dominance, whereas Europeans, e.g. Philips and Thomson, have been concerned with overcoming national fragmentation.

Leontiades (1986) pinpoints four generic competitive strategies. With respect to industry scope and market share objectives, Leontiades identifies two types of global strategies (global high share strategy and global niche strategy) and two types of national strategies (national high share strategy and national niche strategy). See Figure 2.4.

FIGURE 2.4

SCOPE	High	Low
Global	Global High Share Strategy	Global Niche Strategy
National	National High Share Strategy	National Niche Strategy

Market Share Objective

Source: Leontiades, 1986.

Firstly, the global high share strategy which is performed by MNEs operating in global industries, e.g., IBM, Sony, Dow Chemicals. This strategy implies worldwide coordination of the MNE's resources behind its global objectives and may generate competitive advantages such as: cost reduction through economies of scale and experience as due to high global production volume; provision of a global service to customers; worldwide sourcing of materials, parts and components; transfer of knowledge internationally; projecting a global corporate image.

Secondly, the global niche strategy which is adopted by MNEs lacking resources to adopt global high share strategies. The basis of this strategy is competitive advantage through specialisation in product/market niches which avoids head-on competition with the global MNE.

Thirdly, the national high share strategy is pursued by firms depending on protected domestic markets to counter global strategies. This strategy aims at achieving high market shares of national markets through the use of nationally based competitive advantages.

Lastly, the national niche strategy which is adopted by firms trying to capitalise on the advantages of specialisation on a national basis to help defending their market against national as well as global competition, i.e. defending a domestic position.

Moreover, Porter (1986) widening out the concept of his generic competitive strategies to bring in the global dimension. He argues that the overall cost leadership strategy (which is based on the experience curve concept and requires a vigorous pursuit of cost reduction), product differentiation strategy (which is designed to maximize the value added to a product or service and necessitates close coordination of the various functions of management), and the focus strategy (whereby the firm seeks to monopolize a niche in the market place) are determined by the relative importance of the different value activities which are significant sources for competitive advantages and hence those strategies can be pursued on a global basis to attain competitive advantages (see Figure 2.5).

It has to be noted that Porter's model and concept of competitive strategies relies mainly on the economic imperative and fails to incorporate other equally significant factors (e.g. the political imperative and the strategic predisposition of the MNE). As argued by Doz (1986) an effective competitive strategy must be seen as "a function of the underlying economic characteristics of the industry in which it is implemented, of the extent and form of government intervention into that industry, and of the competitive posture of the firm". Therefore, the choice is not just between purely global and a country-centred strategies as Porter asserts, but regional based strategies can well generate the needed competitive advantages and help the pursuing MNE to build up a global presence as a result of various strong positions in different regional markets. Regions such as Europe, South-East Asia, and America are large enough to permit full exploitation of economies of scale.

FIGURE 2.5

STRATEGIC ALTERNATIVES IN A GLOBAL INDUSTRY

Broad	Global cost leadership	Global Differentiation	Protected markets
Breadth of target segments within the industry			
Narrow	Global Segmentation		National Responsiveness
	Global strategy		Country-centered Strategy

Extent of global centralisation/coordination

Source: Porter (1986).

More comprhensively, Henzler and Rall (1989) identified four types of competitive strategies with different degrees of achieving competitive advantages through exploiting the globalisation factors and matched them with the four types of industries they have classified (see Figure 2.6).

FIGURE 2.6

Advantage of Global Business		
High	Global businesses (e.g. Computer, Automobiles) Integration strategy	Blocked global businesses (e.g. Telecommu-cations) Interaction strategy
Low	Multinational business (e.g. Medical Equipments) Selection strategy	Local/National business (e.g. Cement, Breweries) Individual market strategy
	Low	High

Advantages of/need for local adaptation

Source: Henzler and Rall (1989).

In a global industry sector the firm that undertakes an integration strategy which focuses on achieving endurable competitive advantages will be able to develop global core products that can be easily adapted to national requirements wherever necessary, and hence, build up an integrated worldwide value added chain, exploit economies of scale in R&D as well as in production, and maintain a strong local and/or regional function organisations for sales or services.

In the case of the blocked global business where the need for local adaptation is strong and globalisation incorporates endurable competitive advantages, an interaction strategy is recommended. This strategy means that the firm should organize its operation on a multicentric but integrated basis.

For multinational businesses, a selection strategy may embody better competitive advantages. In this instance, the firm would organize its operation on a polycentric basis and pursue a proven strategy for similar markets in a certain region and forgo fundamentally different markets.

The strategic alliances and the acquisitions of the 1980s and early 1990s can be seen as an important choice at the disposal of the MNEs for coping with the complexity of the current business environment. These strategic means could be placed in the upper-left corner of Henzler and Rall's model, used to build a global presence as Hamel and Prahalad suggest, and can be an example of Leontiades global strategies.

Acquisitions and Strategic Alliances

The last decade (1980s) has seen a distinct wave of both mergers and acquisitions and strategic alliances between competing firms. The list of examples is endless and includes, GEC and Companie Generale d'Electricites, British Aerospace and Aerospatial, Thorn EMI and Thomson, Rover and Honda as strategic alliances, and the acquisition of Alfa Romeo by Fiat, Acorn Computer by Olivetti, Nixdorf by Siemens, and Apricot By Mitsubushi.

However, more important than the individual deals is the growing popularity of networks of alliances or acquisitions. These networks relate several companies, from the same and/or different industry sectors, together in a very strategic and advantageous way. More details on this type of networks is provided in the next chapter.

Although strategic alliances and acquisitions differ in the nature of the relationship between the involved companies, they have a number of important common characteristics. As put forward by Norburn and Schoenberg (1990), They share the followings:

- the reasons that motivate them,
- their success rates,
- their reasons for failure, and

- the policies that increase their chance of success.

Other important features can be added to those listed above. One is that both strategies, in most cases, tend to link previously fierce competitors together. The other, as forwarded by Hamill (1991), is that the wave of strategic alliances and acquisitions raises several important issues within the theme of international business studies; e.g. the theory of FDI and international production, international business strategy and competition, and international business management.

The management of strategic alliances and mergers and acquisitions is another common feature. When pursuing either strategy, the firm should give particular and thorough considerations to three important issues: the strategic fit between the involved firms, the organisational fit in terms of administrative systems and corporate cultures as well as personnel, and the effective management process of the alliance or acquisition.

While full comparison between these two strategic mechanisms is beyond the scope of this research, the rest of this section concentrates on discussing the common reasons for their adoptions by today's firms.

Consulting the literature (e.g., Jemison and Sitkin, 1986; Payne, 1987; Hamill, 1989, 1990, 1991; Doz et al, 1986, 1989; Norburn and Schoenberg, 1990) both acquisitions and strategic alliances leaves no doubt that these strategies are undertaken by the business entity for very similar strategic reasons.

The strategic alliance between British Aerospace and Thomson was aimed at strengthening their market positions by joining together their guided missile businesses. The same market share phenomenon apply in the case of Fiat acquiring Alfa Romeo to strengthen its position in the European market. Hence, both strategic alliances and acquisitions offer the pursuing firm the advantages of gaining a wider market share and achieving economies of scale (Renard, 1985; Howe, 1986).

Technological changes and complexity and the increasing cost of R&D suppress the ability of even the largest companies from technical development through the "go-it-alone" route. Strategic alliances and acquisitions offer the partners faster means of advancing their technological as well as other competences by internalising the acquired and/or shared knowledge and expertise. This motive is more pronounced in the high-tech industry sectors (e.g. computers, aerospace, telecommunications). The alliances between Siemens and IBM, and Rolls Royce and BMW, and the acquisition of Apricot by Mitsubushi were all formed to tackle the problems of the accelerated technological changes and the increased cost of R&D (Norburn and Schoenberg, 1990).

The factor of globalisation is seen as being of equal importance as that of technology, where through acquisitions and/or strategic alliances the desire to gain a competitive presence in various important markets around the globe can be fulfilled (Porter, 1990). The wave of British acquisitions in the USA (see Hamill, 1991), and the alliances formed in Europe (between and with European firms) are very much motivated by globalisation and the accelerated pressure of global competition.

Strategic alliances and acquisitions of the 1980s and early 1990s are most prominent where the large frims need each other's assets and cash to expand their product, process or marketing base, where cross-fertilisation between firms can create new combinations of products, and where companies are just starting to find each other in areas of the world that have traditionally been economically separated from each other.

Companies which cannot manage asset/competence mixes (generated by acquisitions or alliances) for organising its structure gobally to meet the challenges created by the new business and competitive conditions are going to find it much harder to compete in the future. Strategic weaknesses are now open for all to see and will be progressively harder to remedy. The likelihood is that fewer firms will control these markets in the next few years but that some of the dominant groups may themselves be of mixed origin, with perhaps more involvement of chemical firms in the automotive component business, or greater weight of information technology companies in the semi-conductor business.

2.5 CONCLUSIONS

Considerable attention has recently been directed to the increasing importance of the rapid shift of globalisation, technological changes, market integrations, the intense pressure of global competition, and other trends that characterises the current business environment. Also, of equal importance is the strategic implications of these trends, particularly the widespread use of international strategic alliances by almost every multinational enterprise. This chapter has outlined the most frequently cited trends, their consequences on the MNE, and the strategies undertaken by firms as a response to those trends. Considering the timescale involved, international strategic alliances and mergers and acquisitions represent significant routes to cope with the ever continuing changes in the business environment, as well as being the most promising means to grow at a global level. The next chapter is devoted to explaining the strategic alliances approach as a distinguished form of competitive business strategies.

CHAPTER THREE

INTERNATIONAL STRATEGIC ALLIANCES

SUMMARY

An international strategic alliance is an agreement between two or more compatible companies (mainly belonging to two or more developed nations) who cooperate through resource pooling and/or technology exchange, and share the operation and management of a long-term strategic relationship in a manner intended to create a superior competitive position for them. This relationship is more than just a license agreement and at the same time falls short of a merger.

Strategic alliances differ from the more conventional forms of collaboration in six key areas; namely: structure, partners, competition, contributions, motivations, and failure consequences.

The most common types of strategic alliances are: technology alliances, production alliances, marketing alliances, multi-activity alliances, single country and multicountry alliances, and X and Y alliances.

The motivations for strategic alliances include; technology, globalisation, government encouragement, complementary resources, economies of scale, access to key markets, competitive pressure, and the single market of Europe (1992).

While strategic alliances promise various advantages, e.g.; improve competitive position/market share, they encompass several disadvantages as a result of conflicts stemming from uncertainty about commitment/outcome, division of authority and responsibility, strategic encroachment, conflicts on product design.

3.1 INTRODUCTION

Having discussed the various trends in the international business environment and their consequences on corporate strategies, this chapter explores international strategic alliances as a global strategic option which is becoming increasingly important for the international competiveness of the involved firms.

The various terms attached to strategic alliances (e.g. strategic partnerships, cooperative ventures, cooperative strategic activities, hybrid organisations, international coalitions, competitive collaboration, international joint ventures, MAAs "mergers, acquisitions and alliances") can be justified by the fact that these arrangements do not symbolise just a single type of cooperative partnerships, e.g. joint research, joint design, joint activities, cross-manufacturing, cross-marketing. Also, this may justify the number of definitions given by different authors for this kind of strategy.

While international collaboration in general has long been used by many firms, multinational and domestic mainly as a pass ticket into foreign markets (Orski, 1980; Young et al, 1989) their characteristics and determinants have been changing in response to and anticipation of new approaches and new strategic problems.

The collaborations of the 1980s, particularly mid-late 1980s, have shown a novel feature in this strategy. Firms are now linking together in an environment where competition becomes more important and more extensive. The very largest players in many industries are teaming up, e.g. AT&T's coalition with Olivetti, IBM's link with Matsushita in office automation equipment, Philips and AT&T's alliance in telecommunications, Toyota and General Motors' joint manufacturing at NUMMI, General Electric and Fanuc's world-wide collaborative network in robotics, and the tripartite alliance of Honeywell, Bull, and NEC in computer mainframes. The policy of "if you cannot beat them, join them" is followed nowadays by many ambitious firms, especially European, Japanese, and American, seeking to ensure their future by forging links with their powerful rivals in the international market-place. The reasons vary; the extensive environmental, economic, and technological changes as well as the tense pressure of globalisation, the complexity and cost of R&D combined with the extensive launching of new products with shorter life cycles, and the need to hold onto existing markets as well as to find a shorter way into new key markets.

However, international strategic alliances are neither the simple supplier relationships nor are they the traditional form of cooperative partnerships. They "take place in the context of a company's long-term strategic plan and seek to improve or dramatically change a company's competitive position", argue Delvin and Bleackley (1988), "in international or global markets", add Hamill and El-Hajjar (1990).

In this chapter, international strategic alliances are explained as a means of expansion and growth strategy into the global markets. The chapter then reviews the various definitions given to strategic alliances, their different types, and also provides a comprehensive distinction between those alliances and the equity joint ventures. Moreover, a discussion of the advantages that motivate firms to follow the alliance route is presented and followed by weighing the advantages and disadvantages of this strategic choice.

3.2 STRATEGIC ALLIANCE AS A GROWTH STRATEGY

Some of the successful cases in strategic alliances (e.g. IBM/Siemens, Rolls Royce/GE) show that a properly designed alliance can be a source of growth in today's economy. Therefore, an increasing number of firms are considering strategic alliances as an important growth strategy for the 1980s and the 1990s (Porter, 1986; Lorange and Roos, 1991), not only in the computer, telecommunication, and the automobile, industries, but also in many other industries, e.g. pharmaceuticals, construction and engineerings, services, finance.

Methods available for implementing growth strategies have generally been either internally focused through exploiting available resources, or externally focused, e.g acquisition. However, international strategic alliances form a combination of an internal and external growth strategy as the firm involved pools its internal resources with those of another firm to generate a better set of competitive advantages.

Essentially, then, firms cooperate to form strategic alliances in order to raise complementary resources and to attain growth attributes available from the potential partner (Jain, 1987; Payne, 1987; Hamel, Doz, and Prahalad, 1989; Norburn and Schoenberg, 1990). The following resources are the most likely to be transferable through an alliance:

- Marketing, as in the traditional types of collaborations firms can get access to market information and resources not easily identified by outsiders, such as knowledge of competition, customers behaviour, industry condition, and distribution channels.

- Technology, those participating in an alliance can use technological skills and specific knowledge that is not generally available.

- Raw material and components, some alliances are formed to have access to different elements of manufacturing process.

- Financial, firms can obtain external capital, usually that invested in R&D process to decrease the burden that one firm may not be able to bear alone.

- Managerial, strategic alliance participants can use specific managerial and entrepreneurial capabilities and skills, often in conjunction with other resources.

Generally, a firm thinking about forming an alliance would probably consider relevant internal factors such as the compatibility of the two corporate cultures and the complexity of the technology/product involved. Of course, it would also consider external factors such as the structure of the competition and the industry's rate of growth.

3.2.1 Strategic alliances vs Internal Development

The choice between internal development strategies and strategic partnership, depends primarily on the nature, characteristics, and availability of the resources necessary for each partner to reach its strategic goals. Consequently, an alliance is preferable to internal development when the cost of raising the resources internally is too high. Moreover, an alliance with a certain partner might be the only available way to have access to a market with protectionist barriers. This has been the main reason behind the traditional forms of cooperative partnerships usually formed between a multinational and a local partner from a developing country. It also might be applicable to the new emerging types of corporate coalitions, especially in some of the important industries where the protectionist barriers erected by governments are sometimes insurmountable without a local partner.

In other cases, the cost of accessing internal resources may be affordable, but an alliance agreement may still present more advantages for satisfying specific needs. It might be preferable, for instance, to licensing in which a firm acquires outside resources which are then internalised. Strategic alliances might also be more appropriate where there is a need for technological knowledge that is intangible and not easily transferred through other cooperative agreements.

In addition, establishing an alliance with a comparable partner is generally less risky than internal development strategies are, particularly when the cost of potential failure is too large for one firm to bear alone.

3.2.2 Strategic Alliances vs External Development

Mergers and acquisitions are external means for firms to acquire resources that are neither available internally nor easily bought in the market-place, e.g. licenses and patents. Both external development and strategic alliances allow a firm to obtain needed resources in the same basic fashion (Norburn and Schoenberg, 1990). There are difference, however, between the two alternatives which suggest that strategic alliances are sometimes preferable to external development or expansion. For one, an alliance might be preferred to external expansion because it does not require as much of a commitment by the firm undertaking it. Furthermore, each partner can avoid involving its established business in the new alliance, thereby hedging their risk in the new initiative and gaining flexibility.

In general, strategic alliances are less rigid than acquisitions and mergers. The acquired party often loses its autonomy and independence in an acquisition. It is easier to maintain these qualities in a collaborative agreement with another partner. On the other hand, for the acquirer, an acquisition would exacerbate huge financial burdens.

Moreover, a problem is the availability of the suitable acquisition target. Clark (1989) claims that in Europe alone, there are about 25 actively seeking to acquire for every one firm willing to divest. This fashion is pushing prices unrealistically high and leading firms to undergo "the second best" in terms of strategic fit.

However, internal development and acquisition policies are often used as strategic preferences by the firm to enter new technologies or businesses through growth by its own indigenous effort and top management's ability to use the newly introduced technology and acquired management to maximum advantage. Nevertheless, time is a critical strategic dimension, it is one of the biggest prerogatives facing top management around the globe, and it can radically alter one's strategy. Strategic alliances, beside several other advantages, offer a means of moving rapidly on a global scale by combining the skills and resources of two or more organisations. This what most distinguishes strategic alliances from those other alternative growth strategies.

3.3 UNIQUENESS OF STRATEGIC ALLIANCES

Several authors have adopted broad-based definitions of international strategic alliances which in many cases may encompass a wide range of international business relationships, such as acquisition, equity joint ventures, licensing, OEM deals, see Figure 3.1. This, combined with the fact of using a diverse variety of terms to address strategic alliances, has made it difficult to identify the uniqueness of strategic alliances, and the features that distinguish them from the more conventional form of cooperative partnerships.

FIGURE 3.1

DEFINITIONS OF STRATEGIC ALLIANCES

International strategic alliances involve "cooperation between two or more idustrial cooperations, belonging to different countries, whereby each partner seeks to add its competences by combining its resources with those of other partners". (Jain, 1987)
International strategic are formal, long-term alliances between firms that link aspects of their business but fall short of merger". (Porter, 1986)
Hybrid organizational arrangements such as strategic alliances "use resources and/or governance structures from more than one existing organization. This definition encompasses a broad range of organizational combinations (acquisitions, joint ventures, license agreements, R&D partnerships, etc)". (Borys & Jemison, 1988)
"Joint ventures are arrangements among firms to work together to attain some strategic objectives. They are a means for sponsoring firms to share their talents and resources in a manner that creates a superior competitive entity. The use of joint ventures (and other forms of strategic alliances) has become particularly widespread since 1980". (Harrigan, 1988)
"A collaborative agreement is any inter-organizational agreement, with or without equity, that involves the bilateral or multiparty contribution or exchange of assets or their services". (Teece & Pisano, 1987)
Strategic alliances are agreements which "take place in the context of a company's long-term strategic plan and seek to improve or dramatically change a company's competitive position". (Devlin & Bleackley, 1988)

Source: See bibliography.

Although the literature on international collaboration fails to provide differentiating characteristics for strategic alliances, and despite their apparent similarities with the more conventional forms of cooperative partnerships (equity joint ventures), strategic alliances are different in at least six major features, those are summarised in Figure 3.2.

Structure: Strategic alliances may have various ownership and organisational forms, only one of which could be the creation of a third entity (the norm structure of equity joint ventures).

Partner: Equity joint ventures normally involve partners of unequal strengths and resources, one of which is a developed country MNE and the other is a local firm from a developing host country. Whereas, strategic alliances are formed between two or more partners both from industrialised countries and often of comparable stengths and resources.

Competition: The partners to a strategic alliances are usually each other's rivals and often compete in the same product/geographic markets as well as cooperating in various ways. This feature is missing in the more conventional collaborations as there is little or no direct competition between the partners.

FIGURE 3.2

MAJOR DIFFERENCES BETWEEN 'CONVENTIONAL' JOINT VENTURES AND STRATEGIC ALLIANCES

	Conventional Joint Ventures	Strategic Alliances
Structure	Creation of a third independent economic entity (child firm).	Various ownership and organisational forms, one of which can be to create a child company.
Partners	Mainly developed country/developing country	Developed country/ developed country
Competition	Limited	Partners compete as well as collaborate
Contributions	Imbalance in contributions-technology, capital etc. vs. local knowledge	Balanced contributions-technology manufacturing, marketing etc.
Motivations	Market access; economies of scale resource sharing etc..	Strategic and competitive (global markets)
Failure Consequences	Limited to local market	Reduced international competitiveness

Source: Adopted from Hamill (1989).

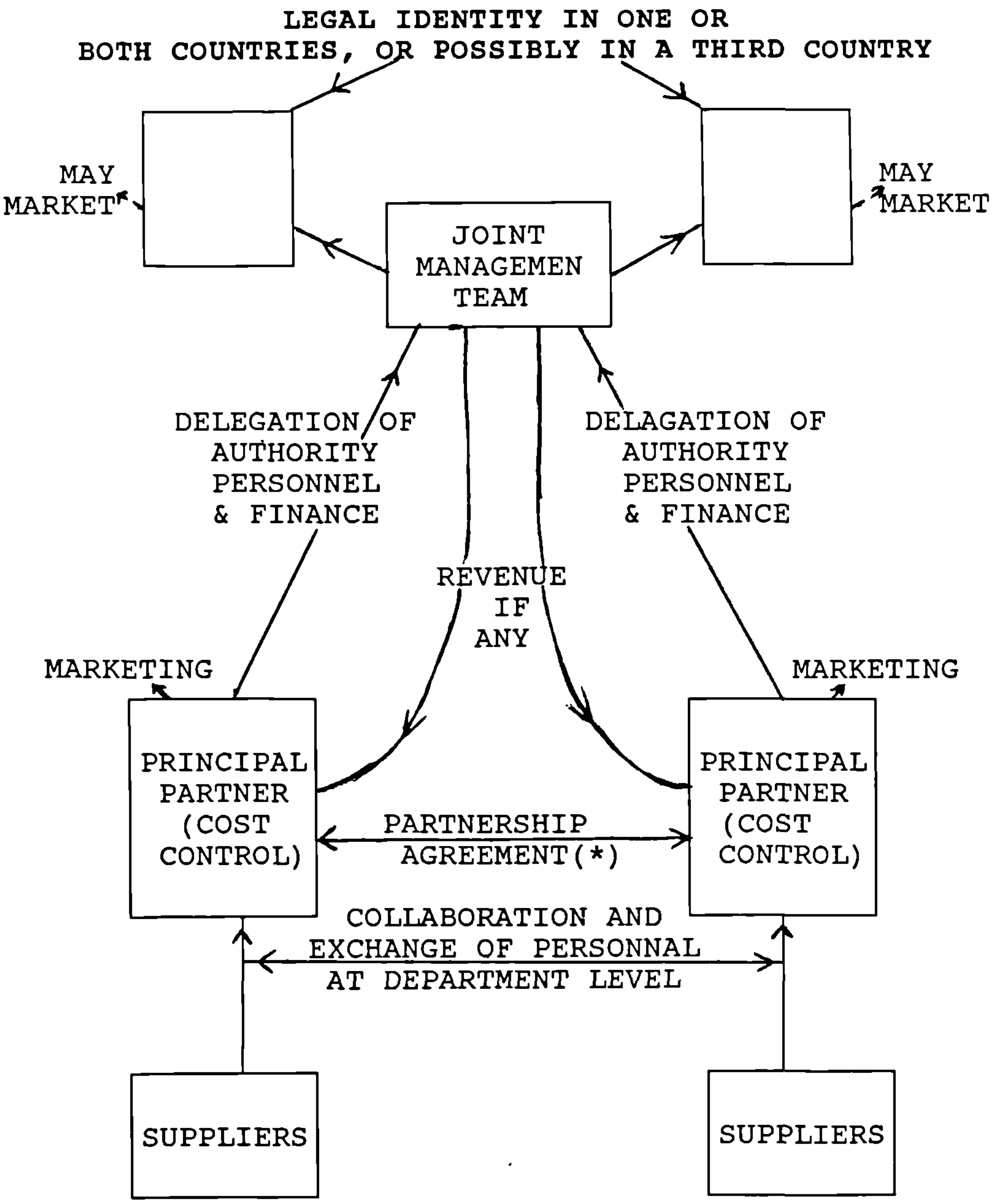
Contribution: Contribution is a very important distinguishing feature. The contributions of partners to a strategic alliance are often symetrical and of very similar nature including, management skills, finance or capital commitments, technology transfer, innovation and development of new compatible products (Doz et al, 1986). In this context, Robinson (1986) provides a figure that might testify to the similarities of the partners' contributions to the alliance (Figure 3.3). While in the case of the traditional form of joint ventures, the MNE (usually from a developed country) is often involved in capital commitment, management skills, technology transfer, whereas the local partner (from a developing country) is mainly contributing by its location specific advantages.

Motivations: Probably this is the most pivotal difference. Strategic alliances are contemplated to boost the competitive advantages of both partners alike. Traditional joint ventures were motivated by the need for market access and for location specific knowledge (such as knowledge regarding host-country markets, infrastructure, and political trends, as in the case where an MNE teaming up with a local partner, in some cases, and by economic factors such as economies of scale and pooling of resources in other cases. While these may still be important in strategic alliances too, the motivations stimulating the latter are more strategic and competitive in scope. Strategic alliances can have a major effect on shaping industry competition by influencing who firms compete with and the basis of this competition. They may enhance competition by facilitating entry of new firms into a particular product or key geographic market, by affecting firm's cost structures and/or manufacturing processes, and by providing access to new sources of technology. Therefore, conventional joint ventures can be intrinsically described as "tactical", these arrangement do not influence, however, to a great extent the structure and competitiveness of the partners, while strategic alliances can effectively impact upon the shape as well as the overall competitiveness of the partners; in terms of, for example, technology, product development, marketing.

Therefore, the strategic and competitive implications of strategic alliances are, perhaps, the main distinguishing features of such collaborations. As stated by Porter (1986), international coalitions (meaning strategic alliances) are becoming: "more strategic, through linking major competitors together to compete worldwide..... (While) more traditional coalitions were often tactical, involving tie-ups with local firms to gain market access or to transfer technology passively to regions where a firm did not want to compete directly".

FIGURE 3.3

INTERNATIONAL PARTNERSHIP
(STRATEGIC ALLIANCE)



(*) Defines purpose, management, duration, division of work, division of revenues (if and when received), renegotiation process, liability, access to other firm, and investment.

Source: Robinson (1986)

Similarly, Jain (1987) argues that strategic alliances are a form of "strategy option or competitive weapon within mature economies to seek global power".

__Failure Consequences:__ Though the high failure rate of the conventional forms of collaboration is a matter of concern, their narrow focus implies that failure is unlikely to have a major detrimental effect on the firm's overall competitive position. On the other hand, strategic alliances, for they represents an important competitive weapon in the firm's oveall strategies, their failure may not only adversely affect the partners' short-term financial performance, but could also seriously threaten their international competitive positions.

After identifying the major differences between strategic alliances and the more traditional forms of collaborations as well as consulting the various definitions given to strategic alliances (see Figure 3.1), it is less difficult now to put forward a definition of what constitutes a strategic alliance. The definition adopted in this research is as follows:

> **International strategic alliance is an agreement between two or more compatible companies (mainly belonging to two or more developed nations) who cooperate through resource pooling and/or technology exchange, and share the operation and management of a long-term strategic relationship in a manner intended to create a superior competitive position for them. This relationship is more than just a license agreement and at the same time falls short of a merger.**

By defining strategic alliance as above, the researcher still cannot claim that this definition does not embody a variety of cooperative deals. However, strategic alliances do not only involve a single type of collaboration, each may have its own motives and formulation circumstances. At least six types of strategic alliances can be identified. This is the subject of the next section.

3.4 TYPES OF STRATEGIC ALLIANCES

Strategic alliances are increasingly seen as the key to survival and growth strategies for many multinational corporations, and writers are putting efforts into identifying their types and distinguishing them from the traditional forms. Jain (1987) identified three types of alliances in the automobile and aircraft industries, these are technology, production, and marketing alliances. Whereas, more generally, Porter (1986) listed the following six forms: technology-development coalitions, operations and logistic coalitions, marketing, sales, and services coalitions (these coincide with the types identified by Jain), multiple-activity coalitions, single-country and multicountry coalitions, and X and Y coalitions.

3.4.1 Technology Alliances

Technology development is a factor that, nowadays, opens up new markets opportunities quickly, hence it is crucial and fundamental to international competition. This kind of collaboration has been popular in the automobile and computer industries, and between multinationals mainly from the U.S.A., Europe, and Japan; with the objectives of minimising the large cost of technology and cheaply transferring it. By doing so, economies of scale would be achieved also the risk burden would be reduced by spreading it over more than one single entity.

Therefore, the large amount of capital needed for R&D, the uncertainty about the research, and the time needed to achieve the goals behind R&D (results and outputs) are good reasons for MNCs to cooperate. Rolls-Royce and General Electric teamed up together to develop a new engine, where neither can risk the R&D costs alone (The Economist, 1984).

Technology alliances are important in that they often open up to competitors the fundamental competences on which a firm's competitive advantage is based. However, Kay's (1989) approval of the post-war development of Japanese economy presents useful indications of the danger exhibited by technology collaboration, whereby Japanese firms gained precious access to American and Western technologies.

3.4.2 Production Alliances

Although technology alliances are an important factor in shaping competition and industry structure, production alliances are no less significant in this concept. Young et al (1989) identified this kind of alliance as "aimed at improving manufacturing/production efficiency through and/or learning economies, transferring manufacturing know-how, or exploiting country comparative advantage".

3.4.3 Marketing Alliances

Marketing alliances or as called by Porter (1986) "marketing, sales and services alliances" are mostly related to the traditional form of joint ventures as they are motivated by the prerequisite of penetrating a market or a new industry (i.e. access motive). However, this type of alliance is still applicable to certain cases of the new forms of collaborations (strategic alliances). To better understand this, it is useful to identify the factors that determine ability of a firm to enter a market and/or new industry. These factors, generally, include marketing practices, distribution channels, and local knowledge as well as the firm's operational experience (Casson and Buckley, 1976).

Marketing alliances enable partners to achieve economies of scale or learning and increase their market share in key markets within the global market by accessing each other's local know-how, distribution channels, and marketing experience.

This type of alliances is also desirable by firms moving into new industries where they can tap the distribution channels, marketing skills, and reputation of their partners. Therefore, marketing alliances can improve the operational experience of the firm in a particular industry by improving its knowledge of that industry structure, competitive behaviour, and technology.

Other Types of Strategic Alliances:

Other types of strategic alliances might be a combination of the previously listed forms of alliances and may involve one or more than one country. These include multiple-activity, single country and multicountry, and X and Y alliances.

3.4.4 Multiple-Activity Alliances

The multiple-activity alliances could be formed with a mixture of two or more of the production, technology, and marketing alliances in one single agreement between the concerned partners. For instance, technology-marketing alliances where the "window of opportunity is quite limited and market entrance incurs high cost. In this type of alliances, usually, one partner has the technology expertise, know-how, and production skills, whereas, the other possesses marketing abilities, sales forces, special services, distribution channels, reputation, and/or credibility.

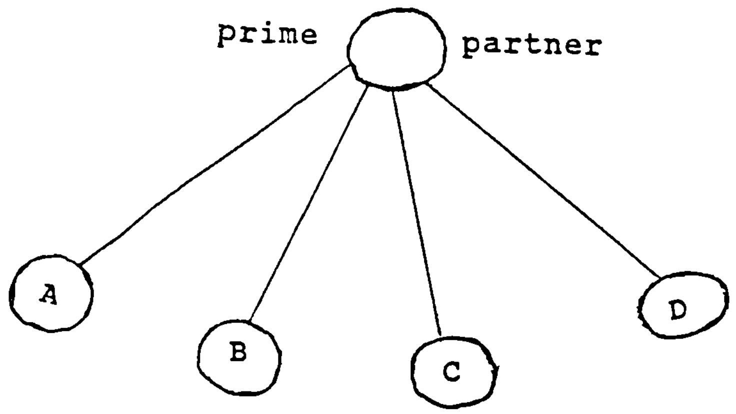
3.4.5 Single Country and Multicountry Alliances

Single Country Alliances

Single country alliances are tied to individual countries. They are often formed to get access to a specific technology (or know-how) or into a specific market and usually involve one activity in the value chain. Here, a firm may be able to achieve a set of strategic advantages by constructing a network of such alliances around the world (Porter and Fuller, 1986). For example, one firm might form several alliances (of the same or different type) with a number of firms from one or different nation(s) and manage, sometimes, to be a prime partner or as called by Doz et al (1986) "nodal partner". Prime partner is a firm that works on building an extensive network of alliances while involving in a series of complementary agreements to keep rivals at bay (See Figure 3.4a).

FIGURE 3.4a

NETWORK ALLIANCES



The network provides the prime partner with several strategic advantages. Firstly, from its several partners, a prime partner might be able to tap and exploit a vast range of skills and know-how, then use these obtained skills and know-how in gaining the upper hand over them. Secondly, the networks of partnerships offer the prime partner the support of its partners in fighting against other dominant or strong competitors, for instance, European partners of NEC have become the front line fighters in the Japanese manufacturer's challenge against IBM (Doz et al, 1986). Thirdly, potential and appropriate partners are preempted through the network. All the above mentioned advantages accumulated together help the prime partner strengthen its bargaining power, its competitive position and market share which would be built over time through several complementary relationships.

Multi-country Alliances

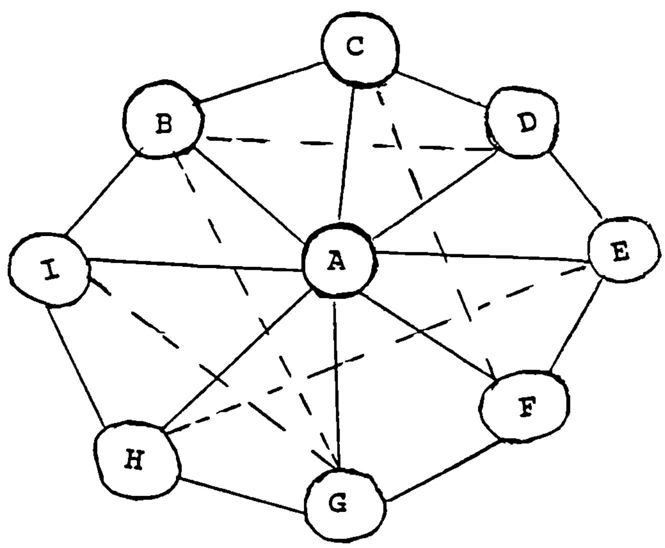
The multicountry alliances involve activities that are applicable to, and that could be implemented in various countries, for example, operations and logistic and technology development. This form of alliances might be conducted within one or more country, but producing and generating products to be served world-wide (Porter and Fuller, 1986). Multicountry alliances are followed by many of the giant multinationals, as the globalisation of both industry and competition have been accelerated, to hold onto existing markets and to maintain a strong competitive position.

One example of this type is what Harrigan and Newman (1990) call "spider's web" alliances (another form of network alliances) where many firms belonging to various countries are linked together through several alliances. Dunning (1988) explains this "strategic networking" as a series of relationships which is build on a division of work among firms in the network. For instance, Firm A collaborates with Firm B who cooperates with Firm C who is partnering with Firm A where all firms are interdependent of each other (see Figure 3.4b). He argues that in such networks the activities are coordinated not through the market or a central hierarchical plan, but by the establishment of a series of relationships between the members of the network.

While this type of alliances represents an important strategy for the global markets, its advantages depend greatly on the relationship between the partners as well as the relationships formed with other firms by those partners.

FIGURE 3.4b

SPIDER'S WEB ALLIANCES



3.4.6 X and Y Alliances

An X or Y alliance could itself yield two kinds of collaborations. In categorising those forms of strategic alliances or as called coalitions, Porter and Fuller (1986) have intuitively depended on two spectrum, specifically, the range of activities in the value added chain perpetrated by each partner and the geographic coverage of the coalition's activities. They classified strategic alliances as X coalitions when the value activities of the partners are divided and Y coalitions in the case of partners having shared value activities.

In X alliance, the activities and operations are divided between the partners, for instance, one partner manufactures while the other takes the responsibilities of marketing. In other words, each partner operates the activities in which its firm is well positioned. Thus, in X coalitions, firms have asymmetric positions in a given activity.

In Y alliance, the partners share in all various activities of the operations (Porter, 1986). Therefore, Y alliances are more likely to achieve economies of scale, transfer of technology and skills, and to minimise the cost of risk burdens. Moreover, Y coalitions are formed to elevate each of the partner's position within a particular activity. Accordingly, a firm's situation and competitive position no longer depends on itself alone, but on the quality and type of the alliances it is able to form.

3.5 MOTIVATIONS AND ADVANTAGES OF STRATEGIC ALLIANCES

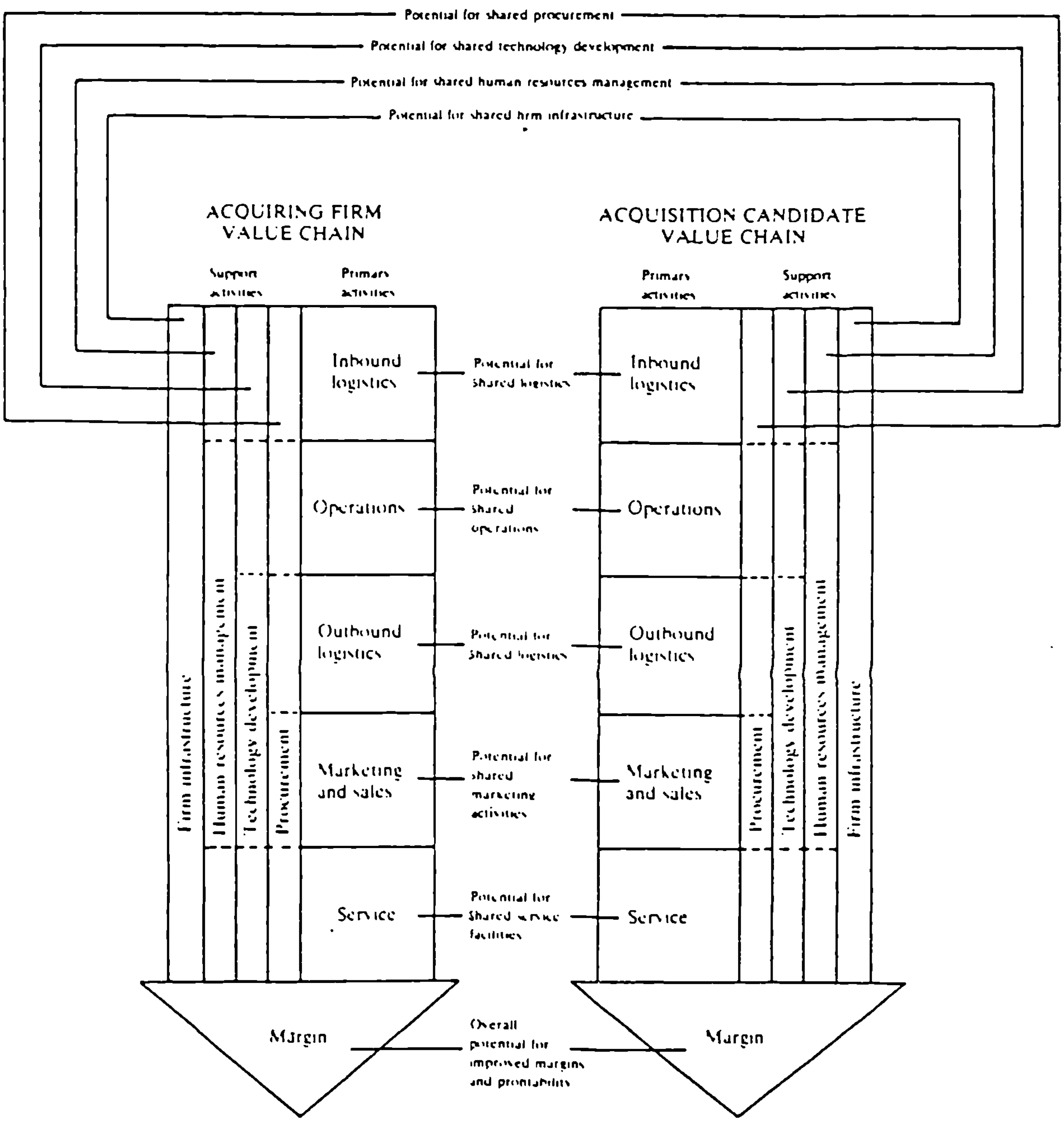
Strategic alliances seem to be the outgrowth of the current economic, competitive and technological pressures on almost every multinational company regrdless the industry it belongs to.

The advantages of these alliances appear attractive to the competing MNEs as immediate access to technology, new markets, cheap production sources, important customers etc.. are accomplished without the cost of an acquisition and faster than each partner would take on its own (Jain, 1987). The complementary resources of the partners can offer a great opportunities for synergy in the shared activities along the value chain. Considering the similarity of the factors that motivate strategic alliances and those that stimulate mergers and acquisitions, Payne's (1987) explanation of the potential synergies between the acquirer firm and the acquisition candidate can be borrowed to highlight possible advantages between the partners to a strategic alliance (see Figure 3.5).

In addition, when partnerships work, the number of competitors and of competitive projects could be reduced, hence alliances would maximise the opportunities for technological success and minimise the competitive pressure on the competing firms.

FIGURE 3.5

POTENTIAL SYNERGIES BETWEEN THE PARTNERS



Source: Payne (1987).

International strategic alliances offer a unique opportunity of combining the distinctive competences and the complementary resources of the participating firms. Such combination provides a wide range of advantages to the partners- advantages which neither of them is able to attain on its own.

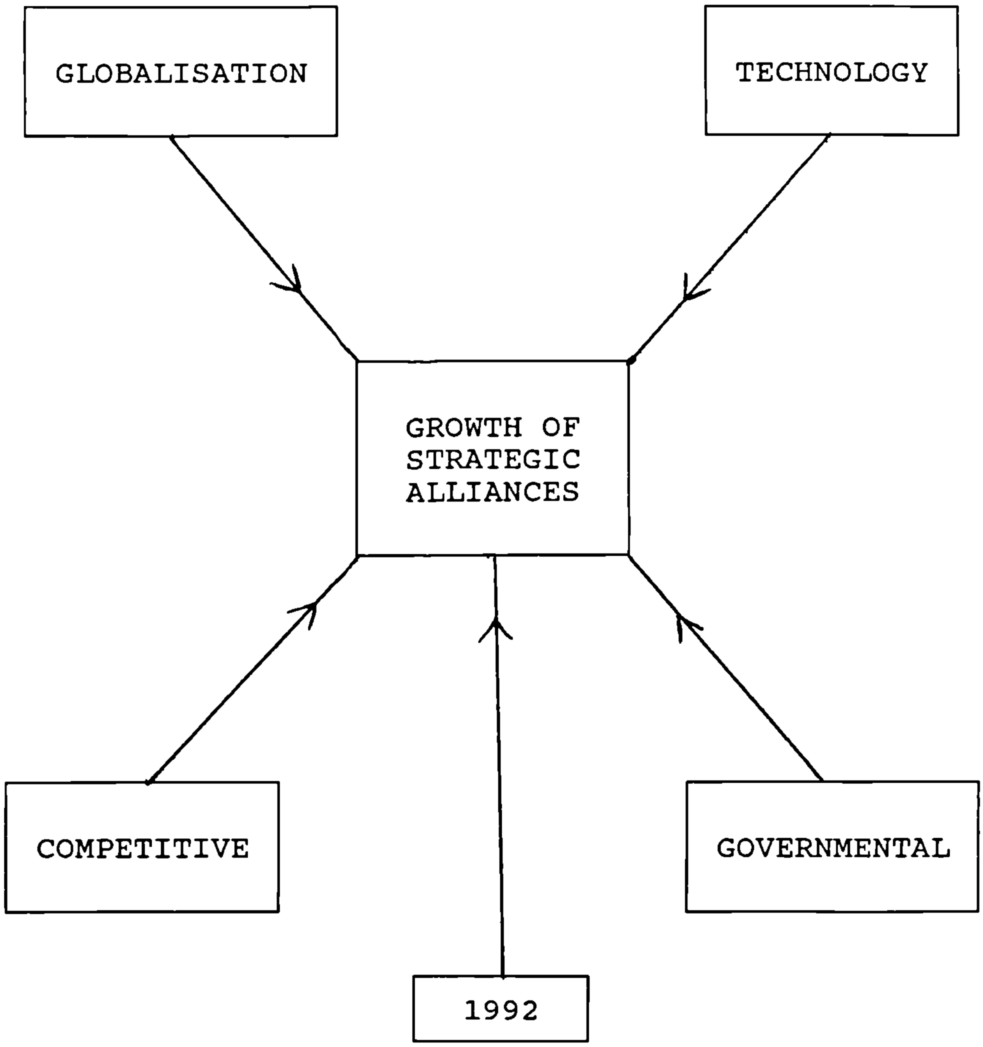
Therefore, it could be claimed that a number of factors have contributed to the increasing prominence of strategic alliances. These factors are displayed in Figure 3.6, and will be discussed alongside others in the following sections.

3.5.1 Globalisation

As presented and discussed in the previous chapter globalisation is a term which is not only applied to markets but also businesses, industries, firms, and most importantly competition. Perhaps the principal driving force for many mergers and acquisitions as well as strategic alliances is the perceived trends towards globalisation, with the consequent desire for firms to gain a foothold in as many geographical areas as possible (Porter, 1990). In such business conditions, even the largest multinationals are seeking alliance partners in order to enhance their capabilities to supply global markets and face up to global competition.

FIGURE 3.6

FACTORS INFLUENCING THE GROWTH OF STRATEGIC ALLIANCES



Source: Hamill (1989).

3.5.2 Technology and Risk Sharing

Another significant motivation for strategic alliances in the 1980s (a period of rapidly escalating R&D costs, shorter product life cycles, and accelerating technological changes), is the urgent need for sharing technological expertise (Norburn and Schoenberg, 1990). Minimising the risk associated with R&D and complex technologies is, therefore, an important motivation for international strategic alliances, especially in the research-intensive and high-tech industries; such as aircraft, automobiles, and computers; where the product life is becoming short (Contractor, 1988). Reducing risk can be achieved by spreading it over two or more firms to lower the cost of certain projects (being shared among the partners), and by lessening the political risk (in cases where the political circumstances are uncertain).

Risk reduction can be combined with another reason that encourage strategic alliances, namely, technology development. The rapidly developing technology in most industries has pushed many multinationals to seek partnership involvements. Accordingly, some firms are motivated to quickly introduce new technology in order to gain or maintain an edge on market leaders. To do this by its own, the firm would be exposing itself to the risk of failure and delay in achieving the needed research as well as augmenting the development costs. In such a case, teaming up with an appropriate partner would be the solution to hasten the achievement of its goals and minimising the risk associated with such technology developments.

Partnerships between Short Brothers and Boeing (U.S.) to develop Boeing's new technology Prop-fan 7J7 aircraft, Group Lotus and Moog (U.S.) to develop and manufacture Lotus' revolutionary vehicle suspension system, Thorn EMI and Thomson to produce VCRs in Europe (Acquisition Monthly, 1986), and more recently IBM and Siemens joint developemtn of 64 memory chips, are just some few examples of R&D, technology, and risk sharing motivated alliances.

3.5.3 Governmental

The increased use of strategic alliances is also influenced by various governmental factors. Direct government encouragement to use strategic alliances is illustrated in significant projects like ESPIRIT, EUREKA, the European Airbus consortium, and the European Aircraft project. Also, deregulation in certain industries such as telecommunication is an indirect governmental encourgement for strategic alliances as an effective means to enter and compete in previously protected markets (Hamill, 1989).

3.5.4 Complementary Resources

In environments of scarce resources, rapid rates of technological change and massive capital requirements, strategic partnerships may be the best way for some firms to attain better positions in global industries which they consider to be important.

In some instances, where a firm is developing or introducing a new product that is intended to be competitive in the global market, an innovative engineering and manufacturing base is required. This process usually requires a long time to plan, develop, and produce and often involves enormous capital investments (Jain, 1987). Therefore, strategic alliances can be a particularly desirable means in situations and industries where the "critical mass" is very high.

International partnerships make it possible to reduce such investments by using existing capabilities of each partner. In the partnership that involves Aerospatial (France), Deutsche Airbus (Germany), British Aerospace (U.K.), and Contrucciones Aeronauticas _ CASA (Spain), each of the partners alone did not have the capacity to manufacture large commercial airplane at an economically viable rate of production (Economist, 1984). But within the alliance these firms pulled together their capabilities, each producing the part that best express its specific advantages then assembling the generated parts using an appropriate logistical system.

The alliance between Rolls Royce (RR) and General Electric (GE) is another example of using strategic partnerships to fill out product lines without massive investments. In their agreement GE shares in RR's 40,000 Pound thrust engine, and RR shares in the development and manufacturing of GE's new 56,000 Pound thrust engine (Economist, 1984).

Moreover, the complementary needs, skill and expertise of the partners in strategic alliances provide synergistic benefits as in the series of alliances between Honda of Japan and Rover of the UK. In one of their alliances, for example, Honda give Rover a wider model range, Rover gives Honda a "Trojan Horse", and the alliance provides customers with much more choices.

3.5.5 Economies of Scale

In the current competitive and hastily changing business environment, scale too has become a critical strategic and operational issue, and a key to survival for some multinational corporations. Hence, the intense competitive pressure is forcing most manufacturers to concentrate on the factors that differentiate their products in the market-place. Whereas in areas where product differentiation is a difficult burden to be achieved firms are involving in strategic partnerships in order to profit from combined scales (Berg, 1982). Most obvious and straightforward is the case where a larger volume of a differentiated component is produced in a single plant. One example is the agreement between Peugeot and Fiat to develop and produce jointly a million car engines a year.

Cost reduction drives are good occasions for exploiting shared-scale opportunities. Higher specialisation and lower investment requirements even in the absence of volume increases are another benefit frequently realised. Shared-scales between competitors may also generate acquisition of new functional skills and improve functional efficiencies. In other words, economies of scale might be achieved not only in production and manufacturing, but also, and perhaps more importantly, in R&D, technology, sales, and marketing.

Therefore, strategic alliances between partners, if reached, would allow specialising production in existing plants and may significantly reduce investment requirements and total manufacturing costs, hence the achievement of economies of scale.

3.5.6 Access to Key Markets

Barriers to trade may create alliances between firms from different countries in an attempt to obtain access to the widest possible and important market. For instance, many firms are now starting to invest in Japan (through alliances) in order to get close to a market which has become a world leader in key areas. Since the most important element to cost competitiveness in many of today's global industries is the number of units produced, and since the fixed development cost and the variable cost also depend on the number of these units, product volume is a crucial issue, not only in the high-tech and global industries but also in many others (Jain, 1987). Accordingly, reaching export markets and obtaining a significant portion of it is one way to maintain successful and competitive position. Even the largest firms face difficulties in finding the resources for development, manufacturing, and export financing in their own markets. Strategic alliances with foreign partners can offer access to important market segments at a lower cost. The strategic alliance between British Aerospace and Thompson of France, who brought together their respective guided misile business, aims at strengthening their joint market position in the soon to become the Single Market of Europe (Norburn and Schoenberg, 1990). Airbus Industries formed an alliance with McDonall Douglas the American aircraft manufacturer to get access to the American market (Financial Times, March 2, 1988). This partnership would also be of advantage for McDonald Douglas as it would strengthen its competitive position against its domestic rival, Boeing.

Another related issue here is the quotas and duties erected by some governments on the imports of some products generated in certain important industries as they consider it to be crucial for, and affect the balance of payments, employment, technological development and defence capabilities. Accordingly, if a firm is not well established in a country, it might encounter difficulties in competing in that market. The Japanese case illustrates that their concern with industrial collaboration had reached the highest level, following increased protectionist pressures in the U.S. and West European automotive and semi-conductor industries (Nukazawa, 1982). In the U.S.,for example, Japanese are facing difficulties in the semi-conductors sector. The U.S. Administration is accusing them of dumping the American market with cheap subsidised semi-conductor products which is causing problems to American firms and consequently affecting employment and the U.S. Current Account. Japanese firms are now trying to overcome these accusations and the quotas imposed on them by teaming up with American firms.

3.5.7 Competitive Pressure

One trend credited with the popularity of strategic alliances in the 1980s is the widening of the competitive arena from national to global markets. A number of competition-related motivations have stimulated the growing use of strategic alliances. High levels of concentration in many industries have invoked startegic alliance between non-dominant firms in order to challenge industry leaders. Also, fashion, fear and follow-the-leader are important determinents, for strategic alliances are widely used as a competitive weapon and/or response to similar actions made by firms in the same or related industries.

Moreover, strategic alliances may be used as means of avoiding competition. One approach to achieve this objective is by forming collaborative agreements with aggressive and comparatively strong competitors. By binding potential rivals to them, firms can make them allies. Most importantly, firms, through strategic alliances, can prevent other rivals from gaining their market access and widen their market shares (Conductor, 1988). In addition, the feeling of the partners' inability to continue to compete each on its own is another reason for forming strategic alliances.

On the other hand, Jain (1987) argues that this reason is more likely to be present in alliances that involve global players and small firms seeking global competition. But he also stated that, in the new emerging business environment, even large firms are also facing the pace of severe competition, hence the linkage between strong competitors seems in part to be motivated by the desire to block and lessen competition. In addition, these liaisons might be motivated by the intention to obtain global industry leadership (Doz et al, 1986). With this intention, the partner would be aiming at strengthening its competitive position by gaining competitive advantages from its partner(s), using its partner(s) to fight against other competitors (hence limits competition by outsiders), internalising skills and value added, and by gaining control over technology and/or significant competences. The Japanese seem to be the most discernible partners in using these strategic intentions when forming alliances with their European or American partners. The alliance between Honda and Rover Group illustrates that goals of the Japanese, where Honda was aiming at learning from Rover aspects of the design of large cars, an area in which it lacked experience.

Strategic alliances between firms from different nations could also be utilised as a means to deter potential rivals from introducing independent programmes or to reduce and lessen competitive alliances. Therefore, bringing existing rivals into alliances might be a way of neutralising new emerging competitors.

3.5.8 Formation of the Single European Market (1992)

The single European market is also having an impact on pushing up the number of alliances formed every day as firms approach 1992. The importance of this factor was seen by Volswogen's Chairman as: "The 1992 event sets completely new standards and gives us (Europeans) the infrastructure of an enormous new market." He continued: "In 1992, this European market will not be segmented as now, in small units which act as obstacles to the development of the industry. It will be a market which should take advantage of large-scale production, the biggest market in the world, ahead of the United States." (Executive Speeches, Jan. 1988, p14).

The consequences of this event on the collaborative agreements including strategic alliances as stated by Kay (1989) is twofold, one is that European will be able to compete "satisfactorily" without the need for a local partner, and mergers and acquisitions would increasingly be more attractive strategic options. The second influence of the single market is the fall in the number of alliances formed between European firms, Kay (1989) gives figurative evidence on the drop in the number of European-European alliances as from 24.7% in 1985-86 to 17.8% in 1986-87, this was against a rise in the number of European-Foreign alliances from 33.3% in 1985-86 to 50% in 1986-87. Hence, the issue of 1992 is an important factor in the growth of strategic alliances which are formed, not necessarily between the European themselves, but as a competitive trading means through which the European may achieve significant competitive advantages in return for access into their single market.

Undoubtly, after 1992, the competitive efforts of the inter-related American and Japanese companies will turn even more than today toward the new market which is freed from national barriers to free trade. European are not facing an American, or Japanese attack, but a combination of Japanese-American in many ways. Apart from Nissan and Toyota, most Japanese manufacturers have an American equity participation, and all have multiple alliances. This is an important consideration, when one looks at what Europeans are going to face. However, European multinationals are acting ahead of the event and some of them have already established strong position in Canada, U.S., Japan, and their first beachheads in Europe mostly through acquisitions and alliances.

3.6 COSTS AND DISADVANTAGES OF STRATEGIC ALLIANCES

Although strategic alliances have so far been presented by many authors as an alternative growth strategy, and most significantly as a crucial competitive weapon, it is important to bear in mind that these linkages are not always the best solution. There are drawbacks associated with strategic alliances, for example, problems concerning the division of efforts and the effective control of the alliance's operations might make any form of cooperation less stable and less efficient than the previously discussed internal and external development strategies.

The competitive costs are probably the most significant of all the disadvantages. They arise out of their potential for dissipating sources of competitive advantges and undermining industry structure. This will, through the transfer of expertise, technology, etc.. or the provision of market access, lead to either creating new competitors or may stengthen existing rivals to a fearful degree (Porter, 1986; Hamel et al, 1989).

In addition, lack of trust between partners (which could be one result of the competitive cost above), scarce information, different management styles, control conflicts and changes in the business or strategic objectives of partners are some of the more usual pitfalls of international strategic alliances (Business Week, 1986).

Therefore, while powerful forces work in favour of international strategic alliances, there are also costs and disadvantages associated with these forms of collaborations as the goals of potential partners are never completely in harmony, and in most cases they are competitors as well as collaborators. Continuous issues of mutual dependence, conflicts on product design, sharing of authority and responsibility which may result in the creation of an adverse bargaining position between the partners (Porter, 1986), uncertainty about the commitments and the outcomes, and the use of top management time (e.g. as argued by Porter the coordination costs which involves time and effort to manage and integrate the alliance activities into a broader global strategy) can all jeopardise partnership agreements. The partners should, therefore, determine whether their strategies are compatible enough to allow these issues to be resolved and equitable sharing of benefits from the alliance to be negotiated.

3.6.1 Mutual Dependence

In international partnerships, as partners are also competitors, each would be having the intent to wrest skills from the other, this would reduce its capabilities for autonomous action and make it increasingly dependent on the continuation of the alliance within which this partner would steadily lose ground (Doz et al, 1986).

However, according to Jain (1987), once the alliance is agreed upon, all partners become dependent on each other. If the commitments of all partners are not, to certain extent, balanced (i.e. if one's commitments are not up to what was expected by the other partners), the dependence will evolve as an enhanced cost to the alliance formed between them, and might threaten the outcomes and the achievement of the alliance's goals.

Hence, the propensity of an alliance does not rely on the long-lasting nature of the partnership, but in most cases on fulfilling the partners' expectations about each one's commitments and contributions.

3.6.2 Conflicts on Product Design

Deciding what products to be manufactured and produced is an initial requirement. Potential partners start with at least a general idea of the type of products that they could work on but, as partners in international strategic alliances belong to different countries, and are often influenced by different key customers, they may see market needs differently (Harrigan, 1985; Harrigan and Newman, 1990).

Moreover, the partners' existing products also influence their perceptions of the appropriate products. Each partner may intend to manufacture the products which best complement its existing product lines. Thus, conflicts between partners might arise if this matter has not been given enough attention during the negotiating period. Also, disputes may arise on which design or service could best meet emerging growth opportunities (Lorange, 1988).

However, once the partnership between two or more firms has been formed to cooperate on a certain project, it may take a long time before the actual introduction of the product(s) or services which the alliance had specifically been formed to produce. This is especially to be expected within alliances that involve firms from the high-tech industries where partners are sometimes intense competitors, and one firm might attempt to keep negotiations alive whilst moving slowly in order to discourage its partners from taking part in other alliances or introducing a competitive product. Consequently, a firm shall take great care when approaching the negotiation process in order to avoid such situations.

3.6.3 Uncertainty about the Commitments and Outcomes

Porter (1986) called attention to the significance of a partner's commitments by stating that "it is important to predict how the partner's contribution and the partner's strategy will evolve overtime". On the other hand, Jain (1987) highlights the difficulties in forecasting the contributions of a partner and of ensuring its commitment to work consciously in fulfilling its obligations which might not have been specified in the legal agreement. These difficulties usually stem from the fact that international partnerships are often formed for long term projects which increase complications in forecasting their outcomes. Moreover, the fact that control and decision making are shared between partners makes it a difficult task to predict the commitments as well as the outcomes of each partner. This could happen because partners future decision perspectives might change over time. Also, there are no methods or strategic tools to analyse and forecast inputs and outputs of strategic alliances. Therefore, uncertainty about the commitments and outcomes exacerbate the cost disadvantages of strategic alliances.

3.6.4 Division of Authority and Responsibility

Partnerships entail a division of responsibility by product components or manufacturing operations, as well as a division of decision making and authority. These are to be found in almost all forms of corporate collaboration, but it is an important issue to the new forms more than the traditional forms, as the parties involved in strategic alliances are of similar strength, if not equally strong.

None of the involved firms, alone, possesses the authority and decision making power, rather these tasks are shared between partners that might sometimes have conflicting opinions and different management styles in tackling certain problems or when making certain decisions. This is peculiarly present in international strategic alliances which involve large competitors that are wary of creating or strengthening a potential future competitor, and wishing to make appropriate and optimal decisions which would expound the perceived opportunities. The decision making and authority being shared between partners would prevent the accomplishment of the optimal decision by resulting instead a compromise which might in some cases be refused as being inconvenient and cause the withdrawal of certain partner(s), thus leading to enormous unproductive costs (Jain, 1987).

Apart from the difficulties that preclude partners from arriving at the optimal decision for all parties, shared authority and decision making affect the speed of the decision making process and may prevent it's timely adaptation to the environmental needs, as well as the ability of partners to adequately predict the outcome of future decisions.

The speed of the decision making process might be slowed down due to the conflicts between partners (e.g. disagreements about a major task concerning a decision), or to communication problems (e.g. cultural and language barriers), or misunderstanding between partners.

The above pitfall would consequently affect the partners' future decisions as they would be delayed and thus making it difficult to adhere to the time scale of the project as it was initially conceived.

3.6.5 Strategic Encroachment

Doz, Hamel, and Prahalad (1986) highlighted the dynamics of competition between the partners to strategic alliances and indicated the danger of strategic encroachment which may take place in cases where one partner attempts, or in the first place entered the alliance with the intention to dominate it to attain its strategic or competitive advantages by exploiting the other partner's technology, know-hows, etc...

Another related issue, also raised by Hamel, Doz, and Prahalad (1989), is the danger of competitive compromise where similarily, the competitive position of one partner is weakened through the excess transfer of its invaluable and/or core competences. This issue should be counted for very carefully, especially when cooperating with Asian partners (Reich and Mankin, 1986).

3.6.6 Extensive Use of Top Management Time

As international partnership is an important competitive strategy for all participants, and because of the fact that this strategy is utilised by many competitors to maintain market shares and wrest competitive advantages from other partners in order to retain an edge on market and/or industry leader, top mangers and high quality staff would be responsible for negotiating and managing these partnerships.

Top managers would, therefore, be dedicating an excessive portion of their time to meetings, negotiations, and planning with other partners' managers (Jain, 1987). This might be costly especially if adequate decision are not reached. Another cost of top management's time and energy is that related to the early stages of the negotiation, particularly if difficulties arise in reaching an agreement, where in some cases no partnership is formed, e.g. the negotiations between Airbus Industries and McDonell Douglas, the American aircraft manufacturer, where talks have been going for years and is an alliance yet to be formed (Financial Times, March 2, 1988).

Beside all the discussed above costs, there are still other disadvantages that are peculiar to the new forms of collaborations rather than being common to all forms. These are: the risk of proprietary technology leaking, and the abandonment of certain projects (Economist, 1984). These costs often occur when a firm forms a collaborative agreement with a second firm, then this second forms a separate agreement with a third firm. Thus technology leaking might take place (through the second firm) from the first to the third firm which might be able to develop this technology faster than the first firm and hence cause a cost disadvantage for the first firm by creating a future competitor. Moreover, some projects might be left aside as other alliances become more important.

3.7 WEIGHING ADVANTAGES AND COSTS

The literature is richer in empirical evidence about the traditional forms of cooperation than on strategic alliances. Researchers have argued that corporate collaboration of the traditional type tend to be used in certain defined circumstances and under a different set of motives. In some cases, government policy makes access to a market conditional on the use of the coalition forms. A firm's size, experience and resources determine how much it needs the contributions of a foreign partner.

While the new forms of international coalitions are different in nature from the traditional forms, it is expected that similar patterns of use can be found. Also, the circumstances in which strategic alliances are formed and their motivations are different from those of the traditional forms of collaboration. However, it is suggested that the advantages of international strategic alliances would likely outweigh their costs [Porter (1986), Jain (1987)]. However, the extent to which these advantages are actually realised depends largely on how well the alliance is managed right from the very beginning through to its implementation. The spotlight in strategic alliances inevitably centres on the proper planning, thoughtful selection of the appropriate partner, and consequently, on the continuous attention to monitor, control and manage the alliance. This would be realised when partners carefully approach and continuously manage the alliance, and thoughtfully select the appropriate partner. The final section offers some observations on how, when, and which a firm chooses among possible alliances and potential partners.

3.8 CONCLUSIONS

Most participants in international strategic alliances see them as a necessary strategy forced on them by economic development, changing market conditions, global competition, technological development, and industrial maturity. Some industries are important mass market for certain products in a period when the ability to stay at the forefront of technology development is usually a significant indicator of general industrial competitiveness.

Multinational corporations are reassessing their strategies and ultimately restructuring themselves to follow the race of competition, and to overcome rivals in technology development. In the past, collaborations were seen as particularly a resort to minimise initial investment and lessen the risk associated with entry into new markets. Moreover, firms were linking in order to secure a quick and certain passage to otherwise closed markets, or to respond to governments' preferences for local participation in the business. On the other hand, the rationale for strategic alliances, in most cases, is related to the increasing speed of technological changes and the rapidly growing competitiveness in global markets. Hergert and Morris (1988) declare that firms now are forming alliances in order to diversify risk inherent in developing new technologies or to take advantage of the complementarity of each other's developmental skills and competences. This is apart from the essential economies of scale and market power these alliances may offer the participant firms. Partners to a strategic alliance work together toward similar, or complementary objectives, and cooperate to supplement each other's skills and knowledge and increase economies of scale. They share risk and costs to obtain faster results more efficiently, and to contribute to the development of new competitive product, thus augmenting their market shares and strengthening their competitive position by blocking potential competitors, an alliance could accomplish all this well.

However, strategic alliances may obscure a partner's identity and give rise to conflicts. Despite its drawbacks, a strategic alliance, if it works, generates advantages which might not be captured otherwise, an obvious example is the recent trend of many giant multinationals teaming up in order to wrest the various advantages and to develop together new world-wide competitive products. Hence strategic partnerships keep partners alert, and push them to focus on their core skills and distinctive contributions to the alliance. However, judgements about the effectiveness of strategic alliances are difficult to make, as the absence of empirical work concerning these new forms of collaborations makes it difficult to make a quantitative assessment, and also because observers in different countries tend to use different assessment criteria. For example, the Japanese judge these alliances in the light that it aids macro-economic adjustments. They believe that this kind of expansion, by accelerating the transfer of technology and creating employment opportunities, makes an important contribution to the international economy (Turner, 1987). Nevertheless, there are other arguments about the longevity of the transfer of technology and other skills and know-how through these alliances as partners are in the first place competitors.

CHAPTER FOUR

MANAGEMENT OF INTERNATIONAL STRATEGIC ALLIANCES: LITERATURE REVIEW

SUMMARY

Managers who want to benefit from their alliances must be ready to make fundamental philosophical changes. Without a new mind-set, these partnerships are bound to fail.

A clear set of objectives and the analysis of all available alterantive strategies are a prerequisite before deciding to call upon an alliance partner.

The alliance design including its initial planning, partners selection, and its objectives must be given greatest attention.

Establishing a common plan including the issues to be negotiated is a crucial element of the negotiation stage.

A critical determinant of the alliance's performance appear to be the shared management techniques of the alliance and that lies in four managerial considerations:

1. the ability of the partners to develop a constructive relationship,

2. the ability of the managers to influence a group without dominance and encourage contribution,

3. the ability to organise the resources and contributions in order to attain mutual adavantages, and

4. the ability to readjust the alliance to adapt to changes to the benefits of all parties.

In one statement it is the ability to build trust and manage a "win-win" partnership.

4.1 INTRODUCTION

International strategic alliances (ISAs) are not like start-up companies; they begin with considerable resources, obligations, and lofty expectations to the involved parties. Even in cases of domestic strategic alliances, where the participants speak the same language and operate under the same constraints, there are numerous difficulties. ISAs involve partners whose languages are different and whose social and business cultures and even thought processes may be alien to each other.

Managers of international strategic alliances must be aware of the fact that these types of international collaboration put them on a continuous, competitive race, always focusing on the development of their firm's core skills and unique contributions to the partnership. Managers should also recognise that strategic alliances incorporate different set of goals and are different enough from the traditional type of partnering to allow the applicability of experience gained through the later (Doz et al, 1986; Morris and Hergert, 1987). Hergert and Morris relate the difficulties in managing strategic alliances to four important attributes: shared responsibility, maintenance of individual identities, continual transfer of resources, and indivisibility of projects. Harrigan (1988), also, argues that these new forms of collaborations demand a peculiar set of new thought processes and new managerial capabilities.

This chapter reviews the existing literature covering the issues of the management process relevant to strategic alliances. Harrigan's (1984) distinctive research reveals some significant steps in pursuing a collaborative venture with a second independent firm. Moreover, the argument of more recent studies is that strategic alliances are significantly different from "conventional" forms of international partnerships, hence, to adopt a similar management approach is not only inappropriate, but also dangerous given the threat of strategic enchroachment. The importance of management processes to strategic alliance is well elaborated by Hamel, Doz, and Prahalad (1986, 1989), Contractor and Lorange (1988), Norburn and Schoenberg (1990), and Lorange and Roos (1989, 1991).

The authors argue that the key to successful alliances lies in companies learning to use the partnership to enhance their internal skills and technologies while guarding against transferring competitive advantages to ambitious partners.

Further, Jemison and Sitkin (1986) have identified three significant considerations for successful acquisitions, namely; strategic fit, organisational fit, and the acquisition process perspective, these concepts are of importance to the management of strategic alliances, for these types of strategies, as argued by Norburn and Schoenberg (1990) share some strategically common issues, e.g. the involvement of two independent parties, the factors that motivate them, the competitive implications they incorporate, and the reasons for their failure.

4.2 DESIGNING A STRATEGIC ALLIANCE

In designing an international strategic alliance, there are various issues that have to receive a special and heavy emphasis during the preliminary stages of preparing and planning for a new strategy. These are: thorough analysis of the firm's external environment, careful assessment of the partnership's rationale relative to one's own overall strategy, weighing the objectives against every available strategic option, careful choice of a suitable type of alliance, selection of an appropriate partner (i.e. strategic and organisational fit), selection of the negotiation team, and negotiation procedures.

Harrigan's (1985) dynamic model of joint ventures represents a comprehensive design for managing and controlling a strategic alliance (see Figure 4.1).

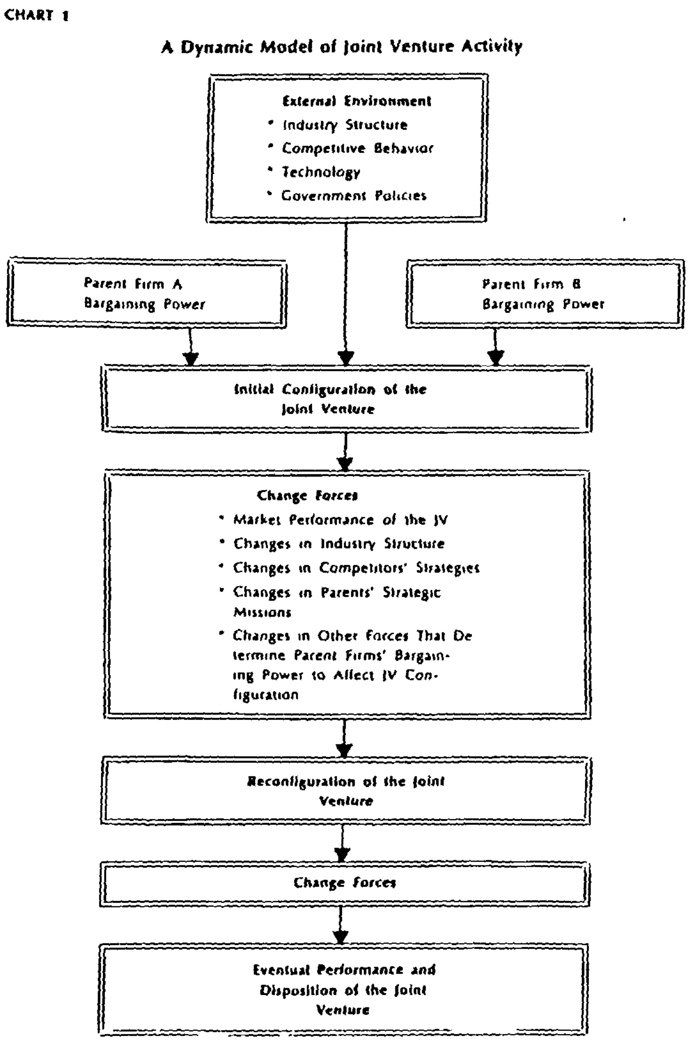
Perlmutter and Heenan (1986) advise that "managers who want to implement global strategic partnerships must be ready to make fundamental philosophical changes". Without a new mind-set, these partnership are bound to fail, run the argument. They defined six signs of success in international strategic alliances, these are:

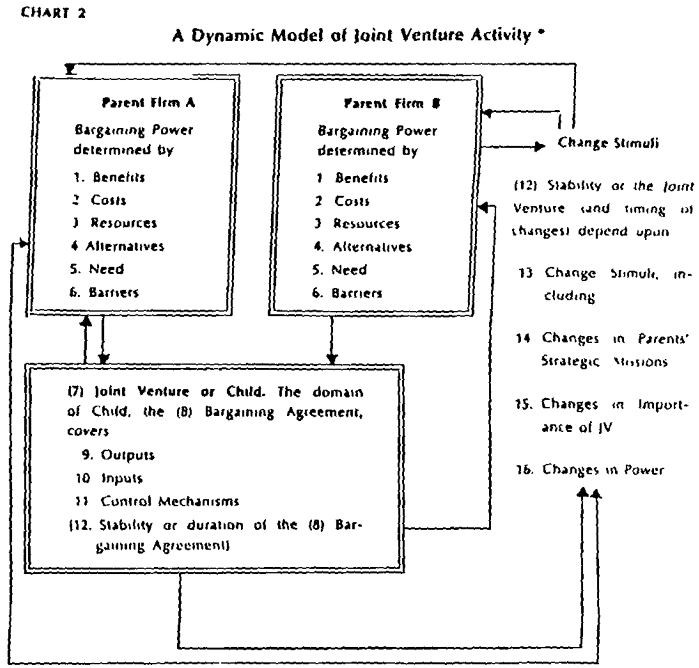
1. **A "win-win" mission.**
2. **A balanced or synergistic strategy of cooperation and competition.**
3. **Governance driven by parity, rather than power.**
4. **Compatible corporate cultures.**
5. **New organisational patterns driven by partnership.**
6. **Unitary management methods.**

In addition, Prahalad (1983) argues that managements should realise the need for new philosophies when their firms are shifting from purely competitive strategies to collaborative ones. A number of important factors that companies need to consider before making their decisions about forming an alliance can be developed from the work of Prahalad (1983), and these are as follows:

FIGURE 4.1

A DYNAMIC MODEL OF JOINT VENTURE ACTIVITY





* I thank Donald C. Hambrick for suggesting this diagram.

Source: Harrigan (1985).

1. Moving from purely competitive to cooperative strategy, the degree of freedom available to top management is reduced. Decisions regarding the operations of the alliance become shared.

2. Partners to strategic alliances often use different analytical framework. Some firms may be concerned with acquiring core technologies while others are more concerned with accessing a certain market.

3. In a purely competitive strategy the boundaries of the firm are usually clear, whereas in strategic alliances the strategic tasks are shared, sometimes, resulting in unclear boundaries.

4. A high degree of visibility to the performance of the alliance is difficult to accomplish, i.e. partners tend to find difficulties in establishing common performance measures.

5. Ambiguity of intended outcomes often encompass international strategic alliances.

6. Even if the partners started with well articulated objectives, continuity of commitments and interests are seldomly certain.

However, once the decision has been made to become involved in a partnership, the next step is to decide how to design the cooperative strategy. For each of the partners, designing a strategic alliance involves a large number of issues, including the potential partners, the legal form of the agreement, the time period, the division of responsibility and authorities, etc.., none of which are once and for all or easily reached decisions. Indeed, the configuration of the agreement might change over time due to many influences, including changes in competitors' strategies, changes in industry structure and/or changes in technology development, and changes in the partners' bargaining powers.

Jain (1987) identified complementary needs of partners, complementary strengths, shared power, and balanced benefits as being the fundamental characteristics of successful international strategic alliances.

Delvin and Bleackley (1988), relate the success of strategic alliances to three important ingredients. These are:

* **the decision to form a strategic alliance,**
* **the choice of the alliance partner, and**
* **the planned management of the alliance.**

On the other hand, Porter (1986) stated some issues for the success of an international partnership, two of great importance are timing of the alliance formulation and choice of the alliance partner. He argues that selection of the partners should be done on the basis of their contributions to the alliance and the risks involved in forming linkages with them. Harrigan (1985) highlights this point by arguing that: "it is useful to recall the inherent fragility of joint ventures when choosing partners to bring into one's home markets". She stressed: "Today's partners could become tomorrow's competitors".

4.2.1 Timing of the Alliance

Timing is a significant task of any collaborative agreement. It forms an important part of an effective and successful strategic alliance. In a rapidly changing environment, firms that act quickly and at a suitable time obtain access to better partners and gain better competitive advantages than late entrants could achieve.

By responding to competitive challenges and environmental changes with attempts to maintain strength and bargaining power, managers should seek to know how strategic alliances may help their firms supplement internal resources and capabilities. They should also be able to recognise whether it is too late to enter into specific cooperative agreements and whether it is harmful to hold on to an alliance too long.

Timing, therefore is crucially important. The best time to seek a partner is when the firm has strength to offer, whether a unique technology or perhaps a dominant distribution network. Many partnerships are being sought today purely as a defensive mechanism by companies that have lost out in the market place. International partnerships only work when both partners have power to share (Porter, 1987).

4.2.2 Initial Planning

Planning an ISA refers to the set of activities undertaken by a firm from the time it decides to pool its resources with another in a partnership, to the time when the negotiations starts off.

The costs of planning are tangible and often sizeable, particularly, if top management is providing the involvement and support required for an active planning process.

Planning, in general, consists of two steps. Firstly, the formal process of developing the firm's objectives, identifying alternative strategies to achieve these objectives and doing that against a background of a systematic appraisal of internal strength and weaknesses and external environmental changes. Then, the process of translating the selected strategy (partnership, for example) into a detailed operational plan. Examinations should be made as to how the objectives logically fit together to result in the production of an effective strategy plan.

The basic purposes of this planning process is to (1) identify precisely the firm's objectives to be achieved through the chosen strategy, (2) to understand more fully the relationship between the objectives, (3) to establish what sensible goals are to be given priority over others, which objectives can be compromised upon, and which the firm cannot be too flexible about, (4) and most important, to assess the strategic fit of the alliance within the overall corporate objectives.

Moreover, a key ingredient in top managers' ability to use their initial plan is a "maze-brightness" that informs them as to who needs to be involved in what, i.e. allocate responsibilities to the right people.

While working on the initial planning it is necessary to review carefully the market trends for competitors, the potential set of partners' volumes and market shares, their real financial performance and competitive positions, and see which of these could be further researched, based on how well the firm's own resources fit those that might be included in the preliminary list of the potential partners.

4.2.3 Partner's Selection

For several important considerations, selection of potential partner(s) must be accorded high attention by senior management. Firstly, this choice is likely to have considerable influence on the resources available to the alliance, e.g. finance, skilled personnel, technical capabilities, etc.. Secondly, this stage in the planning process is pivotal due to the influence potential partner may have on the alliance's operating policies and performance as it would actively take part in major decision makings.

However, before starting the process of identifying potential partners, managers should satisfy themselves that a partnership is the best alternative to achieve their strategic aims. In some cases, alliances are set up after one firm approaches another with a proposal and then the two decide to pool their resources in a partnership, all too often, without actually taking enough time to establish the feasibility of the partnership. Hence, it is important not to be deceived by the perceived benefits of a proposed alliance, but rather to be realistic about the motives involved, as well as the feasibility of that alliance achieving the firm's own objectives.

If a strategic alliance is the best alternative to achieve the perceived objectives, the next significant task is to select the right partner. In identifying potential partner, there is no single approach that is preferable or suitable in all situations. Nevertheless, the evaluation process may include such factors as the peculiar characteristics of the industry, the potential partners' competitive position, their country of origin, size, market share, and the alliance's anticipated requirements for various resources and technical and/or other skills. The critical need, then, is to define sharply the criteria by which candidates for partnership will be assessed.

Furthermore, it is essential to consider the "fit" of the potential partner's characteristics, its product range, technological capabilities, etc., with those of the firm. Walmsley (1984) argues that the selection of partners must be viewed as an integral part of the initial process and based on thoughtful criteria. A set of important requirements in a partner should, therefore, be defined then analysed before an appropriate partner is sought. Geringer (1987) admits the difficulties of defining a set of criteria for choosing the appropriate partner, and asserts that this process should be dealt with cautiously and in the light of the firm's own objectives and motives for the alliance. He addressed several considerations regarding the selection criteria of an appropriate potential partner. These are: complementary of technical skills and resources, mutual need, financial capabilities, relative size, complementarity of strategies and operating policies, communication barriers, compatible management teams, and trust and commitments between partners. Similarly, Young et al (1989) identify six criteria for selecting what they called a "long-term alliance partner", see Figure 4.2.

However, evaluating a partner-to-be involves enormous hidden costs and efforts, not to mention the management time required for assessing and evaluating potential partners, nevertheless, these are often forgotten when figuring out the return on the partnership.

In selecting an alliance's partner, managers should first develop a clear understanding of what they can contribute to the alliance in terms of skills, resources, know-how, technology and most importantly competitiveness. Then, an understanding should be sought of how the mixed contributions can generate potential synergies. This can be evaluated using the value chain analysis recommended by Payne (1987) for assessing an acquisition candidate, see Figure 3.4 in Chapter Three.

FIGURE 4.2

CRITERIA FOR SELECTING AN ALLIANCE PARTNER

1. Partners must possess the desired source of competitive advantage (scale, technology, market access or other contributions that coalition seeks).

2. Partners should have complementary or balanced resources in order that no one partner dominates.

3. Partners' international strategy should be compatible.

4. There should be a low risk of partners dissolving the coalition and competing independently.

5. The partner should possess pre-emptive value vis-a-vis rivals.

6. There should be organisational compatibility between partners.

Source: Young, Hamill, Wheeler, and Davies (1989).

By selecting a similarly-sized partner, and one for whom the alliance represents a significant strategy, the firm would ensure that the potential partners also consider the alliance to be of the same level of importance to their competitive strategies as the firm proposing the alliance. This, also, helps to avoid frustrations resulting from the recognition that the alliance receives lower priorities when compared with similar operations undertaken by the partner.

Moreover, alliances formed between partners of comparable size increases the likelihood of compatibility in management styles and similarity in the availability of resources. Because a small firm is acquainted to responding within a short time scale, it may feel paralysed by the apparently accelerated pace at which the larger firm makes its decisions. At the same time the larger partner may feel uptight and tense by the smaller firm's nudging and sense of urgency. Having an alliance with a similar size partner mitigates against problems caused by asymmetry in partners' relative sizes.

Compatibility of partners, beyond mere technical complementarity, is then a prerequisite for successful corporate partnering. For, choosing a compatible partner is not the same as choosing a partner with compatible skills, and managers should carefully consider the incorporated differences, as the partner with compatible skills might not, in all cases, be suitable or compatible especially in terms of management compatibility. Therefore, analysing not only the potential partner's competitive aspects and complementary resources, but also the compatibility of administrative systems. In the case of equity alliance, for example, incompatibility makes the choice of the appropriate accounting, planning, and control systems doubly difficult with each firm naturally favouring the system it uses itself. An assessment should also be given to the rival's reaction when picking "X" company to be an alliance partner.

Whether the partner should be in the same core business or not, is also an important issue to consider. Some firms look for partners outside their core area of business. A drawback of this approach is that it sometimes takes a considerable effort to get important decisions approved by a partner who might not understand the rules of the other's game. Doz (1986) feels that this approach creates confusion between the partners and each one has to learn about the logic of a different industry and to understand the ethics the other partner. Some firms, on the other hand, look for partners in the same core business so that they have an understanding of their partner's business.

Obviously, finding the ideal partner, and one that is ready to engage in an alliance, is not an easy task, and is seldom possible. However, the fundamental objective behind an alliance is to enhance each others strengths. Accordingly, market access, experience (partner that has experience with previous similar arrangements), and technology development in addition to cash are affordable by attractive partners.

The end result of this screening process should be a clear determination as to whether the strategic and organisational fit exists and whether this can lead to potential synergies, and if so, the screening also provides the basis for developing the planning and negotiating process for the next phase.

However, the euphoria of finding an apparently compatible partner with matching interests or complementary capabilities and resources should not detract from the objectivity of an analysis of the potential partner's strategic experience and direction.

Besides, the strategic intent should be, if possible at this stage, predicted and evaluated, for some firms may form a network of partnerships to dominate a competitive position in the global market. They use this network to develop their competitive advantage, dispensing with those that have served their purposes and engaging in new ones that may serve the following phase in the evolvement of their strategic and competitive advantage, Doz et al (1986) stated that Japanese partners are good at forming such networks.

Accordingly, It is necessary for the firm at this stage of preparation to review and evaluate the series of partnerships in the life of its primary list of potential partners. Further, considerations may be made to the potential partners' current and likely partners, their impact on the alliance to be formed, as well as on the future competitiveness of the firm. That is, because problems of technology or other leakage could take place, especially if those partners are considered as direct competitors to the firm. Therefore, a firm might exclude from its list those with the intent of only wresting some competitive advantages.

Another factor is the evaluation of the potential partners' managerial skills and capabilities. This is important in strategic alliances, because it forms a source of competitive advantage in an era where differences in resources and technology base between firms are shrinking.

4.3 THE NEGOTIATION PROCESS

Raiffa (1982) argues that theories of coalitions formation provide few practical guidelines on how these coalitions should be formed or their benefits shared. Optimal or "fair" agreements are not obvious, and outcomes which are far from the optimum are possible.

Tung (1984) suggests that preparation for the negotiation is of greatest importance as it helps partners to cope with differences and eliminate many potential problems.

Holton (1981) feels that the most important issue at the negotiation stage is the ability of the partners to work out a feasible business plan.

More comprehensively, Ghauri (1986) argues that negotiations which yield some kind of long-term relationship between the participants may be expected to address such questions as:

1. **What are the different stages in the negotiation process, and what is discussed in these stages?**
2. **How should firms prepare for these negotiations?**
3. **Who within the firm should negotiate?**
4. **What is a good outcome of negotiating?**
5. **What makes a good negotiator?**

In international strategic alliances, the broad understanding of each other's action is crucial at all stages, from initial negotiations through development of the alliance to its termination. Almost nothing is more important in making the right decision than understanding why a partner thinks and acts the way it does. It is, therefore, advisable to bring in consultants to advise directors directly in the business culture of the potential partner.

4.3.1 Preparation for the Negotiation

It has been claimed that 50% of international managers' time is spent in negotiation (International Management, 1987). Therefore, negotiation is a critical process which the firm should prepare for thoroughly and carefully, as some firms would simply prefer to "buy time" and use these negotiations as a fact finding exercise (e.g. knowing more about their competitors through personnel contacts).

Negotiators from different nations do not have the same approach to international negotiations. They are neither incomprehensively complicated or simply alike. Understanding each other's cultural concepts, business practices, negotiation styles, and importantly each other's strategic interests, would help partners to understand why they act and react in the way they do when negotiating the partnership (Kobayask, 1988).

Problems of perception and language barriers may cause subtle nuances to be difficult to communicate, and consequently, hinder the process of negotiation. Commonly used terms or expressions in one country may not have the same implications in another country or even for the partner in the same country. When ambiguous terms are used, misconception can easily emanate concerning each partner's role in the alliance. Ghauri (1986) maintains that even if the other side can speak the same language, it is sometimes difficult to know when its negotiators are angry, embarrassed, or agreeable. For instance, Arabs usually talk loudly, giving the impression that they are angry, and the Japanese, for example, do not like to say "no", even when they mean it.

Moreover, differences in social customs, negotiating styles, and business practices may present enormous obstacles to the progress of negotiations. Doz (1986) states that considering these differences, unprepared negotiations could lead to disastrous outcomes. He suggested the organisation of joint discussion sessions between teams from both firms to help developing a mutual understanding before they actually get to work together. With careful preparation and proper understanding these differences need not disrupt, restrain or negatively affect the progress and outcome of the partnership negotiations.

In this context, Tang (1984), investigated the factors responsible for success/failure of U.S.-Japanese negotiations, suggests that reading books on the potential partner's business practices, and social customs could improve cultural understanding and promotes the probability of success in negotiations.

He also concluded that American firms who have experienced previous negotiations with the Japanese were having significantly higher incidences of success. There is no doubts that one would generally expect that a firm which has engaged in previous negotiations with another from a certain country would be more knowledgeable and skilled in discussing terms of trade with a potential partner from that same country. But a firm should not always apply what have been successful and fruitful with a previous partner to its potential partner, as they might not be similar. Moreover, experience gained through traditional joint venture may not be very helpful to be applied on strategic alliances.

Accordingly, firms should gather information deemed useful in understanding the effect of those differences on one another. Further, firms should investigate what alternative(s) the other side might have, and where the deal in question ranks among those alternatives. This would likely affect the bargaining power of the partners while negotiating.

An assembled project team, consisting of representative managers, other than top managers, may yield benefits as it would study the feasibility of a working relationship with the selected partner and may also identify its strategic interests more closely.

Once the firm knows its focus, and has the right people in place to support that focus and has undergone extensive and logical planning and thorough preparation, then it is able to start negotiation with confidence and has more opportunities for success.

Figure 4.3 highlights some important issues to be taken into consideration before real involvement in any negotiation.

FIGURE 4.3

PRE-NEGOTIATION PREPARATION: SOME GUIDELINES

* Basic conception of the negotiation process; in some cultures negotiation is seen as a competitive process of offers and counter-offer, while in some others it is more a wide-ranging discussion, and changes take place more subtly.

* Selection of negotiators; skills and experience of the negotiators; experts might be hired to train negotiators i.e. Knowing what makes a good negotiator.

* High- or low-context communication; the meaning in some language is contained not only in the words but in reading between the lines; e.g. Japanese and Arabic, while in others the meaning is straightforward e.g. English and German.

* The use of time; some see time as a scarce commodity whereas others see it as a rather plentiful commodity.

* The persuasive use of argument; i.e. the way the argument is supported varies across cultures.

* The risk taking attitude of the partner; high or low risk-takers; one's propensity to take risks is determined, in part, by culture.

Source: Developed from International Management, 1987.

4.3.2 Negotiating the Alliance

Renard (1985) emphasises the significance of the negotiation stage, he maintains that this phase is as much a mutual trust-building exercise as it is a definition of responsibilites and accountabilities.

Holton (1981) argues that the most important issue in negotiating any collaborative deal is the development of a common plan for the negotiations. He also warned about the danger of delegating this process to the firm's lawyers. Lawyers play an important role in the process, but they are not the people who create the most harmonious relationships between partners.

An important issue to be considered is that, in international strategic alliances, strategy is not totally collaborative, it is competitive as well.

International strategic alliances are designed to cope with the complexity of their environment. Building sufficient flexibility to the partnership is crucial. The challenge will be to make the alliance plan complex enough to adapt to its environment, while simple enough to be managed and implemented as well as flexible enough to be readjusted to unforeseen environmental or partners' strategic or otherwise changes (Lorange, 1988).

Therefore, the question is not only how many elements there should be in the plan. Rather, the issue is a matter of understanding the nature of the relatedness between those elements. Hence, the task of both partners at this stage is to seek to define an acceptable framework for both parties, restore a sense of order, and communicate their intentions.

The parties may start with the overall concept of the alliance without the involvement in the initial proposals. Figure 4.4 outlines the factors that might be included and negotiated in the business plan which should be viewed as a discussion paper or a series of discussion papers, and not a legal document. This tends to help partners to better develop the objectives of the alliance which would be a harmonised and compromised combination of both partners' objectives. Hence, an intrinsic task, although often difficult, is establishing the partner's objectives, early in the negotiation period as a failure to understand each other's motives at this stage can lead to misconceptions. Accordingly, mutual understanding of the other's objectives and motives enhance the managers' ability to better understand one another's potential effect on their corporate image, and the relationship to each firm's core competences and technologies.

Moreover, division of roles and tasks between the negotiating teams may facilitate the production of a workable plan and ease the ongoing of the negotiation, Toyota and GM, while developing and negotiating their business plan, formed working groups from both management teams, e.g. there was a logistic planning group to feed the main negotiating process (Weiss, 1987). Walmsley (1984) also suggests that early and extensive discussions to generate common views are essential for eliminating misconceptions. Thus, one important issue to consider is the ability of the negotiators to overcome cultural and/or other differences.

The most crucial aspect of the plan is the clear statement of each partner's contributions to the alliance, in terms of technology, know-how, management skills, product design, distribution channels etc., the looser the definition of each partner's contributions the greater the scope for failure. The deal between Honda of Japan and Rover of Britain prospers because both partners have precise roles and complementary needs. Honda gives Rover a wider model range; Rover gives Honda a "Trojan Horse" (Snowdon, 1987). Moreover, While complementarity of resources is what bring the partners together, it should not be looked at in isolation. Doz et al (1986) advise partners to strategic alliances to look at the issue of resource complementarity in combination with each others' strategic intents, so that to avoid the cases as one partner losing a competitive position to the other.

FIGURE 4.4

ISSUES THAT MIGHT BE NEGOTIATED AND INCLUDED IN THE SHARED PLAN

* Defining the alliance boundaries and its competitive posture.
* Identifying the basic objectives of the alliance (a combination of both partners objectives).
* Identifying the most important actions or operations that must occur to achieve the objectives
* Ordering and ranking the actions (determine which actions are prerequisites to others, i.e. the necessary sequential links between operations).
* Identifying the contributions and commitments of each partner, in terms of technology, know-how, management skills, product design, etc...
* Working to achieve a level of balance in their contributions and a level of compatibility in their management styles.
* Highlighting their expectations and working to match them with the expected outputs of the alliance
* Identifying the role of each partner, i.e. division of authority and responsibilities, control and decision-making.
* Developing a monitoring and performance evaluation systems or criteria.
* Establishing a review schedule that relates to operation completion. Duration of negotiations also deserves consideration.
* Identifying the factors that drive the alliance into an end.

Source: Developed from Lorange (1988).

In addition, partners in strategic alliances must secure balance in their contributions, and make sure that contributions which maximise outcomes in the short term do not weaken their competitive positions, when competing independently. Therefore, it will be natural that both partners might wish to maintain a certain control over certain strategic resources, so that full exposure of each of the partners' strategic position to the other will not take place, at least initially.

Similarly, Hergert and Morris (1987) argue that there should be a separation between operations which belong to the alliance and those which do not. They assert that by so doing partners would avoid the danger of know-how leaking from the firms' own operations to the operations of the alliance.

While they play the ritual negotiation game, both sides are equally anxious to know what the other is really prepared to settle for. The trigger effect of expectations makes it important to know what the negotiators' real expectations are. Managing alliances in order to meet two or more sets of expectations is a difficult task in itself, it becomes complicated if the expectations are incompatible and if there is no willingness on the part of either partner to compromise.

Another issue that might have a sizeable impact on the alliance and its future performance pretains to controlling the partnership. Harrigan (1988) feels that an early understanding of the other partner's control practices helps mapping the boundaries of authority within which one is expected to operate. Further, Morris and Hergert argue that this understanding helps to identify opportunities for maintaining shared responsibility, so the decision-making is not the sole prerogative of one partner. Doz et al emphasise that the main factor in determining the success of strategic alliances is the evolving balance of power between partners. Considerations must be made to the likelihood of a partner's endeavour to dominate and solely control the alliance to achieve its own strategic objective, e.g. a partner might form a partnership with a goal of achieving global competitive leadership, and not be too interested in the success or failure of the alliance. Therefore clarifying a clear statement of authorities and responsibilities in the business plan, minimises the likelihood of potential conflicts or misunderstanding between the partners. Also, it helps in reaching agreements on how best to approach decisions.

Once the basic directions of the alliance plan are determined, partners would be advised to establish an agreed upon system for monitoring their contributions and another for evaluating the performance of their partnership (Lorange, 1988). Such systems, if determined at this phase of negotiations, can avoid later disagreements on how the alliance should be evaluated.

The common plan, beside being an important source of ingredients that guides discussion toward a more detailed agreement, also forms a significant checklist for re-examining strategic and organisational fit of the alliance.

4.3.3 The Agreement

Successful negotiators must have the sensitivity to identify the partner's needs at an early stage of the negotiations, and the tactical shrewdness to relate them to their own firm's objectives- giving way to individual points and pressing for others that are important to the partnership as well as their own firm.

Having agreed upon the main factors of a shared plan for the partnership, potential partners then negotiate the precise details of the tie-up. They need to be flexible, as they might want to introduce new issues or eliminate old ones. As the negotiation phase approaches a conclusion, it is highly desirable to embody a feasible and acceptable shared plan in the agreement. Such a shared plan can improve the chances of successful partnership, especially if it focuses on key factors for the type of business shared between the partners and not just on generalities like profits and growth. It also serves as a set of guidelines for subsequent negotiations and actual operations.

Therefore, executive contemplating ISAs are advised to make a prudent analysis of the pros and cons of their alliance-to-be by evaluating the possibilities of success. To increase such possibilities, partners could have extensive discussions to allow for exploration of mutual objectives and various technological and commercial issues; they may make a careful evaluation of the likely impediments in operating and managing the alliance; and exploring mutual expectations of their levels of contribution and the revenues which will accrue.

At this stage, the partners must be able to make an adequate assessment of the overall strategic fit by answering a set of important questions. These, as suggested by Lorange and Roos (1991), are:

1. **What are the broad and readily apparent objectives of this strategic alliance for each partner?**

2. **How can the two parties complement each other to create common strengths from which both can benefit?**

3. **How important is the strategic alliance within each partner's corporate portfolio?**

4. **Are there any problems with the alliance due to its relative closeness to the core business of the partners?**

5. **Are the partners "leaders" or "followers" within the particular business segment?**

6. **Do they combine to create strength, or is this a case of the "sick joining the sick"?**

7. **Are the partners sufficiently culturally similar?**

Apart from the alliance plan and the myriad details, there are several areas that must be dealt with promptly and before signing the contract. For example, negotiators seldomly discuss details of a separation, Harrigan (1985), among others, argue that a collaborative agreement should not be planned only as a marriage contract, the factors that take the relationship to its terminations should also be clarified and agreed upon by both partners.

Another issue is the setting up of some communication channels in both directions. The techniques vary from mailed statements between the partners to formal and informal meetings between counterparts in the two management groups, to foresee the ongoing of the alliance's operations. Delvin and Bleackley (1988) argue for a constant channel of communication which is essential to lubricate the wheels of the partnership.

Moreover, partners must check the feasability of the strategic plan. In this context, Lorange and Roos (1991) argue that important considerations should be given to the followings:

1. **How do the prospective partners view the market potential?**
2. **Whom do they view as the key competitors, and how will they want to compete with them?**
3. **What is the worst-case scenario, particularly for achieving planned revenue levels?**

4. **What are each partner's relevant and available resources over the short and long term?**
5. **Is it sufficiently clear who is expected to do what and by when?**
6. **What are the partner's attitudes toward long-term cooperation?**
7. **How can this cooperation evolve harmoniously over time without conflicting with other strategic concerns of either partners?**

Partners to an alliance should allow some scope for changes in the partnership plan which might take place due to unpredictable circumstances. Developing an agreed upon monitoring and performance evaluation systems as well as a time table schedule for the alliance operations may prevent conflict later in the partnership.

4.4 THE FORMAL FORM OF THE AGREEMENT

While the United Nations Conference on Trade and Development (UNCTC) gives a kind of details about what should be included in a joint venture agreement, there is no a such similar action for what a strategic alliance agreement should cover.

However, as all partnerships involve contracts, then partners to a strategic alliance should incorporate their agreement in a formal contract. Unlike conventional forms of partnerships where there is no alternative to a detailed and precise contract (Walmsley, 1984), the agreement in a strategic alliance must be precise enough to allow a workable relationship, and not very precise in that they allow some scope for reinterpratation and adjustments in ways that can respond to unforeseen events (Doz, 1986).

Because strategic alliances are considered as competitive weapons in the current business environment, the contract may need to incorporate some provisions for safeguarding certain strategic resources. This would prevent any leakage of certain important or competitive resources, e.g. sensitive technology or know-how, to the other partner thereby preventing it from being a potential threat, or to a third party, who may have access through the firm's partner. Although this is difficult to be applied, and transfer of strategic resources of both partners (through their contributions) do take place in reality (Doz et al, 1986), but specifying, in advance, those not meant to be transferred may avoid later disagreements. Restrictions on technology transfer are tight between partners in the aerospace industry. Rolls-Royce and Pratt & Whitney exercise restrictions on transfer of know-how to their Japanese partners, so as to prevent any kind of what Doz et al (1986) called "creeping encroachment" by their partners against them.

Another way to prevent "creeping enchroachment" is to hold out for additional contracts. For instance, AMD of the USA, to restrain its Japanese partner (Sony) from using the technology gained through their partnership, held out for a contract that demands Sony purchase some products from AMD as a part of the agreement.

4.5 IMPLEMENTING AND CONTROLLING THE ALLIANCE

International strategic alliances tend to be planned and negotiated by senior executives in the firm because of the profound impact of these agreements on the competitive position of the involved firms. During the formation of an alliance, relations with the partner are dealt with at high managerial levels, especially when developing and negotiating the shared plan. Once the partnership is formed and the agreement is signed, partners tend to push it down to lower management levels. But through the life of the alliance, problems of conflicting interests, interpretation of the agreement or future relations tend to be pushed up the hierarchy (Holton, 1981).

Doz et al (1986) perceive that top managers devote more time on the partnership negotiations and its contractual aspects than on managing the ongoing of its operations. However, active management of the alliance's operations, in a clear strategic context, is as important as, and perhaps more than, the initial negotiations and contractual provisions.

Towards the end of the negotiation phase the motives of each firm must be crystallised and the objectives of each partner well understood by the other. This would help partners to reach an appropriate summation of the required contributions by each firm. A growing number of studies on international alliances agree that technological know-how has become the most important factor contributed by partners to the strategic alliances of the 1980s. Hence, the contribution of each partner would have to be distinctive for the cooperation to flourish. However, this does not mean that firms must put all that they possess in terms of core technology, skills and know-how at an the disposal of their partners. Still, the dilemma is to devote significantly differentiated contributions to the alliance to achieve the required advantages without exposing the firm's entire sensitive technology and skills to the partners thereby risking the loss of their own competitive advantage.

Firms involved in strategic alliances should, therefore, cautiously decide on the quality and quantity of know-how that could be accessed by their partners. Hamel, Doz, and Prahalad (1989) warrant that the type of know-how a firm discloses to the alliance is a critical factor in how easily its partner can internalise that know-how. Therefore, to confine full access to their operations, participant firms are advised to build in safety checks which would prevent the occurrence of unintended and/or informal transfers of information. This is specifically directed to Western companies due to the nature and type of skills these companies usually contributes to the various alliances they form with their Asian rivals particularly Japanese partners. Hamel et al (1989), noticed that the skills contributed by Western firms are easier to be transferred to and absorbed by their partners, while their Asian counterparts are: firstly, more careful about any access to their core and sensitive skills, e.g. Japanese companies ensure that there is only one single gate through which the partner can get access to any sort of information whatever superficial, and secondly, the nature of their contributions is enough a complex process competence to be easily transferred to their partners.

However, the question which still to be answered is: what approach should companies undertake to limit the transparency of their sensitive technology and core skills? Hamel et al (1989) support the existence of a limited scope agreement according to which the alliance may cover a single technology instead of an entire range of technologies, or just one part of a product line rather than the whole line of products. Another approach is ensure that a partner has just one single entrance to the firm's sensitive competences.

4.5.1 Staffing the Alliance

The foundation of a shared separate entity "the child" is only one type of international strategic alliances. Whether this is the case or not, partners should make sure to recruit the right personnel to carry out the management and the operations of the alliance. These personnel must have significant and sound skills in communications, conflict resolution, scheduling operations, problem solving, and organisational controls. The alliance runners and operators work ethics must not only be build around rapid decision-making, but also on their competences and knowledge which enable them to hold longer-term view s than those which relate solely to the objectives of the alliance, and most importantly around the activities of their alliance, be it technology, R&D, and/or marketing. Moreover, accountability should be given to individuals whose skills match the needs of the alliance rather than those skilled in any speciality which is unrelated to the alliance.

Therefore, allocating the alliance responsibilities to people with excellent integration/coordination skills and fine operational management abilities will ensure the formation of an alliance with no, or easily solved problems.

FIGURE 4.5

MANAGING STRATEGIC ALLIANCES: SOME GUIDELINES

Maintaining High Profile	- the strategic alliance should be accorded a high priority by top management.
Monitoring the Alliance	- regular reporting on performance and progress against objectives to senior management.
Duration and Termination	- should be part of the negotiations. An orderly withdrawal should be possible to avoid the problem of 'alliance dependency'.
Accountability & Responsibility	- senior management should establish an organisational structure with clear lines of accountability and responsibility. This should also define the roles of individuals within the alliance and any power limitations.
Information Retrieval	- devising an appropriate structure to ensure learning from the alliance and the transfer of learning to the company.
Resources	- the company and its partner should contribute equally to the alliance.
Personnel Policy	- only high quality staff should be recruited for the alliance and this should be treated as part of career development.
Positive Attitude	- a 'win-to-win' attitude be senior management.
Recognise the Limits	- strategic alliances need clearly defined projects with finite goals.

Source: Devlin and Bleackley (1988).

To avoid confusion and ambiguity concerning the allocation of accountability and responsibility, partners while creating a team, should also attempt to refrain from involving too many people, at various levels in making decisions pertaining to the alliance. The alliance's tasks should rather be clearly designated to certain individuals from both sides of the deal. Renard (1985), Devlin and Bleackley (1988), and Drucker (1989) argue that it is intrinsic for the alliance makers to establish an organisational structure which has clear lines of accountability and responsibility. Delvin and Bleackley (1988) added that the role of a person within the alliance should be well defined as well as linked to a realistic set of objectives. Accordingly, if a mistake was made or a step should be taken, then one or two individuals are responsible and not the whole team or organisation.

Because international strategic alliances, in most cases, involve competitors working together on one project, programme, and/or product line, and competing on others, firms are recommended to establish an effective "information retrieval" process (Delvin and Bleackley, 1988). In other words, firms must make sure of the existence of effective communications channels with the alliance, and ensure that their personnel in that alliance follow a certain process to learn and absorb the required skills from their partners.

Nevertheless, partners should ensure that steps are taken to limit the transparency of their sensitive skills, know-how, and technologies, particularly those which are outside the limits of the alliance operations. Hamel, Doz, and Prahalad (1989) perceive a very thin line between a partner's contribution, of new technology, know-how, skills etc.., and the complete disclosure of the firm's sensitive technology and know-hows which form the specific advantage of this firm. Although the authors believe that a partner's contribution to the alliance is very important and must be distinctive, this partner must ensure the existence of a strong security wall against its other competitive know-how.

4.5.2 Feeding the Alliance

Without accurate and full contributions to the alliance by both partners the risk of failure may be overwhelming. Partners should equally contribute sufficient resources, for the potential for learning from the alliance depends on the size and quality of the resources devoted to that alliance, claimed Devlin and Bleackley (1988).

In this context, Hamel, Doz, and Prahalad (1989) urged partners' to make sure of the uniqueness of their contributions to create competitive advantages, through the alliance, vis-a-vis their rivals.

Beside a mere balance in the resources contributed by the partners, balance should also exist in the type of contributions they offer. This is essential, for it may be easier for one type of contribution to be copied and utilised than another, therby putting one of the partners at a serious disadvantage. Accordingly, Hamel, et al (1989) made an essential distinction between partners' contributions. They identified two types of contributions; competences and technology. The former is very difficult to absorb except in a "piecemeal fashion", while the later was described as "easy-to-imitate" skills. Hereby, one partner achieves all advantages whilst the other suffers loss of its firm's distinctive resources, because its skills were more vulnerable to transfer. This explains the success of Japanese companies which learn more than their Western counterparts as they contribute difficult-to-unravel strengths.

However, as balance in the type of contributions may be a difficult task to achieve in all alliances, the partners who contribute vulnerable-to-transfer skills must be more circumspect about building the kind of security controls through which to limit the quantity and quality of information that could be by-passed to the partner through the alliance.

Another more constructive way of dealing with this problem is to enhance the capacity of one's firm to learn from the partner through the alliance. A senior executive in a Japanese company, in an answer to a question about the degree of his company's perception, replied: "our western partners approach us with the attitude of teachers, we are quite happy with this, because we have the attitude of students." (Hamel et al, 1989, p 138)

Western firms, therefore, must be more receptive, and should enhance the capacity of their individuals and build in them the skills which enables them to learn and absorb the needed know-how from the partner. Hence, contributing with the correct human resources to the alliance helps to ensure the existence of the required balance in the type of contributions, as well as the rewards from that alliance.

Moreover, control and management require knowledge of events and circumstances. Such knowledge is most readily available to the alliance if key personnel running the operation, or the critical functions such as marketing, R&D, are recruited by both partners, or are otherwise in a position to closely monitor the alliance. Therefore, the recruitment of suitable personnel is an effective control mechanism, however, this might raise of loyalty questions, and hence, needs careful handling.

To be able to effectively exercise control and make sure of having an active role in the alliance, managers must shape the context in which decisions are made through formal and informal means.

4.5.3 Controlling the Alliance

Controlling or monitoring the alliance means supervising, guiding, recording, surveying and observing. All these functions could be manged effectively through an effective and regular reporting procedures covering not only the performance, but also the progress of the alliance's operations. These reports would then to be closely analysed and scrutinised against the objectives set out for the alliance by the receiving company. Then, in the light of this, the firm's top managers may find it beneficial to feed back this information to the alliance managers and personnel to keep them up to date with the company's objectives and needs (Delvin and Bleackley, 1988).

Therefore, reporting serves as buffers between the alliance and the partners, and this must be a two way flow of information in order to adapt the alliance to the changing circumstances, be they in terms of partners' objectives and needs or in terms of external environmental changes.

Hence, guaranteeing that the alliance managers have the necessary competence, and are compatible with their counterparts in the alliance is very important to guarantee success. Companies must ensure that those managers involved are not rotated in and out of their position too frequently. They also need to be rewarded in terms of enhancement of their career prospects, this will increase the motivation of the employees towards the alliance first and their company second, and helps to improve the likelihood of its success.

The reciprocal flow of information also guarantees that senior management regularly debrief operating personnel to find out what kind of information the partner is demanding and/or interested in acquiring and what kind of information is being allowed out.

Hamel et al (1989) claim that limiting unintended transfer of information depends on employees' self-discipline. They emphasise that Western engineers in their excitement and pride over their technological and other achievements may easily share information that is considered sometimes highly sensitive by senior management. On the other hand, they found out that their Japanese counterparts, working more as a team, and suppressing their individual contributions and pride, are too cautious to share sensitive or otherwise information.

Whereas the complementarity of strength and resources are what brought the partners together in such partnerships in the first place, the convergence of purposes should continue to receive full consideration in managing the ongoing of the alliance. Changes in markets and technologies as well as competitive and economic conditions may coincide with some changes in the partners' contributions and perhaps their expectations. Hence, altering the value of the alliance's outputs to one or both partners in a manner which may not be easily predictable. Consequently, problems of conflict might turn up which call for preemptive action to be taken if the partnership is to continue to serve its purposes. Such situations illustrate the importance of having a flexible plan which allows for readjustment and renegotiations otherwise the partnership would be disadvantaged especially if there is any incomparability in the way problems are discerned by each of the partners. For example, one partner may be quite enthusiastic about a certain decision while the other partner does not give it much importance.

The risk of uncertainty over time in the partnership, and the manner in which it is viewed by each partner may well bring to light another set of disagreements or conflicts. Doz (1986) perceives this as what he called a "danger zone" in the life of the partnership, particularly when it is concerned with basic technology development. He defines this zone as "the transition from precompetitive stages- the early stages in an alliance- to the competitive ones", where early in the partnership a balance in the contributions of both partners is maintained and the potential outputs (expectations) that will be realised at the competitive stages are still far-off. Problems appears if one of the partners showed impatience and instead of basing its a evaluations on contributions, started a premature expectations-based valuations. However, although not completely eliminated, such problems could be lessened if partners meet frequently, adjust their schedules, and up-to-date information on the alliance operations, and probably renegotiate their deal(s).

Doz (1986) also argues that imbalance in the contributions generated from changes in the relative values of contributions over time might appear at any given point in time, but what the partners are to do is to look at the real symmetry over a certain period of time.

Every strategic alliance exists in a strategic environment, which should have made it the best alternative when it was formed. The strategic environment which drove the partners to team up continues to increasingly change in a way that is probably shifting the competitive pressures with it (Lorange, 1988). The natural consequence is that the alliance's mission may also shift to possibly become more valuable to one partner than to the other, or probably unacceptable for both parties. Here lays the big test of team chemistry.

Partners should be prepared for frequent potential changes in the contract terms to match their changing needs as well as the continuous changes in their alliance's environment. Figure 4.6 can be an effective plan for controlling the alliance over time.

Recognising the limits of the alliance is another important issue that must be given attention. Strategic alliances are different from mergers or acquisitions, and in most cases they are not encapsulated as a third separate entity. Hence, the resources must be properly pooled, and the balance in the commitments must be continuously watched. In addition, strategic alliances must have a finely defined set of goals, so that when the alliance starts to deflect from its main and major purpose, partners must reconsider the benefits of its existence, they might decide to terminate it or to renegotiate a set of new and more suitable terms. If this cannot be done, blame will easily be appointed easy to be pointed out, and losses would soon replace expected benefits.

4.5.4 The Alliance Assessment

Most partners to strategic alliances establish clear milestones against which to measure the progress and performance of their alliances.

Managers of both partners may use a complex function of expectations in forming a judgement regarding how successful the alliance is. They use a combination of quantitative (financial and economic) and qualitative criteria, with each criterion carrying a specific weight in the function. Although agreed upon early in the partnership formation, both criteria and weights change over time. An important role of the alliance management team is to outline the framework of interim reports, to conduct periodic performance reviews, to ensure that time deadlines are effectively met, and to review the whole operation of the alliance (Delvin and Bleackley, 1988). Accordingly, operating managers need to be perceptive enough to read the signals sent by the managers of both partners to be able to grasp any changes, whether in the contributions, interests, expectations, or measures of performance.

In assessing the performance of the strategic alliance managers must evaluate the accumulated gains against their objectives put at the outset of their alliances, for one partner may gain key competences through the alliance which it can then use to enhance its overall competitive position at the expense of the other partner (Wray and Norburn, 1987; Doz et al, 1986). Hence, continuous evaluations of the contributions, benefits and impact of their relationship with their partners on their company is a crucial issue in assessing their alliances.

FIGURE 4.6

SOME GUIDELINES FOR CONTROLLING STRATEGIC ALLIANCES

Objective Setting	- a representative top management committee should be formed to establish clear objectives for the alliance.
Strategic Programming	- outlining how to implement the various objectives. This requires a clear statement of who is responsible for what.
Strategic Budgeting	- to ensure that the partners contribute sufficient resources; human, financial, technology, etc.. to make the alliance work.
Monitoring Assumptions	- the critical environmental assumptions underlying the formation of the alliance need to be monitored continuously to determine any change in alliance objectives or structure.
Monitoring Progress	- including monitoring of partners' contributions and actions and the on-going competitive position of the alliance given changing environmental considerations.
Monitoring Strategic Budget Expenditures	- the contribution of each partner re-human, financial, technology, and other resources.

Source: Lorange (1988).

The contributions to an alliance could be classified into two groups: tangible and intangible resources. The tangible resources contributed to a strategic alliance are those usually having market values, such as land, equipment, labour, money or patents, and are relatively easy to control. Intangible resources, competences, on the other hand, are harder to control and their market value is difficult to discern. Examples are management and organisational skills, knowledge of the market, or technological capability. Because competencies are seen as the foundation for a sustainable competitive advantage, an important process in the alliance's management is to accumulate these required competences into its own firm and continuously assess the process of learning those competences.

Evidently, in most cases, strategic alliances incorporate the contributions and leverage of both tangible and intangible resources. In those alliances, the type of contribution can be different for each participating firm, and could vary over the life of the alliance. Lack of attention to the accumulation of intangible assets may erode the competitive advantage derived from the alliance. Moreover, this can also lead to a loss of control over the direction of the alliance. Therefore, management processes that are related to monitoring and managing the accumulation of intangible resources are of critical importance (Pucik, 1988).

The allocation of benefits generated from tangible contributions is comparatively simple to monitor and protection against asymmetry between partners can be activated through administrative protocols and rules regarding the implementation of the partnership agreement. In contrast, the asymmetric distribution of intangible benefits, e.g. the acquisition of product or market know-how for use outside the alliance or even to support a competitive strategy targeted at the partner, cannot be easily protected, they rather need a strong organisational framework which can be monitored to ensure the absence of any strategic and competitive enchroachment. However, this kind of asymmetric distribution of benefits is apparently due to the existing differences in the organisational learning capacity of the partners. Therefore, the shifts in partners' relative competitive power might very likely be due to the speed at which a partner can learn from the other. Thereafter, if the firm does not ensure a tight and secure strategy for control of competences and sensible know-how in the alliance, and if it delegate responsibility for this to inappropriate personnel, it will be putting its competences at a serious disadvantage.

The competitive partnerships between the Japanese multinationals and their Western counterparts is an illustrative example of such a process in the shift of the relative competitive power. The asymmetrical allocation of benefit resulting from intangible and sensitive technology, skills, and know-how from these partnerships was the fundamental reason for such shifts. According to Hamel et al (1989), Japanese multinationals, through various collaborative agreements including S.As, acquired and mastered new competencies. Further, they used the acquired technology and know-how to reach and penetrate new markets, even those previously dominated by their Western partners, and to achieve exclusive domination over the Japanese market. There are dozens of examples of such situations and the cases are not limited to a single country or industry, Philips, Renault, Westinghouse, are just a few companies that have lost more than they gained through their partnerships with the Japanese.

However, Hamel et al (1989) assert that this asymmetrical *distribution of benefits from the alliances* is radically due to the existing disparities in learning between Japanese and Western partners. The organisational capability to learn is the key to protecting competitive advantage and to controlling the strategic direction of the alliance and Japanese firms have developed a systematic technique to organisational learning. They put in place managerial systems that encourage extensive horizontal and vertical information flow and support the transfer of know-how from the partnership to the organisation. The policies guiding the management of human resources at all levels and functions constituted a vital part of such a learning infrastructure (Pucik, 1988).

Further, Devlin and Bleackley (1988) assert that continuous reporting on the performance and progress of the alliance should be assessed against the objectives which motivated the formation of the alliance, and this must be made available to senior management, in order to ensure that the alliance is performing according to and meeting the expectations of the partners.

4.6 CONCLUSIONS

This chapter has profferred a detailed review of the management literature of strategic alliances. Several authors have stressed that for the alliance to be successful, it is a prerequisite that this means of internationalisation is perceived as a real strategic purview and not simply as a fashionable business phenomenon or as an opportunistic, easy combination. International strategic alliances, if not handled with great caution, observed, and managed carefully and accurately, can severely weaken the partners' competitive positions by putting them at a double disadvantage. Firstly, because of the losses as a result of the alliance failure, and secondly, due to the delays caused by that failure in the partners' companies competitive life cycle. Senior management should, accordingly, devote much time for the preparation, formation, and implementation of strategic partnerships, as the risks associated with failure are often as great as the returns which can be achieved through successful accomplishment of the partnership's objectives.

Moreover, promising implementation lies in four key managerial abilities, (1) the ability and aptitude to develop constructive relationships with each other and to demonstrate sensitivity to their needs, (2) the ability to influence a group without dominance, and to encourage others to contribute, (3) the ability and aptitude to think ahead, choose priorities, and organise available resources to achieve the objectives of the partnership to the advantage of both partners, and (4) in reviewing and readjusting their alliance to adapt to new changes, the ability to avoid perpetual and niggling negotiations and the ability to readdress areas of conflicts where a constant support is to the advantage of both partners.

Kagut (1985) argues that successful international strategic alliances depend on the ability of partners to harness opportunities for both comparative advantages and competitive advantages. Similarly, Harrigan (1988) states that successful alliances require the correct choice of partners as well as symetrical partners' outlooks, but since most partners have diverse strategic outlooks and/or their strategies evolve dissimilarly over time, the inevitable tensions which develop must be carefully and skillfully managed. Therefore, the ongoing viability of the alliance may need to depend significantly on the partners' ability to maintain a degree of coherence while implementing the alliance or readjusting their partnership to technological, strategic and environmental changes.

Finally, for an alliance to succeed, all partners must be winners. To ensure compatibility, their objectives need to be updated from time to time and also those of their alliance, because as the environment and market change, the partners strategic interests also change. Perhaps the most important benefit is knowing how to structure an alliance. Firms that are successful at conventional joint ventures, licensing, and/or acquisitions are not necessarily successful at strategic alliances because such alliances call for specialised management skills which differ from those required for other forms of collaborative deals. Top managers should devote as much attention to their alliances operations as they do to their own operating divisions.

CHAPTER FIVE

RESEARCH METHODOLOGY

SUMMARY

Nature of the Research:

Research on British-foreign strategic alliances is a combination of descriptive, predictive, explanotary and analytical.

Research Objectives:

Investigate the extent of British firms' involvment in strategic alliances, study the motives of a sample of British-foreign alliances, scrutinise their management process, and highlight their impacts on the international competitiveness of the British partner.

Sample Design:

Sample size is related to the nature of the research, the type of data required, and the size of the population. Twenty-nine British firms constituted the sample for the current study. The representativeness of the sample was ensured by checking it against the population, the firms' size, and their industry distribution.

Data Collection:

While the literature on strategic alliances and similar strategies formed the main source for the secondary data, indepth interviews emerged as the most effective method to collect the primary data for the study.

Data Analysis and Presentation:

The qualitative nature of the data combined with the sample size and the nature of the research objectives dictated the use of a mix of normatiove and positive approach to data analysis; a method that sustains the richness of the data collected during the interviews. The results are presented on the basis of a topic-by-topic analysis and frequency tables are provided wherever appropriate.

5.1 INTRODUCTION

In the previous chapters, the existing and relevant literature on international strategic alliances was reviewed. On the basis of the review, a research methodology is hereby devised to fulfil the research objectives developed from the literature.

This chapter is arranged as follows: first, a review of the research purpose and main problems is presented. The second section is devoted to an elaboration of the research design, whereby a description of the type of research, its purpose, the time horizon of the study and the sample design are proffered. The data collection process and methods used are reviewed in section three. Finally, the data analysis and the presentation of results are described in section four.

5.2 RESEARCH PROBLEMS

The review of the literature suggests that MNEs enter into strategic alliances to secure their global competitive positions and to respond to complex environmental changes (e.g. Jain, 1987; Harrigan, 1988; Norburn and Schoenberg, 1990; Porter, 1986 and 1990). Further, the same literature reveals some distinctive, but undetailed, features for managing strategic alliances (Delvin and Bleackley, 1988; see Figure 4.4 in Chapter Four). On the other hand, only a few researchers have they addressed the impacts of international strategic alliances on the partners' own operations and their competences and international competitiveness.

The purpose of this research is threefold: firstly, the study aims to examine the extent of British MNEs' involvement in strategic alliances. Secondly, it aims at investigating both the motivational factors stimulating the increased use of international strategic alliances and the management procedures followed when contemplating such arrangements. Thirdly, the research aims at examining the alliance's impacts on the British partners, particularly, their international competitiveness. To fulfil the research purpose, it was felt necessary to review the literature related to previous empirical evidence and management literature of strategic alliances of which the research objectives were deduced.

In social sciences, a research problem can be stated in more than one format without affecting the substance of the research. Generally, a research problem can be worded in a question, an objective, or a hypothesis format. For this study, the researcher has chosen to use the objective format. Accordingly, the objectives of this study are as follows:

<u>Research Objective I</u> **(UK involvement in ISAs)**

> **To investigate the extent of British MNEs' involvement in strategic alliances with foreign partners.**

Several research studies have reported an increased growth in international strategic alliance formation over the last two decades (e.g. Harrigan, 1985, 1986; Porter, 1986; and KPMG Peat Marwick McLintock, 1990). Although accurate statistics on the actual incidence of strategic alliance formation between British and foreign companies have not yet been properly compiled, one would expect that British MNEs have been as active as their foreign counterparts in forming international strategic alliances. Chapter Six provides a detailed analysis of the incidence of British MNEs involvement in strategic alliances, their industrial setting and geographical distribution, over the period of 1980-1989.

<u>Research Objective II</u> **(Motivations for ISAs)**

> **To determine the motivations of the UK partners for engaging in strategic alliances.**

Consulting previous research reveals that MNEs form strategic alliances in response to, for example, increased changes in the global business, rapid technological changes and its complexity, and the increased pressure of competition. Accordingly, it is expected that the same motivations, at least, have influenced the British MNEs when forming their alliances. Chapter Seven outlines the answer to this question in details. The motivations are also analysed in term of each industry where the sample firms operate.

The following three research objectives address the management of strategic alliances. They are stated seperately, for they refer to different stages within the management process.

<u>Research Objective III</u> **(Pre-alliance management)**

> **To study the procedures followed by the British MNEs during their planning for strategic alliances.**

Researchers on international strategic alliances have addressed several aspects that should be given considerations whilst planning for a strategic alliance. Porter (1986), for example, suggested that partner's selection is the most important issue in the planning process, the firm's self assessment was cited by Contractor (1984) and Delvin and Bleackley (1988), and among several other issues (e.g. competitors' analysis), setting up clear objectives was promoted by Lorange (1988).

In this study, part one of Chapter Eight is devoted to identifying and discussing the procedures which are followed by the British MNEs in planning for their alliances.

Research Objective IV **(Negotiation procedures)**

To examine the procedures followed by British MNEs in formulating strategic alliances with foreign partners.

The literature relevant to international strategic alliances suggests several practical guidelines on the negotiation process and the important issues that should be dealt with at this stage of management. For instance, Holton (1981) points out the importance of establishing a common plan including the issues to be negotiated, while Tung (1984) suggests that preparation for the negotiation is the single most important issue as it helps partners to be acquainted with each other's culture and attitudes. However, because of their strategic nature, the alliances of the 80s are expected to have distinctive negotiation features. The second part of Chapter Eight presents and analyses the issues raised by the British MNEs as key aspects which help in negotiating a promising alliance.

Research Objective V **(Post-alliance management)**

To study the procedures followed by British MNEs whilst implementing, operating, and controlling their strategic alliances.

With the prevelance of international strategic alliances, double management exacerbates the challenge and difficulties that are a normal part of managing international business. This new form of venturing can create a vast number of managerial problems. Hergert and Morris (1987) relate the difficulties in implementing international strategic alliances to the fact that they are characterised by four important attributes: 1) shared responsibility, 2) maintainance of individual identity, 3) continuous transfer of distinctive resources, and 4) indivisibility of the alliance projects. In this context, Harrigan (1988) states that this form of coalition requires a peculiar set of managerail skills.

The final part of Chapter Eight reports on the issues which are perceived by the British MNEs as prerequisites for operating and controlling a prospective successful alliance.

In addition to satisfying the above three research objectives, the findings on the management process are summarised in a guidelines format and presented as recommendations at the end of each part in Chapter Eight. These recommendations are hoped to help managers for future successful strategic alliances.

Research Objective VI (Impacts of ISAs)

To determine the impact(s) which international strategic alliances may have on the British firms (i.e. on their international competitiveness, management, and their own operations). And look into the relationship between the alliance management and the impact on the firm's international competitiveness.

Significant concerns over the competitive implications of the extensive use of strategic alliances among the world rivals have recently predominated writing in the area of international business. On one hand, some authors have proclaimed that international strategic alliances (particularily those set up with the Japanese) threaten the competitive position of many Western firms and endanger the future of their industry (Reich and Mankin, 1986; and Doz et al, 1986, 1989). On the other hand, the importance of strategic alliances as a significant "competitive strategy" for the current global arena was emphasised by several authors, e.g. Permlutter and Heenan (1986), Jain (1987), Boyrs and Beamish (1988).

However, the increased pressure of global competition, the accelerated risk incorporated in technology/product development, and the need to exploit new market opportunities are among the factors that underly the formation of international strategic alliances (Porter, 1986 and Jain, 1987). It is, then, expected that strategic alliances will have a considerable impact on the international competitiveness of the firm, its technology/product development, and its presence in new markets. Also, there is an expected relationship between the way in which these alliances are managed and their outcomes, particularly in terms of the international competitiveness of the firms. Chapter Nine reports on the impacts of strategic alliances and highlights the relationship between the alliance management and the issue of international competitiveness as found by this research.

5.3 RESEARCH DESIGN

The research design process involves several aspects, i.e. type of the research, purpose of the research, time horizon for the study, sampling or sample design, data collection, and data analysis (Bryman, 1989). It is then important for the researcher to consider carefully each one of the above issues as they are interrelated. For instance, the purpose of the study and the type of the research would considerably influence the choice of the sampling design and the data collection. These issues are important decision points for designing the research and will be discussed in some details in the following sections.

5.3.1 Type of Research

The researcher should determine, before starting his/her investigation, whether a casual or a non-casual study is needed to satisfy the research objectives. The casual type of research is conducted when it is necessary to establish a definitive "cause —> effect" relationship. In this case, the researcher would be keen on delineating one or more factors which are causing the problem (Billing and Wroten, 1978).

On the other hand, if the researcher merely wants to identify the important factors "associated with" a phenomenon, then a non-casual correlational study is called for. Some types of non-casual studies deal with finding significant differences among groups on some variables of interest, studying the preferences or perceptions of individuals on various aspects of a phenomenon (Billing and Wroten, 1978).

With reference to the research objectives outlined in the previous section, this research involves both casual and non-casual type of investigation. This study is, therefore, non-casual in that it aims at finding out the perceptions and management practices of the phenomenon of international strategic alliances. While it is casual in that it aims at establishing a cause effect relationship between managing strategic alliances and improving international competitiveness.

5.3.2 Purpose of Research

Research in general can either be exploratory in nature, descriptive, and analytical and/or predictive. The nature of the research largely depends on the stages of advancement in the research area and the objectives of the research itself. The method of research becomes more rigorous as one proceeds from the exploratory stage where the objective is to explore new areas of research, to the descriptive stage where the aim is to describe certain characteristics of the phenomenon under investigation, to the analytical or predictive stage where the objective is to examine whether the conjectured relationships have been substantiated and/or an answer to the research question obtained (Emory, 1985).

A study is exploratory when the researcher knows very little about the phenomena, or when he/she has little information on how similar research problems or research issues have been solved in the past. In this context, it is important to note that only when few studies have been done and knowledge is scant, in a particular field, does the study become exploratory (Kringler, 1973).

A descriptive study, however, is undertaken in order to ascertain and to be able to describe the characteristics of a phenomenon. For instance, descriptive studies are conducted to learn about the industry composition of a certain business relationship or to describe the perceptions of managers of a group of enterprises toward a specific concept (Murdick and Cooper, 1982).

Finally, studies can also be either analytical or predictive in nature (Emory, 1985). An analytical research would be undertaken when the problem definition goes beyond describing the variables in a situation to knowing why or how certain factors are associated with, or contributing to a specific phenomenon. In this case, the researcher advances beyond merely trying to understand what is happening to analysing why and how a phenomenon is occurring.

Predictive research, on the other hand, is conducted for the objective of analysing not only "what, how, or why" an event is occurring in a particular situation, but also "what, how, or why" an event could occur in several other situations. In other words, the aim of the research would be to ascertain to what extent one would be able to predict similar results regading a specific event (Emory, 1985).

One should, however, bear in mind that a single research project may encompass the three purposes together, i.e.; exploratory, descriptive, and analytical and/or predictive, and where these aims are not competing with one another. As indicated earlier, the stages of advancement of knowledge in the research area and the research problems dictate the purpose type of the study.

Further, in many situations there is no definite cut-off between the different design stages of a certain research.

For the research in progress, and bearing in mind the research objectives outlined earlier, there are two sets of considerations. Firstly, the research can be seen as descriptive for the purpose of satisfying the first research objective, i.e., "the extent of British MNEs' involvement in strategic alliances with foreign partners".

In addition, for the second research objective, i.e., "the motivations of the UK partners for engaging in strategic alliances", the research design can be described as predictive because not only does it present what the motivations of the alliances are, but it also helps to find out the extent to which one would be able to predict future formation of strategic alliances.

In addressing the research objectives that are related to the management process of strategic alliances, i.e., "the procedures followed by the British MNEs during their planning for strategic alliances; formulating their alliances; implementing, operating, and controlling their strategic alliance", this research goes beyond describing the procedures followed by the British MNEs to defining the main issues which are found to be significant to the management of successful strategic alliances. (descriptive and analytical).

Lastly, the purpose of this study is analytical for the sixth research objective, i.e. "the impact(s) which international strategic alliances may have on the international competitiveness of the British firms", where the aim is to ascertain whether firms pursuing strategic alliances have improved their competitive advantages, e.g. international competitiveness, as was suggested in the literature.

5.3.3 Time Horizon

A study can be conducted in which data are gathered just once, perhaps over a period of days or weeks in order to answer a research question. Such type of research is called a cross-sectional research (Murdick and Cooper, 1982). In other cases, the researcher might want to investigate a phenomenon at several points in time in order to study its changing patterns. Here, such research is called trend or longitudinal study.

As indicated earlier, the purpose of this research is first to investigate the phenomenon of strategic alliances formation over the period 1980-1989, this is a trend type of analysis. Secondly, this work aims to study the management aspects of international strategic alliances as practiced by the British MNEs without giving any consideration to the fact that these alliances have been formed on different dates. That is, the objective is to study the development of the management of international strategic alliances over a certain period of time (i.e. over the period of the alliance formation). Therefore, the second part of the research is a cross-sectional analysis.

5.3.4 Sample Design

One of the important decisions in research design pertains to sampling (sample design). Sample design relates to the size of the sample necessary to generalise the findings from the sample data to the whole population (Clover and Balsley, 1979).

Sampling is the process of selecting a sufficient number of items from the population, (the entire group of people or organisations that the researcher wishes to investigate) so that by studying the sample and understanding the features or characteristics of the sample subjects, one will be able to generalise the features and the characteristics to the whole population.

As for the purpose of this research, and because of the nature of the first research objective, i.e. "the incidence of British MNEs forming strategic alliances with foreign companies", it was necessary to include all strategic alliances formed by British MNEs within the period of 1980-1989.

Because of the several business deals which the term strategic alliance may encompass, the researcher has taken on one definition which was developed from various previous research works (see Section 2, Chapter Six). Based on the adopted definition, there was a total of 337 strategic alliances which were formed between the years 1980 and 1989, included, and which have involved at least one British-based MNE.

The 337 cases involved 70 different British MNEs which represent the whole population for the current study. It is rare for the population to be sufficiently small, in addition to other constraints, for all its members to be included in a survey, and more usually a sample must be selected from the population. Most sample sizes in almost all studies are fixed simply by the amount of money that is available or by a sample size which a similar prior research studies have used. Nevertheless, the rational way to choose a sample size is by weighing the benefits one can expect to gain in terms of information against the costs in time and money of increasing the sample size. Also, the sample size must be related to the nature of the research and the type of data required. However, usually the researcher requires not simply a sample, but should always try to secure the selection of a representative sample from the whole population (Bryman, 1988).

A representative sample is therefore a prerequisite, because if it is biased in any way, so that, for axample, it does not cover an important unit of the population, and if each unit is not sampled in proportion to its related size, the picture of the phenomenon under investigation will be distorted and misleading. The representativeness of a sample refers to the degree of similarity between the characteristics of the sample and of the population from which the sample was drawn.

Therefore, in order to select a representative sample to answer the research questions 2-6, each firm in the population was given an equal chance to participate in the study and letters were sent out to all sixty firms (10 companies were disregarded from the population as they were at a very early stage of discussions or had formed their alliances during or after the field work). The response rate was 48.8 per cent as positive replies were received from thirty companies, one of which appologised two days before the interview was scheduled and the remaining twenty-nine firms were included in the sample. Moreover, the representativeness of the sample was again checked against the industry sectors of the 337 alliances, the company's size, and the number of alliances the company is involved in. Appendix II shows the industry setting of the sample firms and some examples of their important alliances.

5.3.5 Data Collection

Data can be collected from various settings and in many different ways. Data could be gathered through field surveys where phenomena occur, they can be collected in lab experimental settings where variables are controlled and manipulated, they can be obtained from a panel of respondants specifically set up by the researcher whose opinions may be sought from time to time, and they can also be obtained from other sources such as company records and business references (Emory, 1985).

Interviewing, postal questionnaire, and observing phenomena are three main research data collection methods in survey research. The choice of data collection methods depends on the facilities available to the researcher, the extent of accuracy required, the expertise of the researcher, the time span of the study, and the other costs and resources associated with and available for data gathering. Besides, each of those methods has its advantages and disadvantages, and the scheme is to balance the advantages against the disadvantages as they apply to the research at hand to arrive at the best possible technique for attainning the required and satisfactory information (Groves and Kahn, 1979).

The information needed for this study requires knowledge of boardroom decisions on sometimes confidential matters and of some detailed records on the alliance management from the outset to the current status. It was therefore necessary that the questionnaire should be completed by a senior executive of the firms concerned. This could not, however, be secured by contemplating postal survey, and hence, personal interviews emerged as the most productive means to investigate the issues raised by the research objectives.

This research involved two basic stages to the data collection process. First, for the secondary data, a search was made to obtain as complete a picture as possible of the alliances formed by British firms in the period of 1980-1989. Second, the primary data in this research was obtained through a series of in-depth interviews with senior managements in the sapmle of twenty-nine firms currently involved in strategic alliances with foreign partners.

5.3.5.1 Secondary Data

To satisfy the aims of the first research objectives, it was necessary to obtain information on all the strategic alliances that were formed in the 80s. In this context, the best source of data would be the companies themselves, the primary source of data. However, because of the impracticality of such a method and the limited time and resources availables to the researcher, it was decided to search for a secondary source of data.

After consulting the specialised business references and the literature written on international strategic alliances, it came to the attention of the researcher that INSEAD Business School in France has an ongoing data base on strategic alliances. The researcher, then contacted the holder of the data base (Professor D. Morris) asking him about the possibility of acquiring the part that is related to British-Foreign strategic alliances.

With the knowledge that the received data included information on the deals which involved British firms up to 1986, and that the main source of information used in establishing the data base was the London Financial Time, the researcher started the process of referring to the Financial Times and other business references such as Acquisitions Monthly and The Economist, to complete the data up to December 1989. This amended and complete data-base formed the main source of information from which to satisfy the first research objective, and which is illustrated upon in details in the next chapter.

5.3.5.2 Primary Data

While observational surveys suffer from a very high cost in time and may only be used for certain research projects, the primary data used to satisfy the research objectives 2 to 6, were gathered through personal interviews with senior management in the sample companies.

Personal interviews may also suffer from the disadvantages of high cost in money and probably time. They, however, have some advantages over postal questionnaire and telephone interviews which is why they are used despite the high cost. The interview can be long, sometimes several hours and the interviewer can verify some information for his/herself which may reduce exaggeration. Another major advantage as compared with postal questionnaire is that the researcher can probe for further information, by asking, for example, "How? Why? What do you mean by this or that?". Also the interviewer can explain questions that the interviewee cannot understand, or elaborate on misunderstood questions.

The interviews were conducted in the months of June, July, and August 1989, two interviews were conducted in September and one in November 1989. Of the twenty-nine firms in the sample, 14 have been involved in a relatively small number of alliances (1-4 alliances), nine have formed a moderate number of alliance deals (5-10), and six firm were involved in a large number of alliances (more than 10 deals, and above 25 alliances in two cases). Therefore, about half the sample firms were well experienced in managing strategic alliances with foreign partners.

The structure of the interviews was relatively straightforward. Interviews were scheduled to last about one and a half hours, though about a third have lasted for two hours. The first 10 minutes were allocated to the executive to check the information gathered on his/her company's international position and its involvement into strategic alliances. Another 5 to 10 minutes were spent to discuss the factors that activated the company's decision to undertake a strategic alliance. The rest of the time was fairly equally divided between the three main parts of the questionnaire, i.e. planning; negotiation; and implementation of strategic alliances, while the interviewees were given from 15 to 25 minutes to elaborate on the impacts that the discussed alliances have had on their firm and to briefly answer the concluding questions.

Therefore, the questionnaire was designed with the objectives of conducting interviews which evoke responses truly indicative of a) motivational factors to forming international strategic alliances, b) managing a British-foreign strategic alliance, and c) the performance measurement and impacts of strategic alliances on the British side of the alliance deal. In addition, careful consideration was made on the scope and level of the behavioural issues of significance to ensure the questions adequately sampled their full range and depth.

The questionnaire incorporated nine areas pertinent to the research objectives, these are:

a) Background information.
b) Internationalisation of the firm.
c) Collaboration (in general).
d) Motivations for strategic alliances.
e) Planning of strategic alliances.
f) Negotiating strategic alliances.
g) Operating and controlling strategic alliances.
h) Impacts and performance of the alliance.
i) Concluding remarks.

Though the questionnaire design has benefitted from a questionnaire developed by Hamill (1988) for British mergers and acquisitions in the USA, a number of criteria were used to guide the questionnaire formulation process, particularily, Kerlinger's (1970 and 1973) criteria of question writing (see Appendix III for the questionnaire's details).

Following the coverage of issues arising from the questionnaire, interviewees were invited to make additional comments in the form of advice on managing a successful international strategic alliance. During the interviews, changes of subject were only used where the interview seemed to be getting out of control. However, there were only three cases of that kind and these were dealt with diplomatically.

The success of the interviews varied from case to case, sometimes, it was extremely rewarding, while in other cases, the interviewees were reluctant, at least at the beginning, to reveal the required information.

However, in all cases, interviewees reacted extremely positively to the interview and were cooperative when realised the researcher's knowledge and understanding of their companies' involvements into strategic alliances which had emerged during the section of the interview devoted to specific questions.

The output of the interviews were rewritten and elaborated upon the completion of the interviews, using the companies accounts and some relevant papers provided by the interviewed managers. Then, a summary was made of each interview's output in order to facilitate the task of data analysis.

5.3.6 Data Analysis and Presentation of Results

After data have been collected, the next step is to analyse the data, so that the research objectives can be accomplished. Two different data analysis approaches were used to analyse the data collected for this research, i.e. frequency tables (positive approach) and topic-by-topic analysis (normative approach).

Firstly, descriptive summaries, including frequency tables and histogrammes, were used to analyse the data related to the first research objective, i.e. for the whole population. For this purpose, Paradox Data Base software and SPSS-PC Statistical software were utilised.

For the presentation of the descriptive summaries, the results were presented according to home country of the alliance partner, year of formation of the alliance, industry setting, type of alliance, motives underlying the formation of the alliance as published by the consulted business journals, and the relation between the partners to the alliance.

For the sample selected and with regard to research objectives 2-6, frequency tables were constructed for the appropriate questions, as it was neither possible nor meaningful to prepare frequencies for some of the questions. The frequency tables were prepared to back up the topic-by-topic discussion and analysis of the results.

While the analysis and presentation of the results for the first research objective was straightforward (i.e. adopting a positive approach), the researcher encountered considerable difficulties in deciding upon a method for analysing data and presentating the results generated from the sample firms surveyed. A positive approach necessitates the reconstruction of the data into codes or numbers (i.e. quantifying the data), employing this method meant spoiling the richness and depth of the collected data (Easterby-Smith, Thorpe, and Lowe, 1991). On the other hand, a normative approach, while providing flexibility and a more open method to data analysis in that the data is kept unquatified and available as it is for indepth scrutiny and interpretation, this approach weakens the defensibility of the study. However, in deciding on a suitable method, the researcher should take into consideration the nature of the research and its objectives as well as the method used in collecting the data. As this research is of qualitative nature and based on indepth interviews, a normative approach was seen more appropriate than a positive approach. But to overcome the problem of defensibility incorporated in the former approach, a combination of both approaches was employed. Moreover, two criteria guided the presentation of the results in this thesis. Firstly, the need to ensure that the results of the study were defensible, and secondly, the strict requirement of maintaining the anonymity of both individuals and companies involved in the study, especially for certain questions.

Bearing in mind the nature of the research objectives, the case studies emerged as an appropriate research technique, but presenting the case studies became problematic for two main reasons: Firstly, the size of the sample is quite large to include all companies in a case satudy analysis, and secondly, it was necessary to maintain certain levels of confidentiality for several issues discussed during the interviews. This issue was of considerable importance in this research since most of the companies are highly visible. Furthermore, in a study using multiple cases, it is necessary to explicate issues which are common to cases.

Given these considerations, the results of this research are provided in chapters seven to nine by using a topic-by-topic style of presentation which at the same time matches the presentation of the literature review in the first part of this thesis. Moreover, in order to maintain anonymity of the individuals participating in the study, the chief executives, collaboration directors, managing directors, and directors of planning are, whenever necessary, all replaced by "the firm or company's director" throughout the research. In addition, descriptions and discussions of information and issues that were regarded confidential have been presented in a manner which minimizes the probability of revealing the identity of the participants. In order to maximize the defensibility of this research, the researcher has introduced frequencies for several important issues as well as significant amount of original data by quoting the interviewees in several assertions.

The combination of positive and normative approaches to analysing the data and presenting the results helped in overcoming the difficulty to reach general conclusions about the management of international strategic alliances as practiced by the British MNEs, and Chapter Eight presents three sets of guidelines, at the end of each part, for the three stages of managing strategic alliances.

Furthermore, in order to articulate the issues arising in Chapter Eight, the main findings of the study have been incorporated within a framework for managing international strategic alliances which was developed earlier and enhanced by the results of the survey. The framework is inductively derived from synthesizing the literature review in the previous chapters and the discussion of the actual practices in Chapter Eight.

5.4 CONCLUSIONS

This chapter presents a summary of the research objectives. It dicusses the design of the research as well as the justification for the methods that have been utilised to satisfy its objectives.

All the steps taken in the study to create the means that made possible the collection of the required data are also described. The major data collection instrument was the interviews which relied on a semi-structured questionnaire. The interviews were personal and of the focused type and their purpose was essentially to explore in-depth aspects of interest to the research and to provide another check of the accuracy of the questionnaire. Considerable effort was put into the design of the questionnaire, and the resulted questionnaire has greatly benefited from a questionnaire designed for mergers and acquisitions by Hamill (1988), based on the premise that any empirical study can be only as good as its data.

The research design used in this study was based upon an examination of the motivation and the management practices of international strategic alliances as pursued by a sample of British-based MNEs. It was also argued that postal questionnaires were inappropriate for this research objectives. A representative sample, to achieve the maximum degree of generalisation, of twenty-nine firms was chosen as the basis for the study.

The analysis of data and presentation of results are conducted using a combination of both positive and normative approaches. The analysis of data, findings and results are presented in the following chapters.

CHAPTER SIX

THE INCIDENCE
OF BRITISH INVOLVEMENT IN
INTERNATIONAL STRATEGIC ALLIANCES

SUMMARY

During the course of the last decade British MNEs have formed 337 strategic alliances with foreign firms.

77.8% of the alliances are concentrated in just four industries; electronics, aerospace, automotives, and telecommunications.

About one third of the alliances are formed with European partners (129 alliances), while 99 formed with American partners, and 66 Japanese.

Non-equity deals accounted for more than half the alliances (180 cases, including research and development programmes).

212 alliances were formed with rivals, of these 69 in the electronics and 64 alliances in the aerospace industry.

6.1 INTRODUCTION

Evidence on the repeated occurrence of international strategic alliances can be found in several research studies- Porter (1986); Hergert and Morris (1988); Kay (1989); and KPMG Peat Marwick McLintock (1990).

Porter (1986) identified 1144 international collaborative agreements in the period 1970 to 1982, of which 41 per cent (469 cases) were classified as joint ventures and where 42 per cent of the 1144 deals could be called strategic alliances having been formed between firms belonging to developed nations.

A more recent survey on the patterns of international collaboration (Hergert and Morris, 1988) building its analysis on an INSEAD database, reported some 839 coalitions between the years 1975-1986, mainly involving European, American, and Japanese firms.

A quick comparision of the two surveys' assertions indicates an evident growth in the use of international collaborative arragements including strategic alliances.

Though this may be true when compared to other surveys; e.g. Kay (1989) reporting some 322 joint ventures in Europe alone between 1983 and 1987 and KPMG Peat Marwick McLintock (1990) declaring 669 corporate partnerships in only the last three months of 1989, the results of these surveys must be tempered with the source of the information gathered to build their databases as well as the definition adopted by each writer to what constitutes a "coalition", a "joint venture", a "corporate partnership", or a "strategic alliance".

Accordingly, this makes accurate statistics on the actual incidence of "strategic alliances" formation difficult to attain and to determine the exact number of international strategic alliances which have been formed at any point of time. However, information on the prevalence of strategic alliances involving at least one British company from the database developed at INSEAD Business School (the most accurate available European and the only available source at the time of starting this research) provided a strong starting point to this study.

The current chapter starts by explaining the source and data used in the study and the construction of the data base. Secondly, it establishes a clear report on the involvement of British firms in international strategic alliances during the period 1980-1989. Thirdly, these alliances are analysed in terms of their idustrial settings, the nationality of partners, and their types. Moreover, some tentative conclusions on the motivations behind this type of coalitions are also presented, for this issue is fully discussed in the next chapter.

It should be noted that the constructed data base is the main source of information presented in this chapter, whilst the analysis in the rest of this research is built on the data collected through indepth interviews with the sample firms.

6.2 THE DATABASE

The database was constructed to establish a clear understanding of the British involvement in strategic alliances. It catalogues a range of information on the strategic alliances formed between 1980 and 1989 and which involved at least one British partner.

The starting point of the database was information obtained from the INSEAD Business School (Fontainbleau; France). The data supplied by INSEAD contained information on British-foreign alliances in the period 1980-1986. Correspondingly, British-based multinationals have formed about 300 cooperative agreements in the years 1980 to 1986. However, the agreements which match the definition adopted for this research (see Chapter Three) and which could accordingly be called international strategic alliances accounted for 220 agreements. The remaining 80 agreements constituted of thirty domestic cooperative arrangements and fifty cases between licensing and mergers (i.e. did not match the adopted definition). Of the 220 strategic alliances which 8 cases did not advance beyond the discussion stage, and 10 other cases failed around the years 1985 and 1986, though the strategic alliance itself is a relatively new phenomenon. Consequently, the number of international strategic alliances involving at least one British firm which were formed between 1980 and 1986 was actually 202 alliances.

The information on those alliances was checked against information provided in special appendices listing major joint venture acitivities in the Acquisitions Monthly (a leading European business journal in the area of mergers and acquisitions and alliances) for the same period. The information on the 202 alliances was then compiled and stored in a database format using Paradox database software. The researcher updated this database by collecting and storing data on the strategic alliances which were formed by British firms during the course of 1987-1989. The main sources for the information were the Financial Times, the Acquisitions Monthly, and other business and academic journals. As of the end of 1989, there were 337 strategic alliances in the database. The database was arranged as to include the following information:

1. Name of the British partner(s).
2. Name of the foreign partner(s) and their country of origin.
3. Industry sector of partners.
4. Announced reasons for forming the alliance.
5. Nature of equity holdings between the partners.
6. Type and function of the alliance.
7. Remarks on the alliance and products/service involved.
8. Year of the agreements.
9. Relationship between the partners (e.g. rivals, complementary).

Any results from this data base must be tempered by caution with the eligibility of the source of data. Although, the Financial Times, Acquisitions Monthly, and the other consulted journals are European as well as international in scope, only major deals are likely to receive publicity in the international media. Furthermore, many firms do not announce all their involvements, especially the important and sensitive ones, and many others may wish to mislead their competitors about the true motives and functions of their alliances and intentionally misrepresent the facts to the business press.

6.3 GROWTH OF INTERNATIONAL STRATEGIC ALLIANCES: THE CASE OF THE UK

As mentioned earlier in this chapter, researchers have been active in pointing to the growing number of international strategic alliances formed between multinational enterprises. The most recent figures provided in the Financial Times (March, 1990) by KPMG Peat Marwick McLintock claimed about 669 called "corporate partnerships", formed only in the last three months of 1989. The UK share of this huge number was 142 partnerships, of which fifty-three were domestic alliances formed between British companies. This leaves 89 agreements to be called international corporate partnerships, though the majority of these arrangements could be classified as mergers, acquisitions, and/or licensing, as the source did not provide a clear definition for "corporate partnerships". Nevertheless, the source could not be eliminated as figurative evidence, alongside many other research work, on the growth of international strategic alliances.

Figure 6.1 shows that the flow of new alliances fluctuates conspicuously from year to year. Hence, 1980, where 16 strategic alliances were formed, was used as a base year for comparative purposes, then the subsequent nine years were divided into three periods. The first, 1981-83 witnessing the formation of 61 new alliances; the second, 1984-86 showing 125 new strategic alliances; and the third, 1987-89 indicating the formation of 135 new alliances (see Table 6.1). This result bears out the popular belief that the use of international strategic alliances has been escalating.

The increase is sharp in the second period (i.e. 1984-1986), a rise of 14.4 per cent compared with a very small percentage (3.2%) for the third period under investigation. However, about one half the total number of alliances was formed in the period 1987-89, bearing in mind that the peak year for strategic alliance formation was 1988 which witnessed the establishment of 64 alliances (19% of the total cases). On the other hand, 1989 conveys a noticeable decrease in the alliances involving British-based multinationls to only 19 cases. An explanation for this trend can be borrowed from Kay (1989). Kay, using a Commission of European Communities data, compares the incidence of joint ventures formation with that of mergers and acquisitions made by EC firms within Europe and internationally and asserts that European firms are adopting a strong shift away from joint ventures to mergers and acquisitions as the degree of market completion increases. This shift towards acquisitions is not only observed between European firms, but also between European and overseas firms (e.g. the British acquisitions in the United States of America).

FIGURE 6.1

GROWTH OF BRITISH-FOREIGN ALLIANCES
PER YEAR

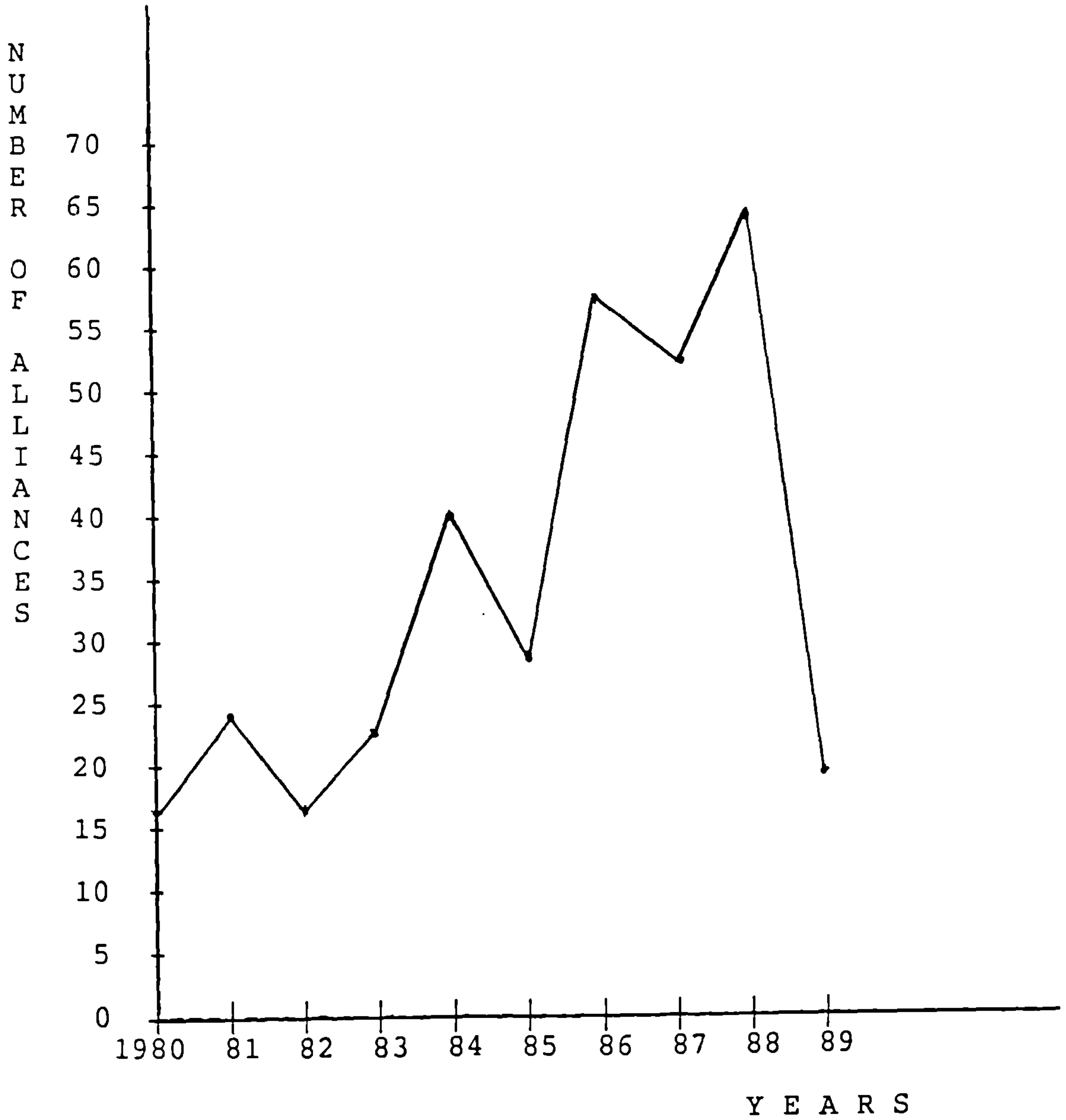


TABLE 6.1

NUMBER OF BRITISH-FOREIGN ALLIANCES
(1980-1989)

Years	No of Cases	% of Total
1980-83	77	22.8
1984-86	125	37.2
1987-89	135	40.0
Total	337	100.0

Tables 6.2, 6.3, and 6.4 present the distribution of these alliances in each period according to the nationality of the foreign partners, the industry sector of the companies involved, and the forms that these alliances took.

Table 6.2 displays the nationality of the foreign partners in the alliances as they evolved throughout the decade under study. British-European alliances reached their peak in the period 1984-1986 (an increase of 91.6% over the first period of the decade), highlighting the importance of having a foothold in the Single Market of Europe. However, as the completion of the Single Market advances, its effect on alliance formation seems to decrease and this is evidenced by the apparent decrease in their growth in the last period of the decade (28.2% growth as compared to the 91.6% of the second period).

This result is consistent with Kay's assertion of the inverse effect of the single market on the alliances formed between European firms fearing to give away technological advantages and other competences to close-future rivals.

TABLE 6.2

BRITISH-FOREIGN ALLIANCES: NATIONALITY OF PARTNER BY DATE OF FORMATION

Country Year	EEC		North America		Japan		Multi-Country		R.O.W.		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
1980-83	24	7.2	17	5.0	24	7.2	6	1.7	6	1.7	77	22.8
1984-86	46	13.6	45	13.5	21	6.2	5	1.5	8	2.4	125	37.2
1987-89	59	17.5	37	10.9	21	6.2	5	1.5	13	3.9	135	40.0
Total	129	38.3	99	29.4	66	19.6	16	4.7	27	8.0	337	100

The figures for North America indicate a considerable increase in the second period of the decade, where the number of alliances involving Btritish-US firms nearly tripled from 17 to 45 alliances, while their incedence decreases by more than fifth in the years 1987-1989, probably due to the increased rate of British acquisitions in the USA during that period (for British acquisition in the USA, see Hamill, 1988 and 1989 various issues of the Acquisitions Monthly). For Japan, the figures remained steady over the decade.

TABLE 6.3

BRITISH-FOREIGN ALLIANCES: INDUSTRIAL SETTING BY DATE OF FORMATION

Industry / Year	Aerospace		Electro-nics		Automoti-ves		Telecomm-unication		Chemicals & Pharma-ticals		Others		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
1980-83	21	6.5	23	6.9	13	3.7	5	1.5	4	1.3	11	3.1	77	22.8
1984-86	30	8.8	37	11.0	21	6.4	14	4.2	11	3.1	12	3.6	125	37.2
1987-89	30	8.8	30	8.8	16	4.8	22	6.5	14	4.2	23	6.9	135	40.0
Total	81	24.0	91	26.7	50	14.9	41	12.2	29	8.6	46	13.6	337	100

Table 6.3 lends more support to the above discussed phenomenon of the incidence of strategic alliances as in most industry sectors the use of international strategic alliances remained the same or showed a slight decrease over the last period of the decade. However, the distinguished results in the column referred to as "others", supports the assumption that international strategic alliances are no longer the exceptions for high-tech industries, they started to involve previously protected industry sectors, such as

telecommunications.

Moreover, Table 6.4 above presents interesting results in terms of the form those alliances took during each period of the decade under study. Over the last two-third of the decade (i.e. 1984-1989) the non-equity form of alliances was quickly gaining credence. This is not surprising, for in this form of partnering the involved firms avoid the unecessary cost of forming a separate entity and minimize managerial and organisational conflicts.

TABLE 6.4

BRITISH-FOREIGN ALLIANCES:
FORM BY DATE OF FORMATION

	Form I*		Form II*		Total	
	No	%	No	%	No	%
1980-83	56	16.6	21	6.2	77	22.8
1984-86	52	15.5	73	21.7	125	37.2
1987-89	49	14.5	86	25.5	135	40.0
Total	157	46.6	180	53.4	337	100

* Form I refers to alliances involving the creation of a third independent firm while this is not the case for Form II.

The slight decrease in creating a third entity owned by the partners, together with the sharp increase in forming non-equity alliances, represents a pivotal trend (more prevalent in the last two period of the decade) which suggests that partners to international strategic alliances are so ardent to maintain their independence vis-a-vis each other, in spite of being equally keen to collaborate with each other. Hence, leaving a large space to compete with one another in the global market.

6.4 PATTERNS OF BRITISH-FOREIGN ALLIANCES

An analysis of the 337 strategic alliances in the database reveals several important patterns. First, the type and industry sector of the firms which are most likely to be involved into strategic alliances with a foreign MNE. Second, the geographical distribution of the British-foreign alliances. Third, the type and forms of British-foreign strategic alliances. Then, the economic relation between the alliances' partners, and finally, the motivations behind the formation of these alliances.

6.4.1 Industrial Settings of the Alliances

The distribution of the British-foreign alliances across industry groups is reported in Table 6.5.

TABLE 6.5

NUMBER OF ALLIANCES BY INDUSTRY

Sector	No of Cases	% of Total
Electronics	90	26.7
Aerospace	81	24.0
Automotives	50	14.9
Telecommunications	41	12.2
Chemicals & Pharmaceuticals	29	8.6
Others	46	13.6
Total	337	100.0

Inspite of what has been discussed earlier that international strategic alliances are becoming rather the norm than the exception, the data above shows they are still concentrated in four major sectors. British firms belonging to the electronics, aerospace, automotives, and telecommunications sectors have formed 262 strategic alliances with foreign partners during the course of last decade (77.8%). About half the alliances were almost equally concentrated in just two industry sectors; electronics 26.7 per cent and aerospace 24.0 per cent, compared with 26.1 per cent for both automotives and telecommunications. These results, however, were expected as the unrelenting product and process innovations in those industries, the narrowing technological gaps among almost all industrialised nations, and R&D requirements, together have created a pressing needs for strategic alliances between even the global competitors in those industries.

The history of British Aerospace, a pioneer in forming a spider web-like of strategic alliances, vividly illustrates the issues that concern many similar companies. British Aerospace (BAe) is competing world wide in a wide range of activities including civil and military aircrafts, guided weapons, communications satellites and space technology, etc.. each of which has a prodigious appetite for capital; BAe, though large, simlpy could not satisfy them all and retain an impressive competitive edge in its markets. The company needed some way of strengthening its strength and offsetting its weaknesses, linkages with competitors and complementary foreign firms provided the solution and strategic alliances was the ideal answer, and Rolls-Royce, GEC, Smith Industries are just a few similar cases. Although the figures shown in Table 6.5 do not strongly bear out the recent assumption that strategic alliances are as popular in the rest of the industry sectors, another glance at Table 6.3 reveals that there is a trend, albeit a little weaker than in the four major sectors in terms of the number of the alliances formed. This trend is apparent in industries like chemicals and pharmaceuticals, services and finance, and constructions and engineerings.

6.4.2 Nationality of Foreign Partners

The "triad region"- Europe, the USA, and Japan, has been cited as the most important strategic battlefield for any firm operating on a global scale, and/or seeking to secure a steady competitive position in the world markets (Ohmae, 1985 and 1990). It is not then surprising to see that 92 per cent of the alliances are struck with partners within that region (see Table 6.6).

TABLE 6.6

NUMBER OF ALLIANCES BY COUNTRY OF FOREIGN PARTNERS

Country	No of Cases	% of Total
Europe	129	38.3
N. America	99	29.4
Japan	66	19.6
Multicountry	16	4.7
R.O.W.	27	8.0
Total	337	100.0

Moreover, as what has become known as the United States of Europe is emerging, familiar names in various industry sectors are planning and creating a wide range of collaborative arrangements with their competitors in Europe. Despite the belief that European alliances are on the decline (Kay, 1989), Table 6.6 indicates that British-MNEs have been most active in establishing strategic alliances with European companies- mainly French, W. German, Italian, and Spanish, as 129 agreements of all the British alliances have been set up with firms from those countries.

The world aerospace industry, in general, and that of Europe in particular has a long history of cooperative deals, examples are projects like Jaguar, Tornado, Airbus, and EFA "European Fighter Aircraft". Hence, the aerospace companies treated Europe as one market well ahead of other companies in other industries, with perhaps the exception of the automotive sector. Nevertheless, now with the single market a few steps ahead, the trend is towards more permanent Airbus-like alliances covering a wide technology range (a recent example is the EFA, a strategic alliance between the major players in Europe). The figures in Table 6.7 support this phenomenon as 39 alliances of the total 81 agreements in the aerospace sector were formed with European partners, with only 2 alliances involving Japanese partners and 26 alliances formed with companies from the USA and Canada. This, however, reflects the still-weak competitive position of the Japanese in aerospace, though they are beginning to enhance their position in this area through strategic alliances.

TABLE 6.7

BRITISH-FOREIGN ALLIANCES: INDUSTRIAL SETTING
BY NATIONALITY OF PARTNER

Industry / Country	Aerospace		Electri-cals		Automoti-ves		Telecomm-unication		Chemicals & Pharma-ticals		Others		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Europe	39	11.6	34	10.1	11	3.3	12	3.6	9	2.7	24	7.1	129	38.3
N. America	26	7.8	34	10.1	12	3.6	13	3.8	6	1.7	8	2.4	99	29.4
Japan	2	0.6	16	4.7	23	6.8	9	2.7	10	3.0	6	1.7	66	19.6
Multi-country	7	2.0	3	0.9	--	--	2	0.6	--	--	4	1.2	16	4.7
R.O.W.	7	2.0	3	0.9	4	1.2	5	1.5	4	1.2	4	1.2	27	8.0
Total	81	24.0	90	26.7	50	14.9	41	12.2	29	8.6	46	13.6	337	100

The electronic sector's figures are somehow similar to those of the aerospace sector, with the exception of the alliances formed with Japanese partners and which accounted for about half those formed with European partners. The alliances formed with partners from North America are equal to those formed with Europeans (34 alliances).

The situation is nearly the opposite in the automotive sector, where the highest number of strategic alliances was formed with partners from Japan (23 cases against 11 with European and 12 with American partners).

The alliances in the telecommunication sector are somewhat different, the industry is highly concentrated globally, and the number of alliances formed by the major British telecommunication companies is fairly distributed in the "triad region", though in this sector companies were less active than their counterparts in aerospace and electronics, especially with reference to forming strategic alliances in Europe.

Pharmaceuticals is another area where, as yet, few alliances have been established, and British companies in this sector are more likely to choose European or Japanese partners (two third of the total 29 agreements involved either a Japanese or European partner). Similarly, in other sectors such as services and finance, construction and engineerings, 82.6 per cent of the 46 alliances involved partners from Japan, Europe, and the USA. More than half the alliances were formed with companies from Europe, and 23 of those were in the period 1987-1989, this again reflects the influence of the Single Market on other than the high-tech industry sectors (see Tables 6.3 and 6.7).

6.4.3 Forms and Types of the Alliances

While conventional joint ventures usually took the form of a third entity of multi-activity type owned by the partners, the formation of a third entity is only one form of strategic alliances. Forms that British-foreign strategic alliances may take are classified into two categories according to the nature of equity holdings in the alliance. **Form I**, is where the partners cooperate to create a third shared firm "the child", while **Form II** is where the alliance is designed as a joint development programme (JDP), or where a) one partner takes equity holdings in the other's firm (POWSH), b) both partners take equity holdings in each other's firms (PRESH), or c) where no equity at all is transferred between the partners (PNSH). However, Table 6.8 shows the number of alliances for each of the above forms.

The results present 180 alliances (53.4%) of Form II against 157 alliances (46.6%) which involved the creation of a third entity. The vast majority (29.7%) of the 180 cases took the form of non-equity shareholdings, with 46 (13.6%) joint development programmes against only 34 alliances which involved equity transfer between the partners.

The forms of strategic alliances vary according to the nationality of the foreign partners. Table 6.9, shows the forms of British alliances across the partners' nationality. It appears that British firms are most likely to be involved in Form II alliances with European partners, though US partners have a considerable share in that form, it is 35.5 per cent of the total 180 cases against 43.8 per cent involving European partners.

Conversely, the Japanese, though the figure is not low (19.4%), are less active than their American and European counterparts in establishing S.As of Form II, especially those that take the form of a joint development programme. This is probably because this form of alliances is more pronounced in the aerospace sector.

TABLE 6.8

FORMS OF BRITISH-FOREIGN ALLIANCES

Nature of Equity (*)		No of Cases	% of Total
Alliance "Child"	FORM I	157	46.6
PNSH	FORM II (180)	100	29.7
JDP		46	13.6
PRESH		19	5.6
POWSH		15	4.5
Total		337	100.0

(*) **Form I:** where a third shared firm "the child" is created by the partners.

Form II: where the alliance is designed as:

a. JDP: Joint Development Programme,
b. POWSH: One partner takes equity holdings in the other's firm,
c. PRESH: Both partners take equity holdings in each other's firms, and
d. PNSH: No equity at all is transferred between the partners.

TABLE 6.9

BRITISH-FOREIGN ALLIANCES: NATIONALITY OF PARTNER BY FORM OF ALLIANCE

Country of partner(s) / Form	Form I		Form II	
	No	%	No	%
EC	50	14.8	79	23.5
North America	44	13.1	55	16.3
Japan	31	9.2	35	10.4
Multi-country	9	2.7	7	2.0
R.O.W.	23	6.8	4	1.2
Total	157	46.6	180	53.4

The incidence of strategic alliances of Form I is particularly high in the rest of the world (e.g. Australia, New Zealand, etc..) than that of Form II where it has the proportion of 1 to 5 respectively.

Table 6.10, below, shows the type of the alliances pursued by British-MNEs and their distribution across the different industry sectors. Multi-activity alliances accounted for 58 per cent of the total number (159 alliances), and it is interesting to note that of those 58 per cent, 130 alliances involved product development beside production and/or production and marketing, while only eight alliances also involved basic research and development. Those have been fairly distributed within all the industry sectors with the exception of product development and production alliances which were only present in the aerospace and electronics sectors. However, this reflects the complex nature of the technology needed in those sectors, and the high cost of product development which goes beyond the ability of even the largest players.

TABLE 6.10

TYPES OF BRITISH-FOREIGN ALLIANCES

Type of the alliance	**No of cases**	**% of Total**
Product development & marketing	81	24.0
Production & marketing	57	17.1
Product development & production	49	14.5
Marketing	49	14.5
Production	43	12.7
Product development	37	10.9
Basic research	13	3.9
R&D, production, & marketing	8	2.4
Total	337	100.0

Thirteen cases were basic R&D alliances (3.9%) compared to about triple that number for product development alliances. Both types combined could be called technology alliances and amount to 50 cases, i.e. 14.8 per cent of the British-foreign strategic alliances formed in the 1980s. However, this figure combined with the previous

138 S.As which also, amongst others, involve product development and basic R&D, show a great tendency by the partners to cooperate at very early stages in the product and/or technology development cycle. This trend has been nearly absent in the more conventional forms of joint ventures, probably, because partners to those forms were not so compatible. However, this tendency in collaborating early in the product/technology development cycle leaves the partners more independent and free to compete with one another in the market place, as they are not tied up to either production or marketing agreements. Marketing alliances were completely missing from the aerospace sector, reflecting the fact that most partners to S.As especially in this sector are competing as well as collaborating. While this type dominated the alliances formed in the service and finance, construction and engineering, and other sectors. They accounted for about 43.5 per cent of the total 46 alliances.

6.4.4 Relation Between Partners

As globalisation and its implications, technological complexity and technology obsolescence, and high cost requirements for R&D are believed to be the crucial motives for the growth and formation of international strategic alliances, partners to strategic alliances must be compatible in terms of their resources, know-how, and skills. This explains the results of the database which state that the majority of the alliances were formed between British MNEs and their rivals and complementary counterparts. Table 6.11 reveals that 62.7 per cent (212 alliances) of the total number of cases involved competitors, 29.8 per cent (100 cases) were agreements with complementary partners, as compared to only 7.5 per cent (25 alliances) where the relation between the British-foreign partners was of a buyer/seller nature.

TABLE 6.11

BRITISH-FOREIGN ALLIANCES: INDUSTRIAL SETTING BY PARTNER'S RELATION

Sector / Relation	Aerospace		Electricals		Automotives		Telecommunication		Chemicals & Pharmaticals		Others		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Rivals	64	18.9	69	20.4	19	5.6	17	5.1	14	4.2	29	8.5	212	62.7
Complem-	12	3.6	18	5.4	26	7.8	23	6.8	6	1.7	15	4.5	100	29.8
B/S	5	1.5	3	0.9	5	1.5	1	0.3	9	2.7	2	0.6	25	7.5
Total	81	24.0	90	26.7	50	14.9	41	12.2	29	8.6	46	13.6	337	100

A closer look at the table indicates that about two third of the 212 cases were concentrated in the aerospace and electronics sectors, whereas about half of the 100 S.As formed with complementary partners clustered in the automotives and telecommunication sectors, as contrasted with about a third of the buyer/seller partners located in the chemical and pharmaceutical sectors.

These results are also supported by the figures in Table 6.12 which conclude that alliances between competitors and especially complementary firms showed a considerable growth towards the second and third period of the last decade as globalisation and competition intensified and technological changes escalated faster.

TABLE 6.12

BRITISH-FOREIGN ALLIANCES: PARTNER'S RELATION BY FORMATION DATE

Year	1980-83		1984-86		1987-89		Total	
Relation	No	%	No	%	No	%	No	%
Rivals	55	16.4	79	23.5	78	23.0	212	62.7
Complem-	20	6.0	37	11.0	43	12.8	100	29.8
B/S	2	0.6	9	2.7	14	4.2	25	7.5
Total	77	22.8	125	37.2	135	40.0	337	100

6.4.5 Motives for Strategic Alliances

It is the strategic motive(s) behind this type of collaboration which most distinguishes it from other forms of corporate partnerships.

Evidence on the forces that have driven many of Britain's largest MNEs to form strategic alliances is also stored in the database as supplied by INSEAD for the alliances between 1980 and 1986, and as announced about in the financial and business press for the rest of the alliances. The motivations were also double checked for the alliances which involved the 29 firms that participated in the study. Table 6.13 shows that of the 337 instances, about one third were technology and R&D motivated alliances (20.2% and 11.0%), while globalisation and its implications have been the motivating factors for another third of all those cases (18.6% and 12.5%). This result lends strong support to the phenomenon that international strategic alliances are motivated by a new and distinguished set of factors, most apparently, globalisation and technological changes. Mainly, because strategic alliances are believed, one, to enhance the capabilities of firms to respond to globalisation and strengthen their competitive position in global markets, and two, strategic alliances are a crucial tool for improving one's R&D capability and exploiting short-term product and technology advantages.

Resource pooling and risk sharing have been significant motives for 13.6 per cent of the 337 cases, indicating that these factors still play an important role in activating even the new type of collaborative agreements.

Economies of scale as a driving force for strategic alliances was weakly supported as only 3.8 per cent of the 337 cases were motivated by this factor. However, economies of scale was more of a strong motive for the more conventional type of collaborations.

TABLE 6.13

MOTIVATIONS OF BRITISH-FOREIGN ALLIANCES

Motivations	**No of Cases**	**% of Total**
Technological complexity & development	68	20.2
Globalisation & competitive pressure	62	18.6
Resource, cost, & risk sharing	46	13.6
Enhanace global position & market share	42	12.5
Improve R&D	37	11.0
Entry to a key market	32	9.3
The single European market	28	8.3
Economies of scale	13	3.8
Reduce duplication	6	1.8
Make acquisitions	3	0.9
	337	100.0

Moreover, though related to technology considerations, the British sample of strategic alliances suggests a new motive. Reducing duplication was given as a driving force for alliances in just 6 of the cases, five of them belong to the aerospace sector. This is believed to generate a variety of synergies, e.g. synergy created by an alliance to manage the coordination of common and complementary skills and technologies. Lastly, three S.As were pursued by partners in the construction and engineering industry to acquire a third company outside their market presence. However, this factor is completely missing in all other industry sectors.

6.5 CONCLUSIONS

This chapter has presented a detailed overview covering the incidence of British-based multinationals' involvements in the new type of collaborative agreements, i.e. international strategic alliances; their trend in the last decade where the results lend a positive credence to the assumption of international strategic alliances growth put forward by several authors, their industrial settings and geographical distribution. Further, a close analysis regarding the motives for strategic alliances' formation, the type and form which they may take, and the relation between the British and foreign partners has been provided.

Technological complexity, globalisation and competitive pressure are believed to be the main factors which trigger the formation of international strategic alliances. Moreover, strategic alliances offer the potential to share risk and resources as well as rewards which are beyond the capabilities of even the large players.

Without doubt, the presumption that S.As are mainly distinguished from the other collaborative deals by their strategic motivations, and their occurrence between partners (rivals and/or complementary) from different industrialised countries is positively supported. However, the next chapter investigates more comprehensively the distinguished motivations of a sample of 29 British-MNEs forging strategic alliances across their national boundaries.

Lastly, the vast majority of the alliances were formed between two partners (76.9%) against 23.1 per cent involving three or more partners. This result, however, is not odd as this type of coalition demands compatible management teams, continuous commitments and control by the partners, and it is a painstaking even when it is only between two partners. Therefore, companies that are more likely to succeed and realise the strategic benefits of their alliances are those which are well equipped to cope with the managerial challenges of international strategic alliances. The managerial issue of strategic alliances is the subject of detailed analysis later in this research.

CHAPTER SEVEN

MOTIVATIONS UNDERLYING INTERNATIONAL STRATEGIC ALLIANCES

SUMMARY

British firms have been forming strategic alliances in many cases with competitors for various reasons. The important of these are: technological complexity and development, globalisation of markets, speed of entry to a key market, reduce competitive pressure, large financial requirements for R&D, and risk sharing.

Economies of scale, access to external channel of distribution, neoprotectionism, and follow-the-leader played no or little role in driving British MNEs into forming strategic alliances.

Technological complexity, globalisation, and the access to key markets were the most significant motives for forming strategic alliances in the aerospace, electronics, telecommunication, and automotives sectors.

In the chemical and pharmaceutical sector, the need for strategic alliances becomes more pronounced as the risk of R&D and its cost grow in parallel with market growth conditions and fierce competition.

Fierce competition and access to key markets topped the list of motivations for forming strategic alliances in the construction and engineering sector.

7.1 INTRODUCTION

The previous chapter examined the extent and patterns of British-foreign alliances during the last decade. It also provided some tentative conclusions on the motivations of those alliances as compiled in the database described earlier in this research.

The current chapter provides a more detailed analysis of the motivations underlying strategic alliances of a sample of 29 British firms. This analysis is enriched by presenting a broad view on industry and company examples. Furthermore, the chapter imparts some general conclusions on the alliances of the sample firms as related to their overall strategies.

The analysis in this chapter and the rest of the thesis is based on accumulated data on the sample firms, acquired through personnel interviews with company executives and directors as well as available published materials.

7.2 MOTIVES FOR STRATEGIC ALLIANCES

The literature review in Chapter Three provided an understanding of what might be the key fundamental factors which motivate international strategic alliances. These factors (or motivations) are summarised in Figure 7.1.

In order to confirm or disconfirm the scheme of these factors, a section of the questionnaire was designed to explore the motivations of the British companies in the sample to form strategic alliances (Appendix III, Section D). This section includes a general question on motivations in order to grasp the particular circumstances and characteristics that might be specific to the individual firm. Another question was designed to disclose the role that an alliance play in the company's overall strategy. The interviewees were then asked to evaluate the importance of each of the factors that were hypothesised from the literature as motivations for international strategic alliances (Question 15, Appendix III). Further four questions were also included in this section to support the responses given for question 15.

Table 7.1 summarises the findings of this research on the motivations of strategic alliances as pursued by British firms. The motivations are ranked in order of importance according to their average score which refers to the scale of importance adopted in question 15 (i.e., extremely important: 5, very important: 4, important: 3, average important: 2, and not important:1). For explanatory purposes the responses for extremely important and very important are added up and shown in the third column of the table. The same goes for column four which shows the number of firms assigning importance and average importance to the motivational factors, whilst column five shows the number of firms allocating no importance whatsoever for those factors.

The results in Table 7.1 indicates that for British firms, a number of factors emerged as by far the most important motivations to pursue a strategic alliance. These are: Technological complexity and development, globalisation of markets, speed of entry to a key-to-global market, the increasing competitive pressure, large financial requirements in R&D, and risk sharing.

On the other hand, the least important motivational factors as found by this research include: access to external channels of distribution, the formation of the Single European Market, Neo-protectionism, and follow-they-leader or "me too" concept.

Technological Complexity and Development

Twenty-eight firms (96.5%) stated that technological complexity and development was at the top list of their key reasons to pursue strategic alliances with sometimes a competing firm. Eighteen of those (62%)

considered this factor as extremely important against only one firm (in Food & Drink sector) giving it no importance what so ever.

This result provides two important explanations for pursuing the alliance route. Firstly, developments of a particular technology often can only proceed if additional technologies and skills are mastered. This makes it very unlikely that one single firm will possess all the skills and technologies needed for its R&D programmes. Also, in the last two decades R&D expenditures rose three times as rapidly as investment in fixed assets in the 24 OECD countries (OECD STI, No 10, 1987). Many companies, however big they are, cannot themselves afford to source the required level of R&D in order to maintain their competitive position. In this case, the company will have to look for a partner with complementary technologies and technical skills to be able to survive in the global arena.

Secondly, strategic alliances reduce duplication of technology. Firms are now aware of the possibility of developing the same technology or very similar products. There is also the risk that new technologies which are developed by one firm will be rapidly picked up by others, for successful products are promptly and precisely replicated, and consequently, technological advantages cannot be expected to last for long. Two firms stated that independent operations would have yielded painful results for them as well as their European partners, since their output would have been constrained by market demands and not by the limits of their resources. One aerospace firm's managing director stated that:

"we could have produced the alliance's product on our own on nearly the same scale, so could have our partner. But this would have meant doing a lot of R&D, spending huge sums of money, and ending up duplicating each other."

In other words, in the case of independent operations, the market would have not been large enough to support production by both firms. The firm's managing director added:

"by combining our skills, know-hows, and competences we came out with a better product, eliminated duplication of efforts and technologies, halved the cost, cut development time, and reduced competitive pressure at least in term of that specific technology, though we still fiercely compete in other areas."

Therefore, the alliance is seen by the majority of the British firms surveyed as an important means of accessing new technologies, saving development time, and avoiding duplication. This finding confirms Doz et al's (1989) and Norborn and Schoenberg's (1990) findings that firms use strategic alliances to enhance technological capabilities and short cut development expenditures and time.

FIGURE 7.1

MOTIVES AND POTENTIAL BENEFITS OF STRATEGIC ALLIANCES

Technological Complexity & Development	- Complexity caused by continuouous change in technology & shorter product life cycles.
Large Financial Requirements in R&D	- Through sharing resources and reducing the costs of R&D.
Reduce Competitive Pressure	- Collusion to reduce competition; alternatively alliances may facilitate new firms entry or shape competition by affecting industry cost structure, technology.
Economies of Scale	- Alliances to increase volume, thereby reducing large costs of R&D, capital investment.
Speed of Entry to a Key Market	- Alliances to provide a quick access to a key market in the global market.
Neo-protectionsim	- Alliances to circumvent trade restrictions.
Globalisation	- Alliances to improve global position and increase market share.
Risk Sharing	- Share risk resulting from hybridization & cross-fertilisation of technologies/products.
Match Competitors	- Alliances to improve the firm's position vis-a-vis competitors.
Access to External Distribution Channels	- Quick access to partner's own distribution channels.
Formation of the Single European Market	- Gaining an early position in Single Market of Europe.
Reaction to Similar Actions by Rivals	- Follow-the -leaders.

TABLE 7.1

MOTIVATIONS BEHIND BRITISH-FOREIGN ALLIANCES

Rank (*)	Motivations	No of Respondents (a)	(b)	(c)	Average score (d)
1	Technological complexity and development	28	0	1	4.51
2	Globalisation of markets	27	2	0	4.44
3	Speed of entry to a key market	27	1	1	4.20
4	Reduce competitive pressure	22	5	2	3.75
5	Large financial requirements in R&D	17	8	4	3.48
6	Risk sharing	12	16	1	3.27
7	Match competitors	10	16	3	3.10
8	Economies of scale	8	15	6	2.79
9	Access to external distribution channels	2	18	9	2.03
10	Formation of a single market in Europe	0	17	12	1.58
11	Neo-protectionism	0	12	17	1.41
12	Reaction to similar actions by rivals	0	7	22	1.24

(*) The motivations were ranked in order of their importance, and number as 1: most important --- 12: least important.

(a)- column 3, shows the number of firms giving extremely and very important to the factors in the second column. (b)- column 4, presents the number of firms assigning importance and average importance to the factors, whilst, (c)- 5th column discloses the number of firms which allocated no importance to the motivational factors.

(d)- last column presents the average score for each factor. This refers to a scale of importance which the respondents attached to the answers (1: not important ------5: extremely important).

Globalisation

The continued globalisation of markets was also considered as a significant motive as technological complexity for undertaking strategic alliances by a total of 27 firms (93%). Of those, Fifteen companies (51% of the sample) ranked this factor as an extremely important activator for their partnerships, while none of the twenty nine firms reported it as an unimportant factor. All firms saw a clear need for partners across their national borders in order to be able to supply global markets, challenge existing global competitors, and therefore create and maintain impressive competitive positions. An electronic firm's director expressed that:

> "the way in which we move the product from the factories to the market place is going to become more sophisticated, and unless we have a world class distribution system as well as a global presence, then we are not going to be able to play in the 1990s. Consequently, anybody who has a substandard systems and no real global presence will definitely lose market share".

Similarly, an automotive components company director stressed that:

> "globalisation is swiftly influencing every business area urging us to act at a faster speed (i.e. seeking strategic alliances), first, to protect our market share and second, to exploit the opportunities that are evolving with the changes towards a more global business".

Nevertheless, the more aggressive followers of strategic alliances, firms like BAe, ICL, GEC, and Rolls Royce use strategic alliances not just to safeguard an existing market share, but also to gain access to new areas and keep pace with the intense globalisation which means that they have to be in all markets simultaneously in order to sustain predominant competitive advantages and to prevent their rivals from establishing a better global position.

<u>**Speed of Entry to a Key Market**</u>

Firms are racing to develop global market penetration in order to maintain an impressive global position as well as a strong competitive edge. Twenty-seven companies (93%) regarded the speed of entry to a key important market (market such as Japan, USA, West Europe) as achievable through strategic alliances. Of those 10 firms considered this factor as extremely important motivation for their alliances against only one firm whose managing director stressed:

> "In this context, we believe that acquisitions promise more. We penetrated the American market reasonably fast through a series of well planned acquisitions. However, strategic alliances are important but not used for this purpose."

However, several firms agreed to one statement:

> "We would rather have gone it alone than having a strategic alliance, but time was extremely important, we needed immediate presence in what we consider a key gate to the global market place."

<u>**Competitive Pressure**</u>

As discussed earlier (Chapter Two) globalisation, technological changes, the Far Eastern challenge, market integrations, and changes in government policies, have triggered a period of fierce competition. This phenomenon has been called "global competition", presented an increasing pressure on many multinationals and forced them to realize how important it is to join up with rivals. The increasing pressure of competition scored 3.75 and was ranked as a prime motivation for strategic alliances by twenty-two of the surveyed firms. Those firms believed that they would not only reduce the competitive pressure of today's global markets, but also considerably improve their competitive positions in those markets. On the other hand, six firms claimed that the formation of their alliances has intensified competitive pressure as the number of their competitors was increased by that of their partners'. This was noticed in the cases where alliances were formed between firms actively operating in more than one industry sector. Hence, in some circumstances, competitive pressure can be seen as much a result of as it is a motivation for strategic alliances.

Large Financial Requirements for R&D

The financial requirements for R&D is in itself a result of the above mentioned factors. The cost for new technology or product can be extremely prohibitive even for the globally well established multinationals. However, once the new product is developed, there is still the likelihood that a rival will have developed a similar process. Strategic alliances ensure the combination of expertise and hence reduce the development cost as well as the chances of expensive mistakes. British firms, as their counterparts in the "Triad Power", are realising that international strategic alliances are excellent tools to defray the huge cost of R&D. Therefore, large financial requirements in R&D was rated comparatively highly as one of the significant motives for entering into ISAs by more than half the surveyed firms (17 companies).

Risk Sharing

Risk sharing was ranked as a key motivation by 41.3 per cent of the sample firms (twelve companies), of those three firms considered it as an extremely important motivation for their alliances. An explanation for this result is that even in the cases where a firm can access the huge cost of R&D, the risk associated with innovations (i.e. new technology or new product) can be beyond its capabilities. Many companies have specialised in one particular segment of technology, but often lack the breadth of knowledge to integrate other technologies to develop new products, or to do so incorporate considerable amount of risk. For instance, the integration of laser disk storage and computers requires two different specialities and expertise, which can best be accomplished by two companies with individual expertise in their respective fields. An important example of this, as well as the high cost of R&D, is the alliance formed between British Telecom (BT) and Dupont of the USA which was formed to combine both companies expertise in R&D to develop new laser transmitters and receivers, and as emphasised by BT's director of business planning:

"neither Dupont nor BT could achieve what we are aiming to get through this alliance because of the R&D financial requirements as well as the synergy of combining our R&D skills in the field."

Other Motivations

About one third of the firms in the sample (10 companies) felt that the alliance route is one of the important means to match competitors. Matching competitors is of considerable importance as only three firms denied the existence of any role for this motivational factor in forming their alliances.

Moreover, the results show that strategic alliances present opportunities to take advantage of economies of scale, making it prudent for companies to use combined capital, knowledge, and/or strategic resources. Although this factor is less significant than those discussed earlier, it was seen as an extremely important motivation by 27 per cent of the sample (8 firms). Those eight firms believed that economies of scale in technologies, competences, and skills is very important and would consequently achieve economies of scale in production.

Furthermore, access to the partner's channels of distribution was highly supported by a minority of two firms, against nine companies (31%) regarding it as an unimportant motivation for strategic alliances. However, for the two supporting firms, it was the case that many companies may have excellent production capabilities, but do not have strong marketing/distribution channels, particularly those needed for worldwide purposes. Strategic alliances are one means to improve and widen the firm's marketing and distribution system.

Even with the extensive citation of the formation of a single market in Europe as an important reason for European firms to join forces and form strategic alliances, twelve firms in the British sample (41.3%) assigned no importance at all for the Single Market as a factor in motivating their alliances.

Although this may at first sight appear to be a very surprising result, however, when the question of when and in which industry those surveyed alliances were formed is taken into account, the reason for the relative unimportance of this factor becomes clear. Most of the twelve firms where the 1992 event was considered as unimportant formed their alliances before 1987 by MNEs operating in global industry sectors, two of which aggreeing to one statement, that is:

> "we have been treating the European market as a single market since the early 80s, we have good presence in almost every country in Europe".

Moreover, in the other 17 cases (five formed alliances with European partners) the 1992 event was allocated average importance in motivating strategic alliances. This result supports Kay's (1989) argument that the 1992 event would adversly affect the number alliances formed between European companies as opposed to the number of acquisitions in the region.

Neoprotectionism and reaction to similar actions by rivals were poorly supported by this research. None of the British firms surveyed ranked these factors among their important motivations for forming strategic alliances.

Lastly, the alliance route was a desired option because it was regarded as an important complementary strategy within the firm's overall strategy. Twenty-three firms (79%) pursued strategic alliances to complement competences achieved through other strategies like acquisitions and licensing.

The results of this survey on the motivations of strategic alliances as undertaken by British firms are both valid and informative. First of all, the survey confirms the hypothesised motivational factors as valid in that each received support from a good number of firms in the sample. Further confirmation was provided by the fact that very few "other motivations" were given by the interviewees. However, none of these few "other motivations" has sufficient subscribers to warrant inclusion in the list of motivations and in most cases these were related to the listed factors, e.g., technology duplication. This is not surprising because the motivations for strategic alliances are inextricably integrated together as one may cause the presence of the other. Figure 7.2 provides an informative answer to why British firms undertake strategic alliances with foreign partners and shows the integrations between the highly ranked motivations.

7.3 MOTIVATIONS: INDUSTRY STUDIES

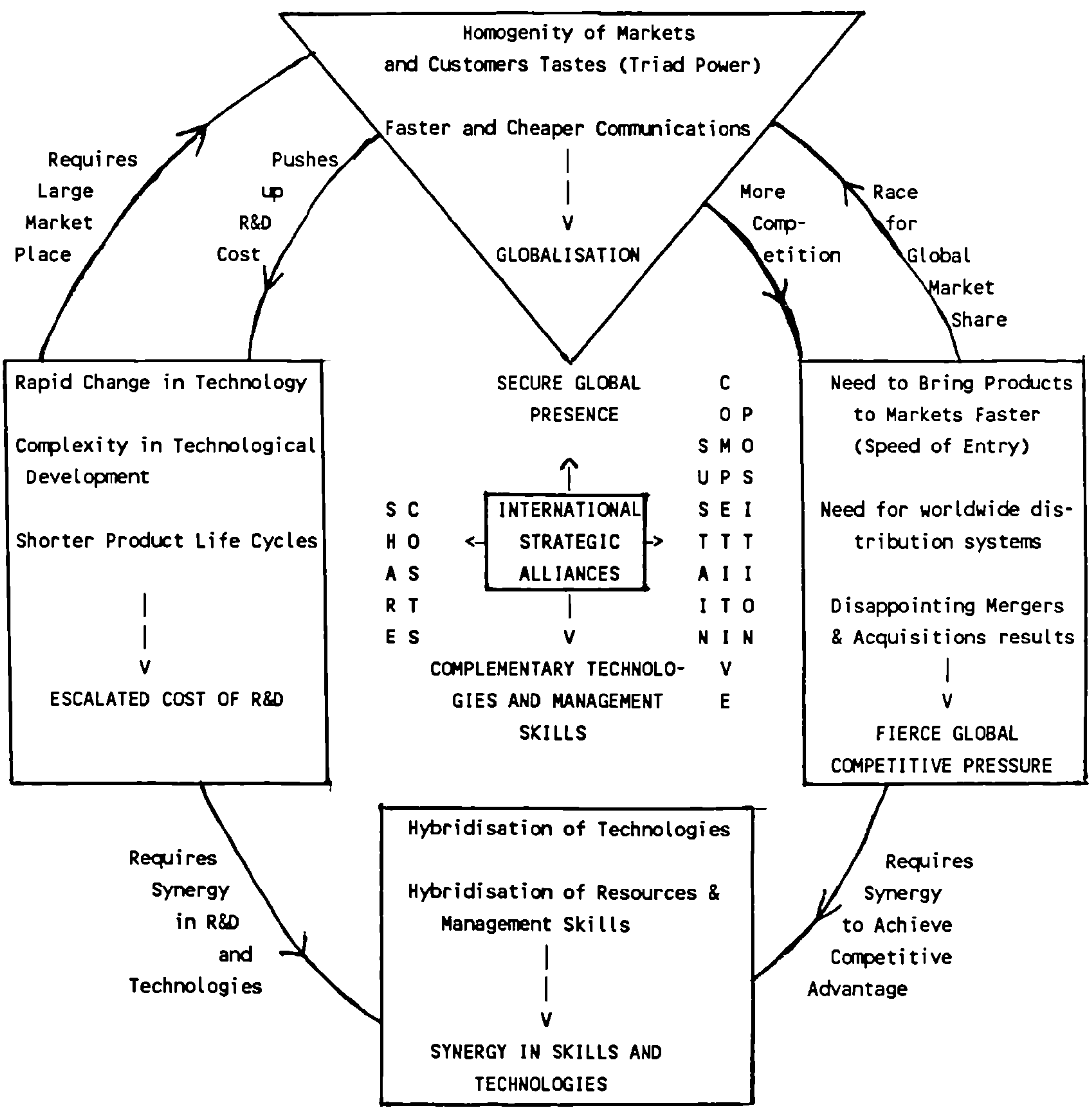
This section presents some detailed insights into the motivations for the alliances formed in the sectors in which the majority of the surveyed companies are scattered (see Appendix II), accompanied with some illustrative company examples. The aim of this section is to add to the previous analysis of motivations a dyadic perspective.

7.3.1 Aerospace

The aerospace industry is characterised by high-asset specificity, with large economies of scale, experience effects, and high technical and economic risks. In this sector, almost all the world's leading manufacturers have multiple cross-arrangements emphasizing the two-way exchange of complementary technical expertise to capture current and expected future markets. Strategic alliances in this sector involve even the world leading companies like Pratt & Whitney, Boeing, McDonnell Douglas, Fokker, SNECMA, GE, BAe, Rolls Royce, Aerospatiale.

FIGURE 7.2

MOTIVATIONS FOR INTERNATIONAL STRATEGIC ALLIANCES



In Europe, within the largest aerospace companies, Aerospatial of France is the strongest. It is technically and commercially very strong, and has a very strong governmental backing. Augusta, a very strong Italian aerospace and defence company is mainly owned by the government. MBB Aerospace of Germany, which is obviously a part of MBB Group, has the backing of the group. British Aerospace, GEC, and Westland Group of the U.K., as compared to their competitors, are unique in that they do not have that kind of backing. Nevertheless, BAe, GEC, and Westland Group would rank behind Aerospatial and are of similar capabilities and strengths as Agusta and MBB Aerospace. The fact remains, however big they are, those largest aerospace manufacturers are associated with each other and with other companies (e.g. Boeing, Pratt & Whitney, etc..) in a spider's web of strategic alliances and collaborating on huge projects which none of them alone would be able to accomplish single-handed. Figure 7.3 presents some examples of the alliances formed by the five aerospace/aircraft companies participating in the study.

The question is, then, why have strategic alliances become so dominant in the aerospace industry?

In this sector, the accelerated complexity and change in technology, the associated risk in R&D, combined with globalisation and fierce competition have been pronounced by every interviewed firm as prime motives for the formation of their alliances. Therefore, the motivations underlying strategic alliances as perceived by four of Britain's most active collaborators (BAe, Westland Group, Rolls Royce, Smiths Industries) are very similar, though their overall strategies differ considerably.

British Aerospace

The main activities of BAe include civil and military aircrafts, electronics systems and guided weapons systems. BAe is one of Britain's most active firms in forming stratgic alliances, in the last decade the company's alliances totalled up to 40 deals involving some of the world's leading names like Aerospatiale, Boeing, McDonnell Douglas, Aeritalia.

> "The strategic thrust of British Aerospace is to develop its core businesses on a global level by a process of product innovation through well planned alliances and strategic acquisitions",

stated a company director. For BAe then market leadership has been the dominant objectives underlying its alliances. One of the most important of these is the Euromissile Dynamics Group (EMDG)- an alliance with MBB of Germany and Aerospatiale of france to design and develop two new anti-tank guided weapon systems (called TRIGAT) to supersede current generation systems in the 1990s on a European basis. The company (EMDG) was established to strengthen the competitive positions of the partners and to ensure sufficient resources and technological know-how for R&D.

FIGURE 7.3

BRITISH-FOREIGN ALLIANCES IN AEROSPACE

UK PARTNER	FOREIGN PARTNER(S)	NAME OF ALLIANCE	FORM	DATE	INFORMATION ON THE ALLIANCE	REASONS FOR COLLABORATION
British Aerospace:						
	- Aeritalia -ITALY MBB -W GERMANY	TORNADO	JV	1980	MULTIROLE COMBAT AIRCRAFT	ENHANCE GLOBAL POSITION & MARKET SHARE
	- Aerospatiale -FRANCE & MBB	EUROMISSILE DYNAMICS	JV	1988	DEVELOPMENT OF NEW MISSILES FOR THE 1990s	TECHNOLOGY SHARING & PRODUCT DEVELOPMENT
	- BGT -W GERMANY	AIM 132 ASRAAM	JV	1984	AIR-TO-AIR MISSILES	REDUCE DUPLICATION
	- Dassault & Peugeot of France	JAQUAR	JDP	1983	DEVELOPMENT OF FIGHTER AIRCRAFTS	TECHNOLOGY SHARING AND PRODUCT DEVELOPMENT
	- Lockheed -USA	156 FOUR-ENG	PNSH	1986	CIVILIAN & MILITARY VERSIONS OF JET AIRLINERS 146	TECHNOLOGY SHARING & GLOBALISATION
	- Matra -FRANCE & Fokker of NETHERLAND	OTYMPUS	JDP	1983	TELECOMMUNICATIONS CRAFT (DEVELOPMENT)	TECHNOLOGY SHARING AND DEVELOPMENT
	- SAAB -SWEEDEN & Rayton -USA	SKYFLASH	JDP	1985	MILITARY AIRCRAFTS	RISK SHARING
	- Spar Aerospace-CANADA	BONBARDIER	PRESH	1986	A330 AND A340 AIRCRAFTS	ENHANCE MARKET SHARE
	- Valmet -FINLAND & Federal Aircraft-SWITZ.	HAWK	JDP	1987	HAWK MILITARY AIRCRAFTS	ENHANCE GLOBAL POSITION, COMPETITIVE
& GEC	- MBB & Boeing	N/A	JDP	1984	LR SOM STAND-OFF MISSILE	REDUCE DUPLICATION
	- McDonnell Douglas	HARRIER II	JDP	1987	AV8-B	ENHANCE MARKET SHARE
& Smiths	- AERI, MBB, & CASA	EFA	JV	1980	AGIL COMBAT AIRCRAFT	R&D, TECHNOLOGICAL COMPLEXITY
Rolls Royce:						
	- Alfa-Romeo -ITALY, Volvo, & BMW -W GERMANY	TAY	POWSH	1988	ALFA HAS TAKEN 6.9% IN RR- SMALL AIRLINERS	TECHNOLOGY SHARING AND PRODUCT DEVELOPMENT
	- GE -USA	RB 211-535 E4	PRESH	1984	RB 211-535 E4 ENGINE, IMPROVE DERIVAT CF6-80C2	R&D, COST SAHRING
	- Hispano Suisa M.D.-FRANCE, Kawasaki -JAPAN, & IBM	RB211	PRESH	1987	TRENT HIGH THRUST AIRLINER ENGINE	GLOBALISATION AND COMPETITIVE PRESSURE
	- McDonnell Douglas & Sperry of USA	GOSHAWK	JDP	1988	JET PILOT TRAINING SYSTEM	ENHANCE GLOBAL POSITION
	- MTU -W GERMANY, FIAT -ITALY, SENER -SPAIN	RB199 & EJ-200	JDP	1986	ENGINE FOR EFA (EUROJET TURBO)	TECHNOLOGY SHARING AND GLOBALISATION
	- MTU, Fiat, Pratt & Whitney Aero Engine Co.- JAPAN,	INT.AERO ENGINES	JV	1981	CIVILIAN AERO-ENGINE V-2500, 30% STAKE FOR RR	COST SHARING
	- MTU & Turbomeca -FRANCE	MTM-390	JDP	1985	TURBOSHAFT ENGINES	TECHNOLOGY SHARING & GLOBALISATION
	- Pratt & Whitney – USA	RMT-322	JDP	1986	RMT-322 HELICOPTER ENGINE (US & CANADIAN MARKETS)	ENHANCE GLOBAL POSITION & MARKET SHARE
	- Senor -SPAIN	N/A	JDP	1988	DEVELOP ENGINE FOR EUROPEAN FIGHTER AIRCRAFT	TECHNOLOGY SHARING AND DEVELOPMENT
Smiths Industries:						
	- Hitco -USA	HERMAN SMITH HITCO	JV	1981	ADVANCED MATERIALS	RESOURCE AND COST SHARING
	- Thomson -FRANCE & VDO -W GERMANY	N/A	PNSH	1985	AVIONIC EQUIPMENTS	REDUCE DUPLICATION, TECHNOLOGY SHARING
Westland Group:						
	- AAC -AUSTRALIA	WESTLAND 30	JV	1984	PASSENGER & TROOP HELICOPTER	R&D, COST SHARING
	- Aerospatiale, MBB, Fokker, & Agusta -ITAL	N/A	PNSH	1985	NATO HELICOPTER	GLOBALISATION AND RESOURCE SHARING
	- Agusta	EH-101	JV	1982	ANTISUBMARINE HELICOPTER	GLOBALISATION AND COMPETITIVE PRESSURE
	- Fokker, Agusta, & CASA	LAH	JV	1987	FEASIBILITY & COST PHASE	GLOBALISATION AND COMPETITIVE PRESSURE

Source: The Database.

BAe is also taking the alliance route to penetrate the American market. One of its major alliances with an American partner is a development programme called HARRIER II formed in 1987 with McDonnell Douglas. Driven by technological development and globalisation the programme is to develop and produce the latest advanced version of the V/STOL Harrier which is in use in the Royal Navy and the Indian Navy.

Westland Group

The view that "big is best" is less relevant in the case of Westland Group. The company has adopted a highly focused approach of concentrating on its core technological strengths in flight electronics, helicopters, instruments and control systems. It has mainly avoided diversification into related defense systems such as missiles. Geographical diversification and increased internationalisation, rather than product diversification has formed the basis of the company's alliance strategy. One of its most important alliances is the LAH- an alliance formed with Agusta of Italy, CASA of Spain, and Fokker of the Netherland. The motive for LAH

> "was a combination of reasons, starting from huge cost of R&D, to technological complexity, to synergy and global competitiveness"

asserted the firm's project manager. He then expressed that:

> "you need one or two major strategic alliances as the bed rock of the business, because it is the strategic alliance that gives you the ability to develop the next

major new products which takes an enormous amount of investment, and needs lots of skills and technology know-how".

Nevertheless, this is not a panacea, companies which strive to survive in the global arena should take every opportunity and pursue other alliances as they seem to fit their basic business strategy and offer them a differentiated competitive advantage. This explains why fierce competition and globalisation were rated very highly as motives for the aerospace alliances. Examples of alliances in this category include the coalition between McDonnell Douglas of the United States and Smiths Industries on head-up displays systems; the production and marketing alliance between Hitco of the USA and Smiths Industries; the alliance between Rolls Royce and Pratt and Whitney of the USA; Olympus which is a development programme involving BAe, Matra of France, and Fokker of the Netherlands; the Trigat Programme which is a product development and production alliance between BAe, the French Aerospatial, and MBB of Germany, European Fighter Aircraft (EFA) between BAe (UK), Smiths industries (UK), MBB (Germany), CASA (Spain), and Aeritalia (Italy); and the Eurojet Turbo Consortium between Rolls Royce (UK), MTU (Germany), Sener (Spain), and Fiat (Italy).

Furthermore, some major strategic alliances in this sector have been formed with rivals to avoid duplication of efforts in R&D and technology innovations.

Interestingly, all alliances motivated by that reason involved European partners with only one involving US participation. This can implicitly mean that, though not cited as a most important motive, the single European market has influenced the formation of strategic alliances in this sector. An illustrative example of that is the EFA project which involves five of Europe's strongest aerospace companies (see previous paragraph for partners' names), moreover, RR has joined forces with Fiat of Italy and MUT of Germany in a development and production alliance called EJ-200, where one of its main products is the engine for the EFA. However, the 1992 event is even more pronounced in the more recent arrangements, e.g. the alliance between Rolls Royce and BMW where The deputy Chairman of RR stressed that: "this alliance is a major step towards strengthening the European aero-engine industry" (Financial Times, 3rd May, 1990, P.1).

Therefore, the overall picture in the European aerospace industry reveals that international strategic alliances have become a necessity in the business, and cross-border linkages are already in place between all the major European aerospace manufacturers, however, the large US big players are not left out of the picture as many alliances involve companies like McDonnell Douglas, United Technologies, Boeing, Pratt & Whitney, and Lockheed. The aerospace sector is rapidly moving towards global webs of strategic alliances and success in this sector will increasingly depend on the firms' ability to form effective and strategic partnerships.

7.3.2 Electronics

In this sector, competitive conditions had changed so much that firms do not have the luxury of the leisurely five to eight years product development and introduction cycle that was common in the 70s. Moreover, the proliferation of new technologies that every electronic manufacturer needed to master in order to remain a viable competitor has been increasing dramatically. Subsequently, firms have to attain a degree of competence and/or excellence in numerous technological areas, each competing for the scarce capital, time, talents, and skills. Similar to the aerospace sector, the list of strategic alliances, formed by large as well as smaller players, is endless and includes names such as Ericsson, ICL, GEC, Philips, NEC, Hitachi, Thomson, Siemens, GE, Geisco, Plessy, Thorn EMI, for examples, see Figure 7.4.

The motivations for the alliances formed by the electronic firms surveyed in this study were similar to those in the aerospace. Risk sharing associated with hybridisation of technology (while ranked as very important by the aerospace firms) was seen as an extremely important motivational factor only by the three firms surveyed in this sector.

FIGURE 7.4

BRITISH-FOREIGN ALLIANCES IN ELECTRONICS

UK PARTNER	FOREIGN PARTNER(S)	NAME OF ALLIANCE	FORM	DATE	INFORMATION ON THE ALLIANCE	REASONS FOR COLLABORATION
Thorn EMI:	- Ericsson -SWEEDEN	N/A	JV	1982	SOLD 4th JUNE TO ERICSSON	R&D, COST SHARING, ECONOMIES OF SCALE
	- Fujitsu -JAPAN	N/A	PNSH	1983	TECHNOLOGY AGREEMENTS IN TELECOMMUNICATION	TECHNOLOGY TRANSFER IN R&D
	- JVC -JAPAN	N/A	PNSH	1981	TELEVISIONS	MARKET ENTRY
	- JVC & Thomson -FRANCE	J2T	JV	1981	VIDEOS	ECONOMIES OF SCALE & TECHNOLOGY SHARING
	- Thomson & Martin Marietta Diehl	GUT	JV	1984	MULTI LAUNCH ROCKET SYSTEM	R&D, ECONOMIES OF SCALE
ICL:	- Bull -FRANCE & Siemens -W GERMANY	ECRC	JV	1983	INFORMATION SYSTEMS, KBS	R&D, RESOURCE SHARING
	- Fujitsu -JAPAN	N/A	JDP	1986	DEVELOP MAINFRAMES	R&D, TECHNOLOGY, AND GLOBALISATION
	- Geisco -USA	INS	JV	1987	BUSINESS TRANSACTIONS	ENHANCE GLOBAL POSITION, SHARE RESOURCES
	- Mitel -CANADA	N/A	PNSH	1981	SX2000 PDX	GLOBALISATION AND RESOURCE SHARING
	- N. Telecom.-CANADA	N/A	JDP	1988	NTEL 25% OF THE NETWORK'S PRODUCTS	GLOBALISATION
	- Sun Micro-System -USA	UNIX	JV	1986	TECHNOLOGY WORK STATIONS (SPARK)	TECHNOLOGY TRANSFER, & IMPROVE R&D
	- Three Rivers -USA	N/A	PNSH	1981	PERQ MICRO (PTEYA)	GLOBALISATION AND COST SHARING
Lansing:	- Hitashi -JAPAN	N/A	JV	1981	ROBOT WELDING APPLICATIONS	COST & TECHNOLGY SHARING

Source: The database.

JV: an alliance that involves the creation of a "child firm"

JDP: Joint Development Programme,
POWSH: One partner takes equity holdings in the other's firm,
PRESH: Both partners take equity holdings in each other's firms, and
PNSH: No equity at all is transferred between the partners.

ICL

ICL is Britain's largest computer manufacturer (acquired by its long-life Japanese partner, Fujitsu, in July 1990; this is elaborated on later in the study). Its main activities include mainframes, office systems, workstations, and application software and hardware. The company is involved in strategic alliances more than any other British electronic firm, probably with the exception of GEC. Geographical as well as product diversification and increased internationalisation have formed the bases of ICL's alliance strategy in the last decade. In this regard, the firm's collaboration director explained:

> "ICL recognised that it needed a growing market and market growth required the creation of standards, it also wanted to move faster into key markets, and enhance its global competitive image. To achieve those strategic objectives we are collaborating with competitors and complementary firms".

ICL's most important alliances include: the International Network Services (INS) with Geisco of the USA, the series of alliances with Fujitsu of Japan. As for the motivations underlying its alliances the company's collaboration director expressed that:

> "there isn't anything we cannot do that is technologically complex, but working with compatible partners allows us to obtain great synergy in R&D and technology innovation, and probably move faster than the environmental factors by generating more competitive products for worldwide markets".

He continued:

> "if we were not technologically strong, we would not have been an attractive partner, and hence, we wouldn't be involved in as many alliances".

However, ICL's experience with Fujitsu indicates that strategic alliances need not only be motivated by the right factors. These are first, complex so they must be strategically managed and continuously controlled, and second, they are dynamic deals which need regular assessment, particularly vis-a-vis their motivational factors as conerning both parties.

Thorn EMI

Thorn EMI's major activities cover electronics and software systems, music and lightenings, rental and retail, and financial services. Thorn's strategies are considerably different from those of ICL in that the company has adopted a highly focused approach of concentrating on its core businesses mainly through through acquisitions (e.g., JEL Energy Conservation Services, Rent-A-Center, and Kidde Automated Systems inc. all in the USA). The company has consciously formed a number of strategic alliances where it felt strategically unavoidable, as was stressed by its managing director:

> "our strategy is to keep the performance of our products at an advantage over the competition. With the rapid obsolescence of many technologies as well as the effort, time, and cost of technology development, strategic alliances offer an irresistible, yet risky mean to achieve our objective."

J2T- an alliance with JVC of Japan and Thomson of France; a technlogy development alliance with Fujitsu of Japan; and a marketing alliance with MCA Video of the USA; are among Thorn's most important alliances. These alliances are aimed at sharing technology, skills and resources, strengthening market and competitive position, and achieving synergy in production. Therefore, for Thorn EMI, economies of scale was of considerable importance, though it rated relatively low in the overall results.

The electronic companies surveyed were also concerned about matching their global competitors more than any other company in the rest of the sample. To achieve that they were teaming up with Japanese firms, though a significant number of alliances were formed with European firms.

7.3.3 Telecommunication

The telecommunication sector is different from the sectors mentioned previously in that the required investments are not only enormous, but also have long incubation periods. The cost of the technology involved in the development of the new generation of digital switches and the technological expertise they required are beyond the capability of many of the largest multinationals. Thus, in order to offset these requirements, companies are forced to seek out new customers which means breaking into new markets that have previously been controlled by local manufacturers, and to consider alliances with technologically strong partners to take full advantage of the globalisation impacts on the industry. Sperry

Univac/Northern Telecom, BT/Dupont, IBM-Rohm, Cable & Wireless/Itoh, Ericsson/Honeywell, and AT&T/Zenith are only a few examples of the world telecommunication strategic alliances.

Also, deregulation is probably the most difficult question facing the equipment manufacturers since it is impossible to say how quickly the liberalisation of markets will proceed. However, the market for telecommunications is now in a phase of major expansion as most of the leading equipment manufacturers throughout the world, even the monopolies who feel attacked in their home markets, are expanding overseas through strategic alliances. The two leading British teleco-mmunication operators- Cable and Wireless (C&W) and British Telecom (BT)- have both used strategic alliances to expand the geographical scope of their operations and to improve their global competitiveness (for examples, see Figure 7.5).

Cable and Wireless

Cable and Wireless (C&W) is one of the world's leading telecommunication operators providing services, networks and equipment to residential and business customers throughout the world. In the past few years C&W has focused on two major developments. First, the attempt to develop a strong sterling-base profit stream to balance the company's non-sterling sources; the major contributors to this have been the Mercury Telecommunication Network and the acquisition of Telephone Rental in 1989 which are helping the group in building a strong domestic base. Second, the core of the group's international strategy was the Global Digital Highway. This aims at encircling the globe with a band of light, linking C&W operations in Europe, North America and the Pacific Rim via Japan and Hong Kong, with a broad brand fibre optic telecommunication network. The two main links in the Global Digital Highway are the PTAT cable connecting the UK and USA (PTAT operating through a Strategic alliance between US Print and C&W), and the North Pacific Cable (NPC) which will be the first direct submarine fibre optic link between mainland USA and Japan when it enters service at the end of 1990 (NPC is operated under an Anglo-American-Japanese alliance "IDC" or International Digital Communication whose partners are C.Itoh and Toyota of Japan, Pacific Telecom of the USA, and C&W of the UK). For C&W, Global Digital Highway is a double barrelled strategic alliance which was motivated by the increasing competitive pressure and the speed of globalisation as well as the massive cost of product development and operating such a huge programme.

FIGURE 7.5

BRITISH-FOREIGN ALLIANCES IN TELECOMMUNICATIONS

UK PARTNER	FOREIGN PARTNER(S)	NAME OF ALLIANCE	FORM	DATE	INFORMATION ON THE ALLIANCE	REASONS FOR COLLABORATION
British Telecom:	- AT&T -USA & KDD -JAPAN	N/A	PNSH	1989	ADVANCED INTERNATIONAL DIGITAL LINK	COMPETITIVE PRESSURE, COST SHARING
	- CGE -FRANCE	N/A	PNSH	1986	VARIOUS PRODUCTS	COST SHARING
	- Dupont -USA	BT & D TECHNOLOGIES	JV	1986	ADVANCED OPTO-ELECTRONIC COMPONENTS	COMPETITIVE PRESSURE
	- IBM -USA	N/A	PNSH	*1990	FULL RANGE OF ADVANCED COMM. & INF. SERVICES	GLOBALISATION & TECHNOLOGY SHARING
	- McDonnell Douglas -USA	EDINET	JV	1985	ELECTRONIC TRANS. SERVICES	GLOBALISATION AND COST SHARING
	- STET -ITALY	N/A	PNSH	1988	NETWORK.MODERNISATION	COMPETITIVE PRESSURE
	- Telefonica -SPAIN	N/A	PNSH	1988	VALUE ADDEDED SERVICE, INT. TELECOM.	1992, ENHANCE GLOBAL POSITION
	- Metrocast -USA	N/A	POWSH	1988	PAGING SYSTEMS	COMPETITIVE PRESSURE & GLOBAL MARKET SHARE
	- West German Bundespost and DIGL -FRANCE	N/A	PNSH	1988	DATA HANDLING COMPANY	R&D COMPETITIVE PRESSURE
Cable & Wireless:	- C. ITOH -JAPAN	KDD	JV	1985	2nd INTERNATIONAL TELEPHONE SERVICE FOR JAPAN	COMPETITIVE PRESSURE
	- C. ITOH & Pacific Telecom -USA	IDC	JV	1986	THE GLOBAL DIGITAL HIGHWAY	ENHANCE GLOBAL POSITION, COST SHARING
	- Pacific Telecom	N/A	JV	1985	NORTH PACIFIC CABLE	R&D, TECHNOLOGY SHARING, FIERCE COMPETETION
	- PTAT -USA	PTAT 1	JV	1988	THE 1rst ALTERNATIVE FIBRE OPTIC CABLE	COMPETITIVE PRESSURE
STC:	- LSI Logic -USA	N/A	PNSH	1986	MICROCHIPS AT STC PLANT IN KENT	ENHANCE GLOBAL POSITION
	- Northern Telecom CANADA	N/A	JDP	1988	MULTIPLEXERS	TECHNOLOGY & RESOURCE SHARING, GLOBALISATION
	- BAT -FRANCE	STC-BAT	PRESH	1989	VARIOUS RANGE OF PRODUCTION	1992, GLOBALISATION, COMPETITIVE PRESSURE
	- Thomson -FRANCE	N/A	PNSH	1985	IMPROVE THE RELIABILITY OF SOFTWARE	R&D

Source: The Database.

British Telecom

Unlike C&W, British Telecom's drive into international markets did not begin until privatisation in 1984. From a strong local base the company has been expanding into global markets and investing heavily in major strategic areas in North America, Continental Europe and Japan with the aim of becoming a leading worldwide supplier of telecommunications services. Overseas expansion has been achieved through a combination of acquisitions and strategic alliances.

Two important strategic alliances include the R&D programme with Dupont in 1986 and the tie up with Metrocast in 1988. The Dupont agreement is a research and development alliance concerned with developing a new and complex technology for the laser transmitters and receivers. The alliance was formed to reduce costs and to achieve synergy in R&D expertise. One consequence of the alliances has been the development of a new type of optical switch requiring only one-tenth of the switching energy of alternatives. The alliance with Metrocast is in the area of mobile paging telephones. In the US, the paging system is local rather than nationwide. Metrocast had developed a system of linking local networks into a nationwide system. The company was looking for a larger partner to provide the finance necessary for the effective manufacturing of the new technology and British Telecom was the ideal partner. This alliance provides BT with Metrocast's technology as well as entry into the important US market for pagers which is estimated at 7 to 10 million. In 1989, BT acquired an 80 per cent stake in Metrocast.

While keeping pace with major competitors was a prime motive for almost every alliance entered into by BT as well as by the other two firms surveyed in this sector (C&W and STC), globalisation, was seen as amongst the decisive motives for the alliances formed in this sector, a good example is the recently announced alliance between BT and IBM which previously (1984) blocked by the UK government on competitive grounds (Financial Times, 18 December, p17).

Unavoidably then, telecommunication and equipment manufacturers in Europe and throughout the world are under enormous pressure to fashion similar alliances to secure a competitive presence in the global market place, i.e. achieving competitiveness in this sector is becoming more dependent on a company's ability to manage a diverse range of strategic alliances throughout the world.

7.3.4 Automotives

Perhaps the most complicated web of worldwide strategic alliances which involves almost every player is the one that represents the countless deals formed in the automotive industry. The repeated use of strategic alliances in this sector can be rooted in two important trends; one is the increased pressure of global competition, and second is the introduction of new technologies in the production of components and in assembly operations.

<u>Rover Group</u>

Probably the most famous British-foreign alliance in this sector is that between Rover and Honda of Japan. In the late 1970's, the "Rover Recovery Plan" was being developed based on three new products- the Metro, Maestro and Monteyo. The programme was huge and complex and was consuming virtually all of Rover's financial and engineering resources. The company needed another vehicle in the lower/medium sector of the market, but Rover could not develop another model alone.

The firm's strategic objectives have been to use R&D money more effectively, spread the risk and costs, gain access to new key markets, and strengthen it production capability. These were the essential considerations in the ten-year-lasting series of alliances between Rover Group of the UK and Honda of Japan. In the past through joint design and development of different models Rover-Honda alliances have built an important triumph for both companies as a result of pooling their complementary skills and resources which also formed the basis of their agreement, signed in July 1989. This agreement was described by one Rover executive as:

> "strengthening and cementing the ten years of agreement by agreement, and step by step development".

The same strategic objectives and motivations formed the basis of the companies' recent deal, signed in October, 1991 (Financial Time, 3rd Oct., 1991). This recent allaince emphasises the need for further concentration on R&D, new technology, and productivity to world class level in order to meet the rapidly mounting competition from Japanese as well as European car makers in Europe.

Similar to their customers, the automotive component firms are spider-webbing into strategic alliances, mainly to upgrade their technological know-how and skills, to hold onto market shares, and to improve their global market position. Illustrative examples are the alliances formed by GKN, Perkins Engines, and Lucas Industries (see Figure 7.6). In this context Lucas' planning manager stressed that:

> "globalisation of the industry is becoming more important for the automotive components firms as fewer supplier are being selected by vehicle manufacturers. And this means that to remain competitive, a firm has to provide differentiated products and services wherever its customers are, and strategic alliances are the most convenient means to move quickly to generate and provide those competitive products."

<u>GKN</u>

GKN is one of Britain's leading companies in the automobile components. Its major activities cover transmissions equipements for cars, commercial and agricultural vehicles, tractors, and autoparts distribution systems. GKN's main objectives are to keep pace with technology and product innovation to meet the global challenges and the speed within which those technologies and products must be commercialised. These were essential considerations for the company's alliances, particularly that with Mitsubishi of Japan which GKN's managing director justified its motivations as:

> "In the future, the market place in our industry is going to demand leading edge technology and this is very expensive that we would not be able to afford it on a going-it-alone basis. Also the dispersion of technology is tilted, which makes it very difficult to protect that technology long enough (to sustain competitive advantage), and if any way it is going to be dispersed we'd better disperse it ourselves in a way that gets us some strategic gains rather than having it happened by people copying us and gain nothing".

GKN is also expanding into the North American market through strategic alliances. One of its recent deals there is development programme with a Canadian company which in the words of GKN's managing director was described as:

> "the alliance with our Canadian partner is to develop a new concept in the automotive components that we don't have all the technology available, or to invest would be too expensive. Together with our partner, we are combining our technological expertise to present new products to the US automotive industry".

FIGURE 7.6

BRITISH-FOREIGN ALLIANCES IN AUTOMOTIVES

UK PARTNER	FOREIGN PARTNER(S)	NAME OF ALLIANCE	FORM	DATE	INFORMATION ON THE ALLIANCE	REASONS FOR COLLABORATION
BTR (DUNLOP):						
	- Topy Industries -JAPAN	DUNLOP TOPY LTD	JV	1986	NEW TECHNOLOGY IN WHEELS (DUNLOP)	TECHNOLOGICAL COMPLEXITY AND MARKET ENTRY
GKN:						
	- Mitsubishi -JAPAN	TRANSLITE KK	JV	1985	COMPOSITE SPRINGS	TECHNOLOGY INNOVATION
	- NTN Toyo -JAPAN	N/A	JV	1984	BALL AND ROLLER BEARING (50/50)	RISK AND COST SHARING
	- Yaskawa Electric -JAPAN	N/A	JV	1982	WEDLING ROBOTS	RESOURCE SHARING
Haden Maclellen Hol.:						
	- Hitachi -JAPAN	N/A	JV	1982	PAINT SPRAYING ROBOTS (FAILED IN 1985)	TECHNOLOGICAL COMPLEXITY & MARKET ENTRY
	- MKC -JAPAN	N/A	PNSH	1987	VARIOUS PRODUCTS RANGE	GLOBALISATION AND MARKET ENTRY
	- Simac -W GERMANY	N/A	JV	1982	TEXTILES AND CARS' FURNITURES	GLOBALISATION AND COMPETITIVE PRESSURE
Lucas:						
	- Honda -JAPAN	AR 8	PNSH	1987	EXPANDED ENGINES MANAGEMENT SYSTEMS	TECHNOLOGY SHARING & COMPETITIVE PRESSURE
	- Sumitomo -JAPAN	N/A	JV	1986	WIDE RANGE OF PRODUCTS	GLOBALISATION
	- Thomson -FRANCE	N/A	PNSH	1984	SECURE CONTRACTS FOR THE AIRBUS PROJECTS	COMPETITIVE PRESSURE, IMPROVE MARKET SHARE
	- TRW -USA	CAU	PNSH	1980	DIESEL-ENGINE, FUEL-INJECTION SYSTEMS	TECHNOLOGY SHARING & COMPETITIVE PRESSURE
	- United Technologies-USA	N/A	PNSH	1984	DEVELOPMENT OF INTEGRATED MANAGEMENT SYSTEM	TECHNOLOGY SHARING & GLOBALISATION
	- Valeo -FRANCE	N/A	JV	1985	CARRY ON DUCELLIER (PAN EUROPEAN STRATEGY)	1992, SINGLE MARKET OF EUROPE
	- Yuasa -JAPAN	LUCASYUASA	JV	1987	RUN CAR BATTERY PLANT IN BIRMINGHAM (50/50)	TECHNOLOGY SHARING
Perkins Engines:						
	- Detroit Diesel -USA	N/A	PNSH	1988	DIESEL ENGINES	GLOBALISATION
	- Shibaura -JAPAN	N/A	PNSH	1987	MEDIUM WEIGHT TRACTOR	ENHANCE MARKET SHARE
	- Varity SDP -USA	SDP	JV	1989	FILL INJECTION SYSTEMS	GLOBALISATION AND COMPETITIVE PRESSURE
Rover Group:						
	- DAF -NETHERLAND	N/A	PRESH	1986	ROADRUNNERS TRUCKS:SHERPA VANS, HEAVY VANS	ENHANCE GLOBAL POSITION, COMPETITIVE
	- Honda -JAPAN	LEGEND	JDP	1985	ROVER 800	GLOBALISATION AND COMPETITIVE PRESSURE
	- Peugeot -FRANCE	N/A	PNSH	1980	RESEARCH: ENERGY & MATERIALS	R&D, COST SHARING
T&N Technolgy:						
	- Doungsuh Ind.-KOREA	DOUNGSUH	JV	1983	FULL RANGE OF CAR COMPONENTS	ENHANCE GLOBAL POSITION, FIERCE COMPETITION
	- Sonex -USA	N/A	PNSH	1987	EMISSION STANDARDS WITHOUT CATALYST (HIGH-TECH)	TECHNOLOGY SHARING

Source: The Database.

7.3.5 Chemicals and Pharmaceuticals

The flexibility of changing the product range of firms in the direction of the core technologies, basically, comes from the R&D departments. Therefore, it would be expected that the new generation of core technologies necessitates a bigger commitment to R&D than previously. Probably the investment costs in this sector do not yet go beyond the ability of the leading companies, but many began to feel the tension of competitive pressure, and they started rethinking their own strengths and how to capitalise on them. Hence, the need for strategic alliances becomes more pronounced as the risk of R&D and its costs grew in parallel with market growth conditions. Although they still tend to prefer acquisitions, many companies have followed their counterparts in other sectors to shorten the road through strategic alliances. See Figure 7.7, for some examples of British-foreign alliances in this sector.

BOC Group

An illustrative example in this sector is BOC Group. The company is involved in industrial and speciality gases, domestic and hospital healthcare, as well as special products like vaccum systems and equipments. BOC is well known for its long history of acquisitions, particularly in the last decade where the company made more than eight acquisitions in the US alone.

As many companies in this sector, the company has realised the importance of strategic partnerships. For BOC technological superiority and market leadership have been the main objectives underlying its alliances. One of its crucial alliances is that with Dow Chemical of the USA, both companies had recognised a strategic benefit by pooling their complementary skills and resources in membrane technology, and together will be able to block competition and maintain a significant global market share in that evolving technology.

<u>ICI</u>

Similarly, the statement expressed by ICI's group planning manager emphasizes the emerging need for alliances in this sector as he explained:

> "we have normally tried to do things ourselves, but the way in which businesses are changing recently makes the go-it-alone phenomenon less attractive, for technology is steadily getting more expensive, and it is very difficult to carry the cost of R&D unless you either have a global business; i.e. a hugely large turnover so you can carry on the cost associated with the ongoing R&D, or the case of new business where you have no choice but to share the cost of its R&D with someone else. So, we are beginning to think more actively about strategic alliances".

ICI's acquisition manager agreed with his colleague to the above with regard to their coming alliances and added that access to key markets has played an important role in forming the few alliances the company is currently involved in.

FIGURE 7.7

BRITISH-FOREIGN ALLIANCES IN CHEMICALS & PHARMACEUTICALS

UK PARTNER	FOREIGN PARTNER(S)	NAME OF ALLIANCE	FORM	DATE	INFORMATION ON THE ALLIANCE	REASONS FOR COLLABORATION
Amersham:						
	- Chugai Seiyaku -JAPAN	N/A	JV	1983	MEDICAL PRODUCTS (45/55 FOR AMERSHAM)	ENHANCE MARKET SHARE
	- Prodati Jami -ITALY	N/A	JV	1986	MEDICAL PRODUCTS (85/15 FOR AMERSHAM)	GLOBALISATION AND MARKET SHARE
BOC:						
	- Bristol Laboratories -USA	N/A	PNSH	1988	STADOL	ENHANCE GLOBAL POSITION
	- Dow Chemicals -USA	N/A	JV	1987	NITROGEN AND MEMBRANE TECHNOLOGY	TECHNOLOGY SHARING
	- Dfrimner Viggo -W GERMANY	N/A	JV	1987	OXYGEN (50/50)	COMPETITIVE PRESSURE
	- Osaka Sanso Kogyo -JAPAN	N/A	JV	1986	LIQUID GAS (51/49)	COMPETITIVE PRESSURE
	- SPA -ITALY	N/A	JV	1988	LIQUID GASES (50/50)	1992, SINGLE MARKET OF EUROPE
Foseco:						
	- Globabel -BELGIUM	FOSEBEL	JV	1981	GLASS AND OTHER EQUIPMENTS	GLOBALISATION AND NEW TECHNOLOGY
	- Morval -CANADA	N/A	PNSH	1988	CARS' FURNITURES	GLOBALISATION
	- Toyota -JAPAN	N/A	PNSH	1987	CAR EQUIPMENTS	GLOBALISATION
ICI:						
	- Dupont -USA	N/A	PNSH	1988	CAR PAINTS	CONPETITIVE PRESSURE
	- Enichem -ITALY	EVC	JV	1986	VARIOUS CHEMICAL PRODUCTS	TECHNOLOGY SHARING, GLOBALISATION
	- Nipon Oil & Fats -JAPAN	N/A	PNSH	1988	AUTOMOTIVE COATINGS	COST SHARING & MARKET ENTRY

Source: The Database.

The main activities of ICI cover areas like agrochemicals; advanced materials and electronics; colour and fine chemicals; biological products; explosives; and pharmaceuticals.

ICI's overall strategy is similar to that of BOC. The company, though prefers the go-it-alone phenomenon, it has also realised that strategic alliances represent an important means for maintaining its "global image". The illustrative example for that is EVC- formed in 1986 as an alliance in VCM/PVC by putting together the respective businesses in this area of ICI and Enichem of Italy. Others include the alliance with Dupont of the US which was motivated by competitive factors, and the alliance with the Japanese Nippon Oil & Fats which was formed to strengthen ICI's market share and competitive position in what the company considers a "crucial" part of the world market.

On the other hand, the remainder of the companies in this sector equally felt that strategic alliances will enable them to keep pace with globalisation and secure competitive position and market share.

In general, since pharmaceuticals and chemicals continue to display important mergers and acquisitions, e.g. SmithKline and Beecham (early 1988), the current state of strategic alliances is more impeded than in other sectors. As the previous chapter shows, only about 8.2 per cent (29 cases) of the 337 British-foreign alliances in the 80s did they involve chemical and pharmaceutical firms, so this leads to the fact that companies in this sector act alone as much as they can and work together with great caution. As perceived by an Amersham's director the need for more collaboration will become more pronounced as the costs and risks of R&D grow higher relative to market growth conditions.

7.3.6 Other Sectors

International strategic alliances are no longer confined to the above discussed industries which fall either in the global and/or blocked global business category. Though from different slant, those strategic deals are becoming common in industries where technologies are not too complex for the individual firm to exploit, and where the advantages of global business are not yet very promising and local adaptation is still a prerequisite for doing business.

In the service sector, for instance, MNEs are searching for consultants who can provide a geographically vast set of services with specialised knowledge of each market. Mergers and acquisitions have their difficulties, particularly the availability of the right candidates. As a promising means of growth and development, strategic alliances gained their way into this sector as well as many others, e.g.; food, construction and engineering, glass, etc... Figure 7.8 shows some examples of the British-foreign alliances in seven different industries.

Not only does the growth of strategic alliances differ in these industries, but also the factors that motivate such deals. Access to new and advanced technology and the urgent need to protect the competitive position of the firm were the main factors behind the formation of the alliances entered by BICC and John Brown Engineering (construction) and British Petroleum, BP, (Oil & Gas). However, risk sharing was given no less importance. In this context, one BP director emphasized that:

> "though technological complexity was the prime motive for our two most important alliances, risk sharing associated with the R&D of that technology was the second prime motive."

On the other hand, economies of scale was seen as a decisive motive for the alliance formed by one food & drink company whose director stressed:

> "by having an alliance in the UK with our major American rival, we are achieving economies of scale, supplying the whole market of Europe, and most importantly gaining competitive advantage against our other competitors".

Moreover, all seven firms were strongly concerned about the globalisation of markets, hence, seeing an urgent need to have a foothold in key markets like North America, Europe, and Japan, as well as using the alliance to protect their existing market share.

FIGURE 7.8

BRITISH-FOREIGN ALLIANCES IN OTHER SECTORS

UK PARTNER	FOREIGN PARTNER(S)	NAME OF ALLIANCE	FORM	DATE	INFORMATION ON THE ALLIANCE	REASONS FOR COLLABORATION
British Petrolium:						
	- Enichem -ITALY	N/A	JV	1987	R&D, POLUETHYENE PRODUCTS	R&D, RESOURCE SHARING
British Vita:						
	- Victa Acta -W GERMANY	VICTA	JV	1986	AUTOMOTIVE TEXTILES	RESOURCE SHARING (COMPLEMENTARITY)
Cadbury Schwepps:						
	- Coca Cola -USA	CCSB	JV	1986	SOFT DRINKS	ECONOMIES OF SCALE & FIERCE COMPETITION
Pilkington:						
	- St. Gobain -FRANCE	CEBRACE	JV	1981	FLOAT GLASS	MAKET ENTRY & RISK SHARING
	- Nippon Glass -JAPAN	LIBBEY OWNS FORD CO	JV	1989	FLAOT, AUTOMOTIVE GLASS	GLOBALISATION AND RESOURCE SHARING
William Sinclair:						
	- Haddock -AUSTRALIA	N/A	JV	1983	AGRICUTURAL PRODUCTS	COMPETITIVE PRESSURE
	- Mitsui -JAPAN	N/A	PNSH	1981	ZX-S1 PC. (COMPLETED IN 84)	KEY MARKET ENTRY
BICC:						
	- Corning -USA	N/A	JV	1984	OPTICAL FIBRES	COST SHARING
John Brown Eng.:						
	- GE -USA	N/A	PNSH	1981	HEAVY EQUIPMENTS	TECHNOLOGY SHARING, GLOBALISATION
	- Mitsui -JAPAN	N/A	PNSH	1984	HEAVY EQUIPMENTS	GLOBALISATION, INCREASE MARKET SHARE

Source: The Database.

7.4 CONCLUSIONS

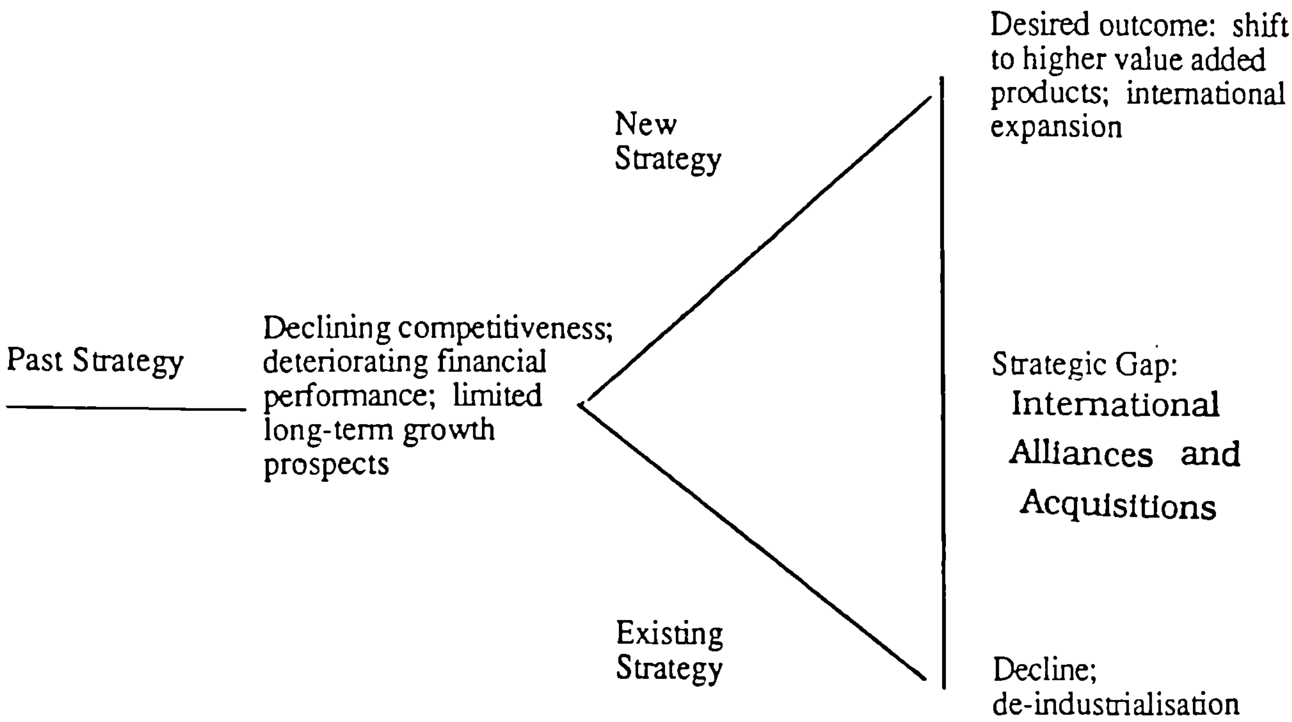
The current chapter has examined the motivations underlying international strategic alliances within a sample of 29 British MNEs operating in various industry sectors. The dominant motivations, as found by this research are: technological complexity and development, globalisation of markets, speed of entry to a key market, reduce competitive pressure, large financial requirements in R&D, and risk sharing. Moreover, strategic alliances was a desired option because it was seen as an important complementary strategy by the majority of the firms surveyed; 23 companies (i.e., complementing other strategies like acquisitions and licensing).

Taking into consideration the early discussion on the declining international competitiveness of British industry during the late 1970s and early 1980s (Chapter One), and the analysis and examples provided in this chapter, it can be concluded that British firms were forming their alliances in order to achieve the following strategic objectives:

* to upgrade their technology and product portfolios by shifting towards higher value-added products;
* to internationalise and to diversify geographically into markets that are considered key areas within the global market; and
* to improve their international competitiveness in an era of fierce competition.

FIGURE 7.9

STRATEGIC GAP ANALYSIS: BRITISH INDUSTRY IN THE EARLY 1980S



Source: adapted from Jauch and Glueck (1988).

* to share the huge cost required for R&D, and minimize the risk associated with hybridisation of technology.

The above strategic objectives can be placed within the framework of the Strategic Gap Model developed by Jauch and Glueck (1988) and applied by Hamill (1991) to explain the wave of British acquisitions in the USA. As explained earlier in Chapter One, the concept of the Strategic Gap model refers to the difference (gap) between the outcomes of existing strategies and the expected outcomes of a change in strategy (see Figure 7.9).

Using this same model in the current research in combination with the findings on the motivational factors explains the role of strategic alliances as an important part of the British firm's overall strategy in closing the Strategic Gap. Strategic alliances are used by British firms for their crucial role in achieving the strategic objectives outlined above and closing the strategic gap between the desired technology/product and geographical expansion and the outcomes of old strategies (referred to as existing strategies in Figure 7.9). However, achieving those goals depends on the success of such strategies which is very much associated with their management process. The management of strategic alliances is the subject of analysis in the next chapter.

CHAPTER EIGHT

MANAGEMENT OF INTERNATIONAL STRATEGIC ALLIANCES

SUMMARY

British firms, in managing their alliances, highly consider two main issues: one is balancing the attention in the three crucial stages of the management process (planning, formation, and operation and control), and two is understanding the issues that link each stage to the other, i.e. preparation for the formation stage and development of the plan and management team of the alliance.

Planning: incorporates identifying opportunities and objective setting, and evaluating alternative strategies. Planners should pay great attention to: resource analysis, strategic comparison, impact of changes, competitors analysis, competitors reactions, and personnel resources.

The alliance partners are selected accordinq to: compatibility of management teams, complementary technical skills and resources, competitive position, strategic complementarity, nationality of partner, relevant partner's size.

Formation: mainly involves the negotiation of the alliance. At this stage the following are essential:

* Involving the personnel who will later be responsible for running the alliance in the negotiation.

* Exploratory meetings to highlight objectives and dig out aims and expectations.

* Putting together a common plan of objectives, aims, and issues for the negotiation process.

The negotiation should be concluded by a mutual belief that each partner's involvement is essential to the alliance's success and that the expectations of the alliance are pragmatic and representative.

Operation and Control: the mangement team of the alliance must possess the ability of keeping a tactful balance between the desire to control the activities of the alliance and the need to maintain a harmonious relationship in that alliance. The responsibillity of the team goes beyond decision making, to continuous monitoring, solving problems, restoring fairness, and ensuring the attainment of their firm's objectives.

Conflict, integration, and control are related. When the alliance's activities are intensively integrated between the partners, conflicts tend to be high and the control mechanisms tend to be very clear, whereas, in cases of lower degrees of integration, the control mechanisms used by one partner tend to differ from what is used by the other, conflicts are more difficult to spot yet more complicated when discerned, and the alliance demands continuous and excessive monitoring by the involved parties.

Strategic problems are the most difficult of all, they need exceptional attention, for their consequences can be fatal for the partner(s).

Continuous protection of the firm's own competences (black boxes), perpetual monitoring (regular visits and reports), and regular evaluation of outcomes (performance's assessment) are crucial for strategic alliances.

The establishment of a delicate balance between competition and team work represents an essential challenge for partners to strategic alliances.

8.1 INTRODUCTION

The current chapter presents detailed insights into the management of international strategic alliances as practiced by the British MNEs participating in this study and compared to the management guidelines and models which were discussed in the literature part of this research (Chapter Four). Following the discussion of the managerial issues, the next chapter is devoted to present some analysis on the alliance performance and impacts.

The survey results indicate that British firms tend to devote a balanced consideration over the three stages of the alliance management process. These are: **The Planning Stage** which is concerned with the strategy choice and its planning; **The Formation Stage** that represents the negotiation process and alliance formation; and **The Operational Stage** within which the partners are together operating and controlling the shared partnership. Accordingly, the present chapter is divided into three main parts all are devoted to explain and analyse the significant issues which are deemed essential to manage a potentially successful atrategic alliance as practiced by the British sample under study.

PART ONE

PLANNING FOR STRATEGIC ALLIANCES

8.2. THE PLANNING STAGE

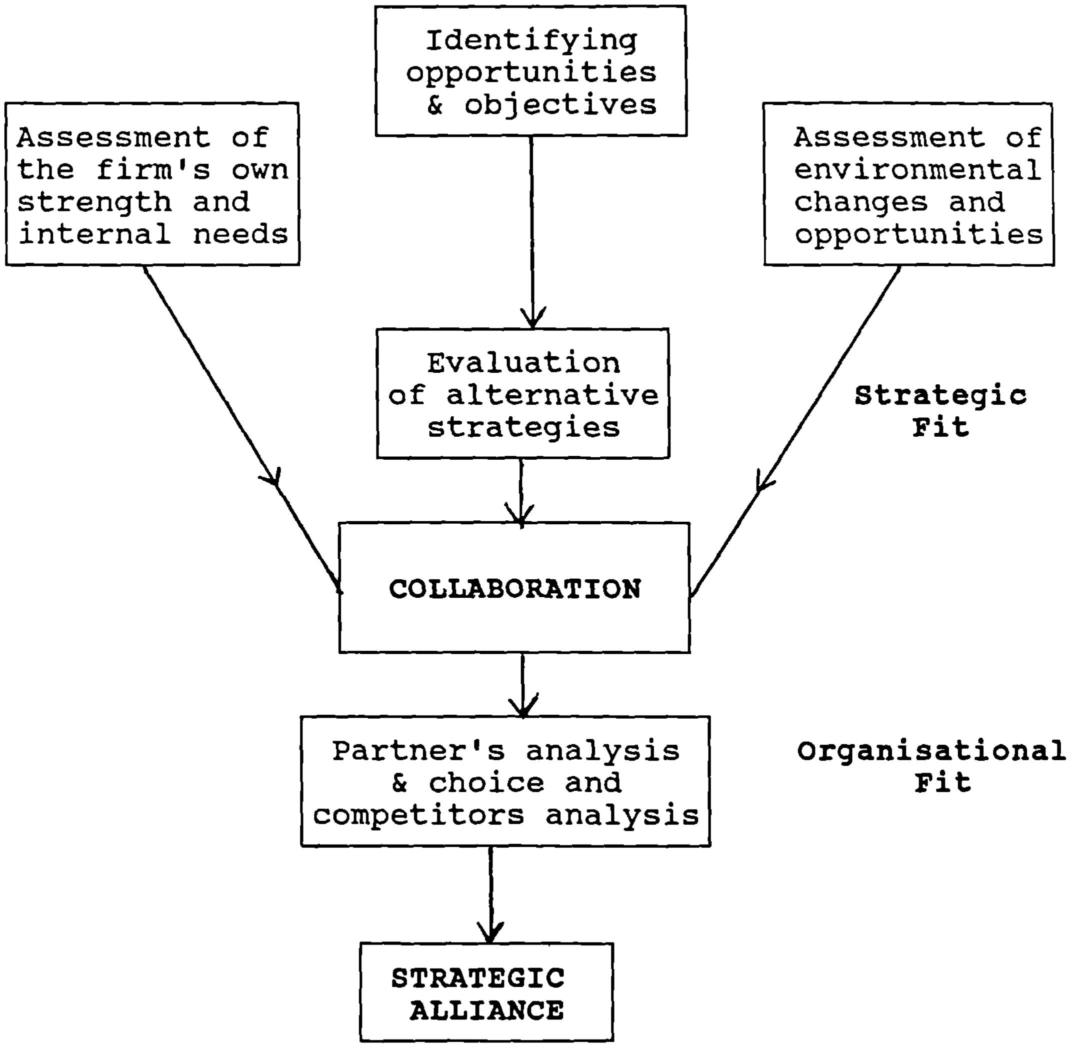
As discussed in Chapter Four, framing an international strategic alliances starts with acquiring a fundamental perception of the firm's own position with regard to the environmental business changes and continues with a strategic planning process which may encompass the existence of a second party (potential partner for instance), and/or the presence of two or more alternative strategic options to fulfill the objectives generated from the internal/external assessment of needs/opportunities.

However, the current research indicates that there is no one superb and steadfast starting point in planning for strategic alliances, especilly, before the idea of collaboration is borne out and more convincingly, because every alliance must involve at least two parties. The first step is that the approaching firm that would start from an evaluation of its own position related to the environmental factors and changes, identifying its own weaknesses and strengths, defining its main objectives and evaluating the alternative options to satisfy those objectives, and then will probably decide upon an alliance with some other firm(s). The other party in the scenario is the approached firm which will have received the proposition for an alliance from the first party, hence, the proposed alliance would form the starting point for this firm's planning process. The approached firm would then evaluate the benefits and advantages which the proposed alliance may offer, weigh them against any potential disadvantages and formulate the set of objectives which would emerge from an assessment of the firm's strengths and weaknesses in relation to the competition and other environmental factors (see Figures 8.1 and 8.2).

Nevertheless, this study found that the planning process in both sides is as thorough as well as genuinely similar. Therefore, the sample companies would not be divided into approached and approaching firms, rather, this section will concentrate on the main issues involved in planning for international strategic alliances as perpetuated by the companies surveyed.

FIGURE 8.1

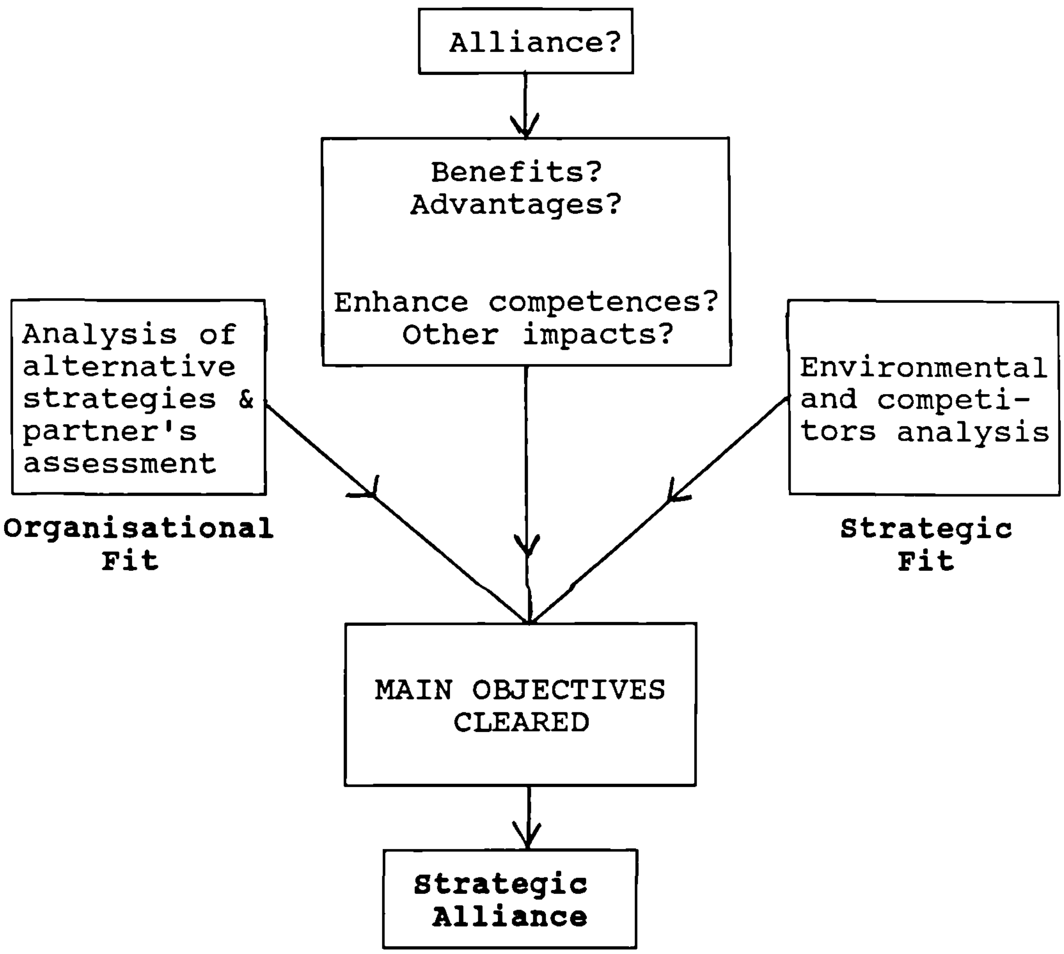
APPROACHING FIRM'S PLANNING



Source: The researcher.

FIGURE 8.2

APPROACHED FIRM'S PLANNING



Source: The researcher.

8.2.1 Identifying Opportunities and Objective Setting

A variety of factors have, in recent years, reshaped the global business environment and brought added complexity to the challenge of trading in the global market place. However, environmental changes, technologies and/or globalisation did not only bring pressures on MNEs, but also yielded new opportunities that are awaiting for efficient exploitation by updated and more effective strategies; repeatively called competitive strategies. Porter (1987) comments: "there are two central issues in competitive strategy; first, the structural attractiveness of the industry, and second the companies relative position in the industry." Both these factors are dynamic and both can be influenced by the company's existing strategies, while neither is sufficient alone to guide strategic choice. Therefore, it can be argued that the perceptions of environmental and internal characteristics are the important factors to consider in the strategy formation process. Managers' evaluations of the relevant critical success factors and the *firm's position vis-a-vis* these factors provide the foundation for a firm's competitive strategy.

For this research the opportunities created by environmental changes were instigated from the issues responsible for the growth of ISAs (e.g. Globalisation, changes in technology) which served as supplementary questions to the main questionnaire to enable the researcher to clearly undestand the process of the firm's objective setting.

Hence, the surveyed firms were asked whether they identifyed those issues as opportunities before deciding to call upon a partner or to accept a proposed alliance. Accordingly, sixty-seven per cent (20 companies) of the sample claimed that identifying opportunities is a routine analysis which goes on all the time whether the company is planning a new strategy or not. Whereas the remaining nine companies (33%) started the process internally and then related their internal needs to the environmental opportunities after these are identified. However, the objectives of the will-be-chosen strategy were in both situations born out of the analysis of internal needs and external opportunities.

Those opportunities include: the need to exploit new technologies and/or combine different sets of skills and knowledge (synergy resulting from hybridisation of technologies, knowledge and management skills). This emcompasses new competences which may have major impacts on existing businesses and which promise to generate a competitive advantage for the exploiting firms. Examples of such competences as identified by one aerospace firm's director of planning include emerging technologies, R&D expertise and new approaches to management and product development. This also was pronounced by most of the automotive firms in the sample.

Furthermore, by assessing their own strengths and weaknesses and competitive position 79.3 per cent of the sample companies (23 firms) were able to design a strategy which optimised environmental opportunities.

As a supplement to the firm's assessment, the development of competitors' profiles enabled those 23 companies to more accurately forcast both short- and long-term growth and profit potential. Although the exact criteria used in assessing one's competitive position and constructing competitors' profile were largely determined by situational factors in the environment and the firm's own attitude towards competition, the following were often included in most of the 23 firms' list of analysis:

1. General Image,
2. market share,
3. competitive position in key markets,
4. overall financial position,
5. R&D and technological position,
6. capacity and productivity,
7. breadth of product lines,
8. relative product quality,
9. distribution channels,
10. personnel capabilities and expertise,
11. linkages with other key competitors.

Moreover, the rest of the companies in the study, 20.7 per cent (6 firms), first placed a set of preliminary objectives, carried out self assessment, and then looked at external opportunities and environment. Those firms started with two important set of questions, these are:

1. What are the explicit competences of the firm as a whole? what are those within each of the business groups? where do the critical weaknesses lay?

2. What are the key external factors impacting upon: a) the firm as one body?, b) each of the business groups? Who are the direct and indirect rivals? what changes/trends are occuring which present major thrust on the company and on each business' future operations?

Then they simultaneously analysed the firm's position with regard to external factors and established their objectives.

The next step, after identifying the firm's objectives, is the strategic analysis of the available strategies.

8.2.2 Evaluating Alternatives

Once the firm has identified its strategic objectives and developed a thorough analysis of its needs vis-a-vis the external changes and development, which is the best strategic choice becomes an important question before any decision is made. Delvin and Bleackley (1988) expressed the need for evaluating *the strategic options* and before favouring any strategy. This was very well conceived by BT's director of business planning who stated that:

> "we would very rarely go into alliances without thoroughly looking at a fair set of alternatives",

however, this was not the case for all the participating companies, the survey showed some provocative results in this context. Accordingly, when the sample was divided into well experienced firms (in terms of having previous alliances) and less experienced firms, it was found that firms with previous experience (51.7% of the sample or 15 firms) tend to spend little time on evaluating alternative strategies. However, that is not considered as a weak point, for an automotive company's managing director emphasised that:

"with the constant changes in our industry, we're always looking into our policies and strategies. We have a number of people who are constantly involved in evaluating external/internal issues and opportunities and the means to exploit them, may be that is why after one or two board meetings we decide to accept a proposed alliance or to call up for one."

Moreover, an electronic company director stated that:

"Frankly, the alliance was favoured right from the beginning, though in this case, we run some analysis of 3 or 4 options and these were dropped one after the other to decide upon entering into an alliance."

Similarly, an aerospace company director argued that:

"the alliance was first thought of as the desirable way to achieve the firm's objectives, but because of the significant problems that rise in diverging management resources in order to manage the alliance properly, we had to examine and compare the advantages and disadvantages of the alliance against those of some other alternative strategies."

While a director of another aerospace firm stated that:

"we only considered the option of internally developing the alliance products, but were put back by the massive cost of the project as well as the complexity of the needed competences. It was very clear from the beginning that the alliance is the only and exclusive means to fullfil the objectives."

Therefore, companies which were well experienced in collaborative arrangements in general and strategic alliances in particular favoured the alliance strategy from the start, and little time (two to three meeting between operational managers and executive directors) was spent on evaluating and comparing alternative options.

Nevertheless, the exception to this was Rover-Honda's alliance (July, 1989). Though this was seen as a continuation of ten years of successful relationship between the two partners, one Rover director expressed that:

> "a considerable time was spent in evaluating alternatives, because of the risk which may be incorporated in such deals."

Thus, for this group of companies, even in cases where evaluation of alternatives took place, the alliance was favoured at the outset, but it was pushed back as a last resort when it came to making a decision on the most suitable strategy to consider other alternatives, then pushing itself forward again as the only felicitous mean to achieve the desired objectives.

On the other hand, firms which had experienced few previous alliances went through a large number of board meetings and discussions before favouring the alliance option. In this regard, a BP business division manager stated that:

> "the options were so integrated and as you cannot seperate them out, you have to examine them as a whole, but then you get into a stage where those options become clear and self-separated, and only then they are analysed and scrutinised carefully before one strategy is selected, and this takes hard work and lots of time."

While Lucas' strategic planning director ensured that:

> "at this stage, we have our objectives, then we again ask: what is our competitive standing in the business? what are the competitive requirements of the world? who are the competitors? what is it they share in every market? we then look into every likelihood of being able to match our criteria for survival in this global world, mainly without actually getting down to alliances yet, we first look at possible acquisitions and/or internal development, and if not, then we consider a strategic alliance because they are not the thing we go for first, they are very difficult and painful if they go wrong."

Moreover, T&N technology's licenssing and joint venture director believed that:

> "if this stage of planning is not carefully handled any chosen strategy would have disastrous results, especially if a strategic alliance is one of the options. Strategic alliances must be devoted lots of analysis and search even before one starts looking for a potential partner."

In addition, BICC in its single alliance, the company was initially planning an acquisition when their American partner, Corning, approached them for an alliance. The same team of specialists who were preparing for the acquisition altered their analysis to take into consideration the proposed alliance, and found that the alliance would give them the access to the technology they were looking for (fibre optics) more cheaply and with additional advantages.

The current research shows that this group of less experienced companies (48.3%) spent between one and three months in evaluating alternatives such as mergers and acqusitions, licensing, before being totally convinced with the strategic alliance. However, BOC is probably the only exception to this situation. Though BOC is well known for a long history of acquisitions, it established few important alliances one of which is that with Dow Chemicals of the USA. When the company's business director was asked to whether they have done enough evaluation and analysis of the option strategies he replied:

"we actually first identified Dow's technology which was a break through in the membrane technology and which we were ourselves working on to develop. So we had the expertise and some competences in that field which also were needed by Dow. Then we had much discussions within the company as to the suitability and feasibility of going into an alliance with Dow in an area that might compete with our core business."

For some personnel in BOC, being involved in a large number of acquisitions, the alliance was a sort of last resort option.

"By no means a 100% conensus within BOC that was an excellent and most desired idea, although it reasonably quickly gained the agreement of top management and that drove it through",

expressed by one BOC business director.

Whether or not the strategic alliance was either a last resort or a desirable first option, firms were carrying a kind of "1+ 1= 3" analysis. And even when less time was spent on evaluating alternative strategies, participating firms were reluctant to ignore the existence of other means to achieve their objectives. This result supports Delvin and Bleackley (1988) recommendation for evaluating strategic options before selecting the alliance route.

Moreover, the question of **strategic fit** was also seen as fundamental to the firms surveyed where much concern was about how the alliance could be fitted within the overall company's strategy. This finding supports previous research findings by Jemison and Sitkin (1986), Lorange and Ross (1987), and Payne (1987). However, S.As are only one of a range of business development routes for companies. The decision to form a S.A., therefore, as seen from this research, must be made on the basis of the firm's strategic objectives and other strategic alternatives.

However, the final decision on choosing the alliance route was not taken until the right partner was evaluated and/or found. Lastly, before presenting the British firms' attitude to identifying and selecting potential partner(s), a check list, which should be given careful consideration by the planners to ensure the strategic fit of the alliance, is concluded from the current study and includes:

1. **Resource analysis;** what do we exactly have? and what do we need to achieve our goals?
2. **Strategic comparison;** which of the available strategies is suficiently like a predecessor project, technology, or business to ensure that it will work as planned? Does the alliance match our existing strategies?

3. **Impact of changes**; will there be any environmental or other change that might stop or slow down the work of the strategy- or which option is most likely to be affected that way? Is it the most suitable time to pursue an alliance?

4. **Competitors analysis**; is there any chance for a competitor to develop a technology that will make ours obsolete?

5. **Competitors reactions**; how will competitors react to each of the option strategies? Do we have a plan to get around competitors' reaction?

6. **Personnel resource**; who should be involved in carrying out the to-be-chosen strategy? i.e. careful analysis of the personnel resources.

8.2.3 Partner's Selection

Porter (1986), among many others (e.g. Killing, 1983; Harrigan, 1984; and Geringer, 1987), argues that identifying the alliance partner is the most important issue in establishing a successful strategic alliance, and that partners should be selected on the basis of their contributions to the alliance and the risk of forming linkages with them. This concept has been highly supported by all interviewed companies' managers and directors, specifically those with extensive experience in making strategic linkages.

Whereas the hypothesis of producing a list of characteristics which deemed to be required from a potential partner was variously supported. Table 8.1 reveals that 20.7 per cent of the sample (6 firms) did not in any way prepare a list of potential partners' ideal charateristics prior to partner's identification. On the other hand, 34.5 per cent (10 companies) had an informal profile of the firms that might qualify as potential partners. Therefore, about 55.2 per cent (16 companies) of the whole sample did not have a solid list of characteristics for prospective partners. This can be explained by the fact that, in some circumstances, the firm was limited to a very small population of obvious potential partners where producing certain solid characteristics was unecessary and was replaced by evaluating only that limited number of candidates. ICI's acquisition managers put it this way:

"we do not put characteristics of potential partners, we normally look at the actual characteristics of the might be prospective partners and evaluate them, and if there is something which does not fit with our objectives and requirements, that firm would be put out of the list of potential partners."

Another reason for the absence of a formal list is the early recognition that potential partners must be in the same or complementary business and of equal strengths, i.e. competitors and/or complementary firms which usually limits the number of prospective partners. This is also illustrated by one executive statement, that is:

"we do not have formal list of characteristics for potential partners, because we are not prepared to do business with someone who we do not very well know in advance".

While another company's director asserted that:

"It is a strategic alliance, then it must be a competitor and in this context there is no problem of criteria setting because we know our competitors all over the world, we know who they are tied up with, who has got equity in them, and we do some form of formal search procedures, but not for the selection of potential partners it is rather done to keep updating information about our competitors' profile so this is kept in mind if we approach them or they approach us."

Moreover,

"in our business, we usually know all the possible candidates, so the question would be which is the best fit to our needs and what we are prepared to concede",

was a common statement spelt out by almost every interviewed executive of the firms which did not have the formal list of prospective partners' characteristics.

TABLE 8.1

PREPARATION OF A LIST OF CHARACTERISTICS FOR POTENTAIL PARTNERS

Interpretation	No of firms	% of Total
Detailed List	13	44.8
Informal List	10	34.5
No List	6	20.7
Total	29	100.0

On the other hand, 13 companies (44.8%) found it necessary to produce a check list of desirable features for prospective partner(s) which formed the basis for identifying them. The prerequsites of that check list were that the pratner(s) has to:

- be financially sound,
- be of similar size,
- have a wide competitive presence,
- have a certain strategic capabilities to the extent that it is regarded in its own market place as a strong operator, and
- have similar operational and R&D interests.

The necessity of establishing such a check list was more pronounced in firms who had little or no experience in collaborative agreements, or when the firm is planning to enter a completely new market in which they have no experience.

However, both in the absence or presence of a formal list of prospective partner's characteristics, identification of possible alliance candidates was mostly dependant on a) known reputation of the candidates, b) informal personal contacts with them, and c) their previous business relationships. Formal search procedures to identify prospective partners was seldomly used (only three firms in the whole sample), see Table 8.2.

Although assembling a discernible list of potential alliance candidates is an important process in the planning stage, be it a hard burden or a swift task, the process of screening those candidates and selecting the best suited one(s) remains a much more crucial task. Several studies, e.g. Porter (1986), Geringer (1987), Doz et al (1986), and Hamel et al (1989), have recommeded various criteria to evaluate and select the alliance partner. However, in order to grasp a clear understanding of the partner's selection measures and their importance as perceived by the British sample, the questionnaire listed nine criteria (as hypothesised from the literature) and the results are shown in Table 8.3.

TABLE 8.2

MEANS OF IDENTIFYING POTENTIAL PARTNERS

Rank *	Means of Identification	Number of firms **	Average Score
1	Known reputation	28	.966
2	Informal contacts	26	.897
3	Previous relations	18	.621
4	Formal search	3	.103

* Rank refers to the importance of each mean (1: most important ---- 4: least important).

** The number of responses exceeds the number of participants because some firms utilise more than one mean when selecting their potential alliance's partners.

The average score refers to the importance of each mean as used by the respondents (1: frequently used and 0: not used at all).

TABLE 8.3

CRITERIA FOR PARTNERS' SELECTION

Rank	Criteria	Number of firms *	Average Score
1	Compatibility of management teams	21 (0)	2.724
2	Complementary technical skills & resources	18 (0)	2.621
3	Competitive position	17 (0)	2.586
4	Strategic complementarity	12 (2)	2.345
5	Nationality of partner	13 (5)	2.276
6	Relevant partner's size	8 (1)	2.241
7	Compatibility of operating policies	8 (2)	2.206
8	Favourable past association &/or business relationship	4 (8)	1.862
9	Communication barriers	6 (14)	1.724

* The number of responses exceeds the number of participants for some firms assigned equal importance to three or more criteria. () Number of firms stating as an unimportant criterion for selecting an alliance partner.

The average score refers to a scale of importance which the respondents attached to the answers; (1: not important, 2: important, 3: very important).

Rank refers to the importance of each motives (1: most important ---------- 9: least important).

Before actually courting partners for the strategic alliance a punctilious evaluation of their strengths and weaknesses as well as their fit with one's own policies is invaluable. Hence, a cornerstone in this study was to find out the importance of this step and the validity of the recommended criteria for selecting the partners.

Three criteria topped the list as crucial requirements to choose a well-fitting prospective partner. First, selecting a partner whose management team is compatible to that of the firm was strongly desirable by 21 firms which believed that compatibility of management teams is substantially important to establish a successful alliance. Managerial compatibility was seen crucial, for, besides boosting the personal chemistry of the joint management, it helps both firms to surmount obstacles encountered during negotiations and can very much boost partner's capabilities to reach totally concurrent decisions regarding critical issues while jointly operating the alliance. The remaining 8 firms allocated importance to compatibility at a very senior management levels, e.g. CEOs, and chairmen, believing that chemistry downwards would gradually be built as they start working on the alliance. However, this is a dangerous assumption for the risk of fundamental differences between the management teams was frequently cited as the basis for rejecting a proposed alliance (by three well experienced firms) or as a contributary ingredient for failure. Fortunately, this prerequisite was not considered unimportant by any of the interviewed firms, and has gained very high credibility by 72.4 per cent of the sample.

Second, Doz et al (1986), and Geringer (1987) argue that complementary or balanced technical skills and resources is a vital necessity for strategic alliances. This formula was positively promoted by 62 per cent of the respondents firms (18 firms), while no one firm ignored this criterion when selecting an alliance partner. An electrical company's director, however, stressed that:

> "to achieve strategic and long-term competitive advantages, first, one must make sure the partner would be able to contribute, continuously, some kind of balanced resources & skills, and second, these must be thoroughly analysed in a way to identify all areas that need to be strengthened in one's own firm, e.g. technology, R&D, personal skills and capabilities, i.e. areas which are critical to the alliance success."

While an aerospace firm's managing director declared that:

> "It is simple, if the partner is felt not able to provide both balanced & complementary contribution, it will be immediately dismissed from the list of potential candidates, even if it possesses all necessary competences. This criterion goes in parallel importance with compatibility of management teams."

Whereas several other interviewees strongly believed that mutual benefits resulting from complementarity of skills and resources and manifested by the identified mutual needs must be properly anticipated when choosing a "long-life" partner otherwise what might seem as complementary may tend to come out as just a "photoscript".

Thirdly, as for most cases in this study the alliance strategy was pushed forward by the accelerated globalisation and competition. The prospective partner must, therefore, be one that possesses all means of enhancing the firm's competitive and global position. Those means may include good global and/or regional image and distinctive competitive position vis-a-vis rivals. In this context, worries were present about the repeatedly cited "strategic encroachments" which can be more pronounced when collaborating with a very competitive firm, or a direct rival. Even though, competitive position of prospective partner(s) was highly rated as an essential condition to select the alliance partner by 17 firms (58.6%). In this regard, one Rolls Royce director expressed that:

> "we have precautions for strategic encroachments and believe that the more competitive the partner's position is the more he can bring to the alliance",

and consequently, the more the alliance will contribute to enhancing each party's competitive advantage.

Moreover, the current research shows that partners must go for the alliance at the same strength to secure the likelyhood of gaining competitive edge in the world markets. Consequently, potential partner(s) must be selected on the basis of their strategic complementarity which invokes homogeneous strategic aims and expectations from the alliance and gives more chances to the formation of a complete business unity; both in term of technical capability and the partners ability to successfully interact. One of the twelve firms (41.7%) rating strategic complementarity as amongest their most important criteria justified this by the high rate of failure in the conventional forms of joint ventures which was chiefly due to both lack of strategic complementarity and divergence of objectives and expectations.

On the other hand, only two firms allocated no importance what so ever to this criterion, for one of which the alliance failed due to several reasons including lack of strategic harmony. While the other firm realised the importance of this criterion when it had to renegotiate with its American partners and fortunately found common strategic ground before it was too late. However, strategic complementarity may not be properly assured at this stage, therefore, this must be an essential task to be checked when starting dicussions with the partner, as one experienced manager advises:

> "Don't sign the agreement without ensuring the existence of strategic complementarity or harmony."

This promotes the relevance of the organisational fit which is emphasised by Jemison and Stikin (1986) and Payne (1987) for the success of a competitive strategy.

While communication barriers (cultural and language differences) tend to be triumphed over, the partners nationality considerably influenced their selection. Thirteen firms (44.8%) had to collaborate with firms belonging to the "triad power" (America, Japan, and Europe), or at least those having a strong position in one region of the triad, to secure that the advantages gained from the alliances are trully strategic. And for that they have been preparing themselves and their personnel to break-down any major communication barrier. Hence, communication barriers are losing importance as significant criterion for selecting a strategic alliance partner.

On the other hand, the reverse is true for relevant partner's size and compatibility in operating policies as they tend to have similar and considerable significance in selecting potential partner(s). Those two criteria are interrelated, because, as one case shows, when the partners are of similar size there will first of all be more chance of operational compatibility or there will be more room for mutual understanding of each other's operating policies, and second both would have similar attitudes to risk and to decision making.

Lastly, the results indicate that previous business relationship with a firm is not a necessary selection criterion. However, the four firms which listed it amongst their very important criteria have experienced a vast number of alliances over the last decade and their managers prefer to examine and analyse their previous or current partners for a new alliance before "knocking strangers' doors". Whereas firms in the other extreme, considered past relations as unimportant, but admitted that if it exists, they make sure of using it.

The above discussion presented the measures used in selecting a compatible partner and highlighted their importance. Yet proper matching criteria must include adequate analysis of the potential partner's other strategic linkages and their potential impact on the proposed alliance. None of the participating firms in this study has fully undertaken a serious evaluation of the selected partners' linkages with other firms, and only a few 7 companies have done preliminary investigations.

At this point of screening, the list of potential parnters should be shortened by flitering out those which do not meet the desirable criteria and those that do not fit the firm's objectives. Once the detailed screening procedures and analysis of potential partners has been thoroughly carried out a rank ordering of the prospective partners was seen necessary by the majority of the firms under study (79.3%; 23 firms).

8.2.4 Planning: Whose Responsibility?

The process of strategy formation in general and the planning for an international strategic alliance in particular is an essential function of management practice. Putting together the ingredients of a successful strategic alliance, although stressed by various authors (e.g. Holton, 1981; Doz et al, 1986) as being the responsibility of top and senior corporate managers, the results of the current study shows a great concern that it is a job for line managers in combination with the efforts and skills of top managers. It was also found that employing multifunctional planning and management teams in which managers from sales, marketing, manufacturing, R&D, and other areas under the supervision and leadership of the senior management helps in resolving the trade-offs amongst functions essential for successful strategy formation.

Table 8.4 presents the level of management responsible for planning the strategic alliance, i.e. setting of objectives, evaluating alternative strategies, and selecting prospective partners.

However, the results do not suggest the involvement of every employee in the company, for effective strategic thinking and planning require fewer expert functional managers and fewer planning guidelines. Pertinently, decisions closest to the prime objectives of the firm, the strategic decisions which may have significant effects on the goals and resources devoted to the alliance, are the most important and are likely to be taken at the highest levels of management. Nevertheless, this is not a panacea as in several cases the top managers tend to identify the specific kind of information required and leave it to line managers to decide how to gather and present such information for further analysis.

TABLE 8.4

PLANNING RESPONSIBILITY

Explanation	Number of Firms	% of Total
Mixture of high & middle level managers	17	58.6
High level managers	10	34.5
Middle level managers	2	6.9
Total	29	100.0

Therefore, strategic planning offers a mechanism for communicating strategy to those who have to carry it out and this will seldom happen if the formation of a certain strategy remains the private province of the chief executive, as believed by 65.5 per cent of the sample. Furthermore, companies which can create a real alliance amongst their line managers and senior managers are more likely to succeed at creating effective team work characterised by effecient chemistry with their partners and consequently more chances for building up successful alliances.

EXHIBIT I

Planning: Company Examples

BOC:

The alliance between BOC of the UK and Dow Chemicals of the USA was intended to include agreements about technology development (membrane technology), production and marketing representation from the start. It has been extended to include common exports to various countries in Europe.

BOC has a special division for strategic planning. The main aims of the management team in that division are: objectives setting, identifying opportunities, strategic analysis, and strategy development.

The team was monitoring the development of the membrane technology. They recognised that there have been some breakthrough and huge investments made by major companies in that technology.

BOC's planning team felt that the company's laboratories did not have the skills and expertise required to catch up in time with the development of the membrane technology.

A list of the companies possessing the technology was made up and consequently three option strategies were put forward (an acquisition, a licensing, and an alliance).

From the start Dow Chemicals was the preferable candidate for its expertise, competitive position, and its reputation in the USA.

A thorough analysis of the advantages and disadvantages of the option strategies was carried out because the alliance route, though was appealing, did not have full consensus within the company. This brought back a similar analysis of the list of identified companies and those were checked against a number of criteria which deemed to be found in a partner/target. An alliance with Dow Chemicals was the output result of the analysis and the planners in BOC drew up a clarified set of objectives to be taken on to the next stage.

Rolls Royce:

Rolls Royce alliance with Pratt and Whitney of the USA was formed to enhance the firm's global position and market share (North American market) and to share R&D expertise for the development of the RMT 322 helicopter engine.

Unlike BOC, the strategic planners at Rolls Royce who include multifunctional planning managers started their pre-alliance planning and analysis with a proposed partnership from their American rival- Pratt and Whitney.

The planning managers held several meetings which were aimed at analysing their company's strengths and weaknesses in the involved technology and product (the engine) as well as the might-be objectives of Pratt and Whitney. Similar analysis of the industry and the market potential for the product was formally carried out by the special division at Rolls Royce and a full report was forwarded to the planning managers. The analysis resulted in a set of objectives which Rolls Royce intended to achieve through the proposed alliance. This was accompanied with a list of issues that can be compromised on with the partner during the negotiations.

In this case, no alternative strategy was considered, instead the planners discussed and studied the "strategic fit" of the alliance within their company as well as within their network of alliances.

Similarly, no thorough analysis of Pratt and Whitney was made and the reason given by the interviewed director is: "that analysis was already done as we are collaborating with them on the International Aero Engines (IAE) which also involves MUT, Fiat, and Aero Engine Co.". Nevertheless, the partner evaluation in this case took the form of assessing and reviewing the existing relationship with Pratt and Whitney on the IAE project.

GKN:

The alliance between GKN and Mitsubishi of Japan is another example of detailed planning by the British partner to extract the maximum benefit from the deal while acknowledging the need to compromise.

Competitive pressure, access to a key market (Japan), and technology development were the main drives for the alliance which involves one of GKN's core composite materials for the automotive industry.

GKN's engineers were developing a composite carbon fibre plastic for car springs when its planning team was analysing the industry and studying the Japanese market for this technology. During the course of this analysis, the team was in constant contact with the company's permanent Japanese representatives. The planners suggested a strategic alliance to the company's executives and accompanied it with a list of objectives, a full analysis of its advantages and disadvantages as compared to other alternative strategies (e.g. licensing), and a list comprising seven Japanese firms which were seen as possible potential partners.

A meeting was then held and the team, headed by the chief executive, drew up a precise specification for what was considered the ideal partner and matched the list of the suggested firms against it.

A number of parameters were used, including:

- nature of the company's products and engineering skills,
- its competitive position in the world markets,
- size and strengths of the company.

Three companies, including Mitsubishi, scored the highest, like GKN, they were medium size companies, had an outstanding reputation for automobile engineering, and a good contacts with major customers.

GKN's representatives in Japan were contacted and briefed about the meeting's outputs. They made initial contacts with the three companies, recommended Mitubishi, and sent back a full report of the likely nature of a potential alliance on the concerned technology in Japan.

8.2.5 Recommendations

Out of the various managerial perceptions for planning an international strategic alliance, a set of analytical techniques or steps are developed through this reseach. These are:

1. A thorough analysis of the industry in which the firm competes gives a clear idea on how the industry may change in the coming few years (may be over the life of the alliance). It also uncovers the possible changes in technologies and products.

2. Bring together the multifunctional planning team to pin- point a clear set of objectives and goals that the firm is aiming to achieve. Those would form the basis for the strategy to be chosen.

3. A sincere evaluation of the firm's own strengths and weaknesses. Indentifying the factors that most examplify its own competitive advantages and those needed to rectify its weaknesses helps in choosing the right approach to achieving the objectives.

4. An important step is to carry on a comprehensive evaluation of the existing and prospective rivals who might have any impact on the firm and the chosen strategy. This procedure must go beyond checking rivals' financial position and market share, to grasping competitors' strategic thinking, the logic of their strategies, and their likely reaction to any strategic option that could be employed by the firm.

5. An in depth analysis, then is required, for the various strategic option and the degree of their effectiveness in achieveing the firm's goals and at the same time sustaining its survival in the global market.

6. Potential partners should be thoroughly evaluated in terms of important issues. These include:

- Compatibility of management teams,
- complementary technical skills & resources,
- competitive position, and
- strategic complementarity.

7. Timing is crucial, especially for forming strategic alliances. The best time to knock doors or to seek a partner is when the firm has some strengths to offer, be it a unique product, technology, or perhaps a dominant position in some key market.

8. It is necessary to understand that an alliance means sharing, i.e. no party is sole control and the relationship between the management teams is one of mutual dependence rather than domination and subordination. For that, partners should be selected on the basis of their strategic and organisational fit.

Therefore, the findings of this research are in line with data obtained by other researchers on similar themes. Particularly, the need for thorough analysis and evaluation in the planning stage to ensure the strategic and organisational fit of the alliance (Jemison and Sitkin, 1986; Payne, 1987), and the necessity for cautious selection of potential partners (Porter, 1986; Girenger, 1987; and Young et al, 1989).

On the other hand, this research does not support Holton's (1981) and Doz et al's (1986) findings that planning is the sole responsibility of top and senior corporate managers. The study rather shows that British firms tend to involve their line managers in the planning stage of their alliances. Moreover, the study indicates that planning and preparing for a strategic alliance require the existance of professional strategic planners and detailed guidelines which lead to the cognition of the strategic thinking. Nevertheless, those must be installed in the various business units to encourage planning at lower levels in the firm. Good strategic planners can offer the same or better type of specialised skills as other functional experts do.

PART TWO

FORMULATING STRATEGIC ALLIANCES

8.3 THE FORMATION STAGE

If the cornerstone is held by the right people who put it in the right place, the building would be in little danger to collapse even in the worst of climates. The current research indicates that negotiations are that cornerstone which is the key to the process of structuring a successful strategic alliance. Various studies identified several "most important issues" to be considered while negotiating an alliance (discussed in Chapter Four). However, this study has uncovered a number of issues which were perceived as essential for conducting successful negotiations by the sample firms under study, of which several support the results of previous studies as will be presented in this part of the chapter.

This study reveals that the issues important to negotiations are incorporated in two essential steps: the preparation for negotiations and the development of the negotiation plan and the alliance contract.

8.3.1 The Preparation for Negotiation

This step was seen as the basis for the formation stage, because it is an extension of the planning process undertaking by the firm in the previous stage, by 65.5% of the sample (19 firms). This result gives credence to Tung's (1984) and Koboyska's (1988) arguments for thorough preparation before starting the negotiation. In this context, two issues emerged as the most important aspects to be considered by the firm to undergo a good level of negotiations, these are: the structuring of the negotiation team and the initial contact with the partner.

The Negotiation Team

Unlike the conventional forms of collaboration, negotiating international strategic alliances is delegated to the personnel who took an active role in planning them, and who will be having an essential role in implementing and controlling those alliances. Nineteen companies (65.5%) believed that it is necessary to involve in the negotiation, next to senior executive, key operational managers who will be responsible for taking and implementing decisions in the alliance at later stages. About half those companies (10 firms) have encouraged their potential partners to involve their key operational managers in the negotiations. It has been observed that their early commitment is essential, for it presents a good test of whether the right chemistry exists beyond the chairmen/chief executives level. This was also seen as a significant procedure to identify the personnel who are best fit to run the alliance and to build up trust and personal understanding between the people from both sides. One company's chief executive confirmed that:

> "the larger the negotiating team is, the longer the negotiations will take".

But, positively assured that:

> "Nevertheless, this time will definitely be saved once you start the alliance operations, because almost every responsible person was there and know very well why a decision should be taken the way it is."

Further, an *electronic company's collaboration director* illustrated that:

> "During the negotiations, while myself and the group chief executive are focusing on the strategic fit of the alliance, key middle level managers will be assessing the operational fit of the negotiated alliance and comparing it to our earlier analysis."

For this group of companies (19 firms), the negotiating team consisted of a strategic director, group manager for business development, business planning manager, a member of the finance function, managing director, and the chief executive. In addition, at later stages (after the exploratory meetings), one or two senior engineers, technology, marketing, and/or production specialists usually join the negotiation team.

On the other hand, the remaining 10 firms perceived no need to involve large number of personnel in the negotiation process. Rather they were satisfied by the reciprocal flow of information between their negotiators and other specialists and senior managers in their firms. The negotiating team in those cases consisted of the chief executive, planning director, and the business director who was responsible for the concerned areas of business and who was the only person recruited from the team to the alliance. Five of those firms experienced difficulties in developing the right chemistry between their personnel and those of their partners, and one firm had to change one of the alliance key managers for not being able to be acquainted with the partner's culture and views. Whereas the other five firms had known their partners through previous alliances and/or collaborative deals and they were certain of the existence of the needed chemistry between the operational personnel.

The Initial Contact

The second issue which was designated as important is the initial contact with the partner (or the way some of the firms in the sample were approached). The sample firms' views on this issue vary, with two third (19 firms) considering informal contact, e.g. a phone call, meeting at a business occasion, etc.., as being the most suitable way of approaching or being approached by another firm.

At this point, the two or three selected potential partners (for being able to find a large number of compatible partners where the styles fit fully and whose willing to have an alliance may be a luxury which is not always attainable) were contacted informally to "test the temperature", and contacts were made at a very high level to get the top people's reaction about an alliance and then negotiations proceeded with only one partner. In this context, one aerospace company's director stressed that:

> "If you are too formal and narrow minded, you can never reach an agreement. Our informal approach to the partner made enough room for some acceptable levels of informality during the negotiations which in turn helped easing several differences".

On the contrast, the remaining one third of the cases (10 firms) favoured a formal initial contact with their partners (e.g. a brief letter to the chairman) and believed that informality follows the exploratory meetings.

However, the results show that the way potential partners are approached is very much dependent on their nationality and previous collaborative experience. Therefore, firms will informally approach potential partners who are culturally receptive to such an approach, with whom they have a previous relationship, and/or who are well experienced in collaborative deals.

8.3.2 Negotiating the Alliance

As discussed in Chapter One, international strategic alliances have been used to deal with the growing complexity and changes in the gloabl business environment. For that, an uncomplex approach towards negotiating is a prerequisite to structuring the desirable "win-win" strategy.

Beside elevating the significance of the initial meetings between the partners-to-be, the present research found that a series of exploratory meetings between key personnel from both sides is a necessary starting point to establish: **first**, the feasibility of a prospective strategic alliance and **second**, the existence of sound common ground for further discussions. Sixty-nine per cent of the intervived firms (20 firms) assigned high importance to their inital meetings as a means of grasping the viability of a meaningful relationship. Along this, Perkins Engines' director of business planning expressed:

> "If we can not jot down the overall concepts of the alliance on a sheet of paper during our first meeting, usually consumed between one or two senior executives from each side, we will not proceed for further discussions."

Moreover, one Rolls Royce director asserted that:

> "You have to know exactly what is it you really want to get out of the deal and try at the first meeting to grasp a broad understanding of what the other side is seeking to attain."

Therefore, a crucial importance in starting the negotiation was delegated to a series of exploratory meetings which involved a variety of high to middle level management groups.

Rolls Royce and their American partner Pratt & Whitney left exploratory meetings to their technical directors to explore areas of common and complementary technologies. This was followed by several meetings of the concerned engineers and specialists who, as claimed by the director, are the best personnel to establish the feasibility of a potential working relationship with their prospective partner. Then a group of senior and middle level managers from both sides developed the outcomes of the exploratory meetings into more robust talks and evolved the initial objectives of the alliance and, accordingly, put forward a plan to follow for consequent negotiations.

Similar steps were followed for AIM 132 and ASRAAM, two alliances which involve BAe and BGT of West Germany. As talks started very informally, the companies' chairmen put together their technical director who explored areas of technologies that they were both interested in developing, studied the feasibility of a joint development, then engineers and specialists met, thoroughly explored the potential of what was concluded by the technical directors to see whether it could be brought to a strategically beneficial level. Afterwards, a team of six people from each side was formed to discuss the issues brought about by the exploratory meetings and at every important stage of the discussion a confidentiality agreement was signed by the parties. Consequently, the main issues for the common plan of the alliance were established and formed the key discussion points for subsequent negotiations.

On the other hand, two automotive companies did not follow suit in exalting the importance of exploratory meetings. However, this exception was mainly due to the existence of a series of partnerships betweeen the partners in one case (Rover-Honda) and the company's constant representatives in the partner's country in the other case (GKN-Mutsubishi). Rover Group of the UK and Honda of Japan started their series of ever successful alliances late in 1979, both companies went through difficult negotiations which involved a spectrum of management from the CEO right down to product planning analysts. Negotiators spent a long time in establishing sound common ground for their alliances and in drawing up the series of contracts where each deal was tightly bound by legal agreements covering an outline agreement, manufacturing and marketing agreements, and development agreement. In the past through collaborative deals Rover and Honda built the claimed triumph which was subsequently developed into the joint design and development of various models. Therefore, due to their long-standing successful relationships the alliance (signed in July 1989) was more of a discussion than negotiations and is an important step for both firms to launch their jointly designed product- the R8/YY. Though the negotiations of this alliance was uncomplicated, yet assigned great importance as dicussions took place at a variety of levels; design development, finance, planning, and senior executives were involved.

The other interesting alliance is between GKN and Mutsubishi of Japan. GKN has constant representatives of Japanese nationals working for it in Japan. At the very beginning, GKN developed a product which was acceptable to the industry, it was developed in the UK and had one particular customer (Rover), the company recognised the Japanese market as an important area and the Japanese competence for its potential development. After identifying three potential partners, the firm contacted its representatives in Japan who made initial contacts, recommended Mutsubishi, and sent a report of the likely nature of potential alliance with the company. This has played the role of the exploratory meetings and GKN, then, just needed a working agenda which accompanied its negotiating team to meet with its Japanese counterpart.

The cases of Rover and GKN are, however, the exception to the rule and exploratory meetings are crucial from the point of view that they provide the firm with responses to some important questions:

1. How strongly does the other side need the alliance?

2. How are the relative urgencies of each side balanced?

3. What other alternatives exist for the partner?

4. How highly do partners regard their respective strategic and operational strengths and weaknesses? And is there a mutual feeling that each party's involvement is essential to the success of the alliance?

5. How good is the quality of communications?

6. Is there a kind of chemistry beyond the top personnel? And is there a real willingness to work as a team?

7. Do both levels of likely commitments match the requirements of the alliance? And are the combined skills and resources enough to carry it through?

8. Can the alliance build barriers to entry in the rivals' face?

Moreover, the results indicate that exploratory meetings have helped partners in setting up a negotiation plan which served as a common working agenda for the negotiators. The negotiation plan is critical to the fact that one third of the sample (10 firms) used it as a test to find out the degree to which they can jointly comply with its issues and time scale which inevitably gives some early indications about the likely future relationship between them. This finding supports Holton's (1981), Walmsley's (1984), Weiss's (1987), and Lorange's (1988) argument for the importance of establishing a plan for the negotiations.

However, negotiating the terms of the working agenda or negotiation plan requires more than just cordial relations between the negotiators, and much more than punctuality in meeting agreed deadlines. The negotiators' perceived trustworthiness and commitments to undertake a serious set of discussions emerged as a basic requirements for structuring a successful alliance. This was stressed by several experienced directors, one of whom added that:

> "each party should refrain from pushing its own views and instead, healthy debate must be encouraged".

He also believed that:

> "this makes each party feel at ease to clearly present its own views, and also facilitates compromises should they be needed, and most importantly it creates opportunities for specialists at the middle management level to give their critical views."

An interesting example is the alliance between BOC and Dow Chemicals of the USA where the companies divided up the issues of their common plan and assigned sections to working groups. One group took the responsibility of finalising the alliance objectives, a second group was working on identifying the needed skills and resources, and a third had the role of analysing the issues which were concluded by the first two groups. This, as claimed by BOC business director,

> "had helped in installing trust beyond the chairman level and in enhancing the right chemistry between the individuals without which many alliances would suffer failure consequences".

Another intriguing approach which boosted trust at early stages is the way Rolls Royce negotiated two of its important alliances. The first was with GE and the second with Pratt & Whitney both of the USA. In those cases, Rolls Royce informally approached its partners in order to "test the temperature" and only when it discerned the possibility of a serious interest by the other side did it get itself into some form of formal communications. Rolls Royce agreed with Pratt & Whitney to set up a joint team to evaluate the situation which produced a joint report for the management of both parties. Simultaneously, some individual evaluation were taking place seperately at each of the company's headquarters and the last stage was very comfortable as negotiators were familiar with each other, mutual trust was there, and discussions of the issues in the modifying report went quite smoothly and yielded in finalising the alliance core goals and objectives. The important issue in this approach is that the development of the shared management team was selfcreated.

The other significant issue is the establishment of the alliance common objectives. This issue was considered as critically important by 10 firms and as very important by the rest of the participants. Finding the right strategic partner does not ensure the presence of analogous objectives and goals. Nevertheless, the present study shows that the partners' objectives need not be akin, yet what matters is that the two sets of objectives meshed together must present a potential value added which in the views of 86.2 per cent of the sample (25 firms) enhances the chances to attain the required competitive advantages. Hence, negotiators have to try to properly combine their firms' objectives and accurately coordinate their complementary resources and commitments in a manner which secures the presence of that potential value added. In this course, the partners-to-be should be prepared for compromises, but not to the extent of destroying the strategic fit of the alliance within their overall strategy, nor to allow any erosion of their own competitive advantages because the strategic rationale for the alliance can greatly influence its design and structure.

Although, amplifying on the cooperative nature of the alliance is very important, the current study shows that the critical issues still are to make the boundaries of the alliance very clear and to define the missing competences of both parties, so that the partners are able to clearly define each party's essential contributions of skills, know-hows, and other competences that are significant to the alliance. This finding supports that of Delvin and Bleackley's (1988) on the necessity of clarifying the limits of the alliance, and gives credence to Doz et al's (1986) recommendation of ensuring the existence of strategic contributions to the alliance.

Decisions, therefore, must be made on how much of each partner's resources can be made available to and claimed by the alliance. For, proper identification of the resources and obligations that are part of the alliance helps in outlining its boundaries. Consequently, that helps in determining the degree and nature of the permeability of the boundaries and in pinpointing the kind of resources and information that could cross through to the alliance.

Identifying the interrelationship between the activities of the alliance and those which form the core business of the firm was cited as highly important in defining the alliance boundaries which was also seen as the most difficult issue by 75.9 per cent of the sample (22 firms). This was particularly pronounced in the alliances that take the form of R&D programmes which mainly rely upon the shared R&D skills and facilities of both partners. Nevertheless, the boundaries of the alliance, though determined through complicated negotiations and arduous discussions, was simple enough where the alliance scope was not very wide and only included few business functions.

This stage inevitably involves the exchange and discussion of various types of information between the negotiators. However, when sensitive information was concerned, almost all participant firms were cautious not to reveal any piece of information especially that which constitutes the competence of their core businesses until both sides have indeed entered into mutual confidentiality agreements.

Therefore, confidentiality agreements were a prerequisite mainly when the parties have very valuable technology or product to offer. However, as 86.2 per cent of the sample (25 firms) accorded high consideration to confidentiality agreements during their negotiations, this issue was also necessary for the non-tech alliances. The cases of six companies in the sample (two belong to the aerospace, one to automotives, another two from the chemicals and pharmaceuticals, and one belongs to the gas industry) are illustrative examples, in these alliances, the companies did not share any kind of sensitive information before a decision was seriously made to consider an alliance. Under these circumstances, one company was cautious about divulging any highly sensitive information, because, as put by its chief executive:

> "this would give our potential partner an opportunity to use the negotiations as a means of exploiting the acquired information or know-how, then renouncing the idea of the partnership, and subsequently instead of becoming a partner arising as a serious competitor."

In these circumstances, those 6 firms insisted upon confidentiality agreements concerning all proprietary and sensitive information that were disclosed during the nagotiations to ensure that there would not be any adverse use of confidential information whether the agreement on the alliance is consumed or not. Though the negotiations were tougher, this brought up front important issues such as competitive position of the alliance as opposed to those of the partners as well as the terms for suspension if the alliance was not formed.

Further, the results of the research shows that one last step before signing and binding the alliance contract the partners must double check that:

1. There is a mutual belief that each partner's invovelment is essential to the alliance's success.
2. The expectations of the alliance are pragmatic and representational.
3. Both parties are able to keep up to the alliance requirements in terms of resources and commitments.
4. The existence of mutual willingness to erode each other's weaknesses and leverage each other's strengths.
5. There is a balance in the commitments and willingness to keep that balance.
6. The responsibilities and accountabilities towards the alliance are fairly and appropriately divided and/or shared.
7. There is a potential balance in terms of returns and gains from the alliance.
8. The existence of a firm ground of trust between the personnel in the shared management team.
9. There are precautionary measures against unwanted permeability of core and sensitive competences.

The above issues were collectively put together by the researcher as recommended by the interviewed companies' executives and directors in which 69 per cent, 20 firms, assigned high importance to the existence of at least seven of those issues to consume a promised alliance. This result gives credence to Lorange and Ross's (1991) findings on the importance of double checking the strategic fit of the alliance at this stage.

8.3.3 The Alliance Contract

> "Lawyers tend to focus on negotiating legal agreements and deal structure, they often distract managers from looking at fundamental and critical issues. They only should be brought in after the partners shake hands and agree upon all operational issues",

expressed by Perkins' Engines director and equally believed by all the surveyed firms with the exception of British Vita whose lawyer was at the negotiation table right from the start. Nevertheless, as stressed by the company's chief executive:

> "our lawyer was not litigious, but confrontive yet diplomatic, he was there to support our negotiation team and legally advise them. As a lawyer he did not cause any disruptions."

Although lawyers were called up at the last stage of the negotiation process, they were kept informed about the scope of the deal and their role was mainly to advise the negotiators on the legale implications of the arrangements with their partners. However, the results show that only 24 per cent of the sample (7 firms) experienced a constant and reciprocal flow of information between negotiators and other personnel in their companies' head quarters including lawyers. While the remaining 22 firms (76%) were satisfied by just keepping their headquarters informed about what was going on at the negotiation table. Pilkington's head of group planning emphasised the importance of information flow between negotiators and headquarters and stated that:

> "although negotiators were entitled to take decisions without checking with headquarters, yet when major issues were concerned, they had to attain the consent of our high authority and the approval of our lawyers."

Therefore, the lawyers' role in the negotiation process was mainly played from behind the scenes, where their effective contribution was towards finalising the structure of the alliance contract.

Similar to all collaborative agreements, a strategic alliance needs to be incorporated into a formal contract which should incontestably define the relationship between the partners. One of the current research intends was to check the degree of flexibility in the contract, to track down the issues that are usually covered by that contract, and to pinpoint any differences that might distinguish the strategic alliance contract from other collaborative deals.

Devlin and Bleakley (1988) recommended flexibility in the alliance deal, so that unexpected changes and unforeseen problems can be tackled. However, flexibility in the contract was poorly supported as only 8 firms (27.6%) completed contracts which allow some scope for reinterpratations and adjustments to respond for unforeseen events. On the other hand, 21 firms (72.4%)

preferred to have tight agreements, free of enigmatic expressions, and deal with changes as they arise. In this context, BOC' business director expressed that:

> "More important than having a flexible contract is the spirit of the agreement and the relationship between the partners. Though we could not predict every eventuality, we intended to come out with a very tight contract which is usually forgetten once we start operating the alliance".

Similarily, ICL's collaboration director advised to:

> "make a very tight alliance contract and forget it exists".

An acceptable contract cannot be flexible enough to cover every unforeseen eventuality and, therefore, flexibility in partners' attitude towards making the alliance work counts much more than that in the contract.

However flexible or tight the alliance contract is, what matters more is what it covers. Unfortunately, only three firms agreed to give some kind of details about the issues incorporated in their alliance deals. Accordingly, though the three contracts were genuinely similar, the researcher cannot generalise upon just over 10 per cent response rate for this issue. Nevertheless, the contents of the contract are likely to consist of the following:

A letter of intent which forms the most important part of the contract. It incorporates the agreed upon points which constituted the negotiation plan. In the contract, the letter of intent starts with an introduction that briefly explains the reasons for which the alliance is being established, the scope of the alliance activities, its boundaries, and its objectives in a detailed manner, such as clarifying the targets to be achieved and their anticipated dates of completion. Secondly, definition of the alliance targeted markets. Thirdly, defining the management team designated to manage and activate the alliance with clear and detailed allocation of responsibilities and accountabilities as well as methods of decision makings. Fourthly, specifying the commitments to the alliance, the scope within which it might change, and the way in which information is shared and disclosed by each party. Finally, the letter of intent may include some side agreements such as licensing.

Confidentiality agreements, those are also brought forward from the negotiation table. They clearly define the confidential information and the procedures used against any potential encroachment. These agreements are believed to be as crucial as the letter of intent, for they provide each party with intellectual property rights and because:

> "a strategic alliance permits each party to be familiar with the other's expertise, skills, and sources of competences, probably more than any other collaborative deal",

as believed by one of the three mentioned firms directors.

A master **Check of unforeseen key events** and the scope within which they can be modified or adjusted to suit certain changes.

Performance measures which are used by the management of the alliance to assess operations and evaluate the alliance performance.

Divorce clauses, this emerged as a necessary evil, however, more essential for the alliances that have a definite period of life. Divorce clauses secure each party's right, not only if things go sour, but also in cases where the alliance fulfils its objectives and is no longer desirable by either or both partners.

All three discussed agreements consisted of an average of 150 typed pages, however, what regarded most important than the contents of the contract is that the negotiations must end with all partners feeling that they have consumed a beneficial and fair deal.

EXHIBIT II

Negotiation: Company Examples

BOC:

BOC made an informal contact with Dow Chemicals suggesting an alliance on the membrane technology.

Before the formal negotiations, two exploratory meetings took place where the strategic directors from BOC and Dow Chemicals met in order to get some information about each other's interests in the collaboration and of course to become acquainted with each other's companies - due diligence.

During this time, at BOC, a negotiation team was selected and prepared for the formal negotiations. The team, to be headed by the group managing director, comprised of two personnel from the strategic planning division, one from the research division, and the group manager for business development. The team preparation did not take up long as its members were well experienced with such deals. For the legal aspects BOC benefited from its American employees.

Following the exploratory meetings, the negotiators from both companies met more formally and made a provisional plan of how the alliance should look like. The plan included 8 to 10 important issues for the settlement of the agreement. The companies divided up the issues of their plan and assigned sections to working groups in their negotiation teams. One group was responsible for clarifying and setting up the alliance objectives, a second group took the responsibility of identifying the needed skills and resources, and another was working on analysing and finalising the issues concluded by the first two groups and allocating the partners' responsibililies.

No confidentiality agreements were signed during the negotiations as each firm kept its "Black Box" locked. Constant contact was made between BOC's negotiation team and its headquarter where the strategic and organisational fit of the alliance was double checked and lawyers informed.

Then the lawyers from both companies joined the negotiations and wrote down and defined exactly what the negotiators agreed upon.

Rolls Royce:

Unlike BOC, although Rolls Royce and Pratt and Whitney were already partners, negotiations were long and conducted in three stages.

As Rolls Royce was the approached party for the alliance, the first stage was an informal meeting between the technical directors from the research division who were aiming at exploring areas of common and complementery technologies for the development of the engine. The next stage comprised several meetings involving mainly engineers and specialists who were seen as the best personnel to establish the feasibility of a potential working relationship. Those two stages represented the exploratory meetings for this case.

The formal negotiations started at the third stage where negotiators from both sides developed together the outcomes of the exploratory meetings into more robust talks. The main objectives of the alliance emerged and a plan of important issues was drawn up for further negotiations. At this stage, the companies were signing confidentiality agreements concerning the sensitive information revealed throughout the negotiation.

The end results were then put in a letter of intent form which consisted of the agreed upon issues, the partners' commitments and resources available to the alliance, and the clear allocation of responsibilities and decision making policies. This letter was reported by both parties to their headquarters who then put together their legal people to write down the contract of the alliance. For the legal aspects Rolls Royce employed an American attorney. During the partnership, the parties will have access to each other's know-how. Guarantees for secrecy, especially after the partnership ends, have been given much attention and have been regulated.

GKN:

The starting point of this stage for GKN was a careful preparation of the main issues that the company was willing to discuss with Mitsubishi and a precise identification of the areas where compromises may take place. A similar preparation was undertaken for the negotiation team which included the chief executive, an engineer, one business planning manager, one member of the finance function, and the company's representatives in Japan.

The exploratory meetings to establish the feasibility of an alliance with Mitsubishi was conducted by GKN's Japanese representatives whose report was used to help in the preliminary preparations.

The negotiation plan had the form of a letter of intent which included a brief description of the involved activities, the needed resources and expertise, the objectives of both firms, and a provisional summary of the likely alloaction of accountabilities within the alliance.

The negotiations of the plan did not create any difficulties for the firms since their main interests were clarified and the alliance objectives set up at the third meeting. In choosing a letter of intent, the negotiators acted as one single team and trust was gradually built up between them. This in turn helped in checking the chemistry between the firms' personnel and made it easier to come to an agreement. Nevertheless, confidentiality agreements concerning GKN's technology was a necessary evil.

Moreover, the fact that a third party (played by GKN's Japanese representatives who kept constant contacts with the firm's headquarter) was scrutinising and evaluating the negotiated issues was probably an advantage. Those representatives were well experienced in the field of cooperations and the possible complications that commonly arise with them.

Since the negotiation plan was mainly a detailed letter of intent and confidentiality agreements were signed, the companies carried out final negotiations of the alliance performance evaluation measures the divorce clauses. The end results of this final negotiations were put together by the firms' lawyers and consequently formed the alliance contract.

8.3.4 Recommendations

The current study indicates that the formation stage should not be overemphasised, neither given less attention than the previous or the subsequent stages. It is an important opportunity to check the feasibility and effectiveness of the planning stage and the best period to know and understand the partner's capabilities, aims, and real objectives. The following, however, are some guidelines for the formation stage as resulted from this research:

1. Do not start negotiations unless you have a well designed team of personnel with full understanding of the company's objectives and who are well trained to deal with different culture and different business rules.

2. Understand your partner's objectives and give him space to understand yours, while making sure there are no hidden privilidges behind his aims.

3. Every negotiation needs a common plan of issues that should be discussed; i.e. the negotiation's working agenda. This attempted team work helps in establishing the required chemistry between the partners' personnel.

4. Timing is crucial. Do not get frustrated very quickly, neither do you allow unjustifiable delays, for some firms may attempt to keep negotiations alive by moving slowly in the hope of discouraging the other party from participating in another alliance.

5. Insist on high level of trust. Yet protect your core competences by confidentiality agreements all the way along negotiations.

6. Make sure the alliance boundaries are clearly defined and the interrelation between the activities of the alliance and those which form the core competences of your firm is well organised.

7. Keep lawyers away until the issues of the deal are discussed and fully agreed upon.

8. Make sure the deal provide a clear-cut agenda (alliance plan) of commitements and contributions, objectives, description of activities, and precise allocation of responsibilities and accountabilities.

9. It is important to identify, at this stage, the factors that may make one or both partners want to withdraw from the alliance. However, the fact remains that the common enthusiasm does not leave time to reach such factors.

The findings of the current research positively support Tung's (1984) and Kobayask's (1988) argument of the importance of intensive preparation for the negotiation process of strategic alliances. Also, the results on the necessity of estabilishing a common plan which can be used as a working agenda for the negotiators gives credence to Holton's (1981), Weiss's (1987), and Lorange's (1988) findings on the same theme.

In addition, one of this research findings supports that of Delvin and Bleackley's (1988) on the necessity of clarifying the limits of the alliance, and another gives credence to Hamel, Doz, and Prahalad's (1989) recommendation of ensuring the existence of strategic contributions to the alliance.

Moreover, the results support Lorange and Roos's (1991) observation on the importance of double cheking the strategic fit of the alliance prior to signing its contract.

On the other hand, the flexibility in the alliance contract as recommended by Delvin and Bleackley (1988) was poorly supported by this study.

PART THREE

OPERATING AND CONTROLLING STRATEGIC ALLIANCES

8.4 THE OPERATIONAL STAGE

Once the alliance deal is signed, the "six-million-dollar" question is what to do next? Start operations straight away! The relationship is not a simple business transaction, it is a shared activity aimed at achieving strategic goals which will have prolonged effects on the firm's key competences, its competitive position, and probably on the industry it operates within. One important finding of the current research is that the significance of continuous strategic management for international strategic alliances does not shrink once the ink is dry on the legal contract.

International strategic alliances, while putting forth the promise of a wide variety of advantages, often impose significant managerial burdens associated with their implementation and control. They can create a host of novel management problems and difficulties as pinpointed by several previous studies (e.g.; Borys and Jemison, 1988; Delvin and Bleackley, 1988; Hamel et al, 1989) which have put forward some models and managerial guidelines to be considered while operating and controlling an alliance.

The aim of this part is, then, to provide the reader with an understanding of the procedures employed by the British sample firms in operating and controlling their alliances, highlighting the common problems and the precautions adopted to deal with them, and most importantly to deduce some common managerial guidelines for operating such partnerships.

8.4.1 Developing the Alliance Management Team

The development of the alliance management team is an important task which was allocated equal significance by 72.4 per cent of the sample (21 firms, including all alliances that involved the creation of a "child" company, and six cases where most of their alliances are of the non-equity type alliances).

The rest of the firms surveyed (8 firms) did not dismiss this task, but rather considered it as a minor assignment. Such results were, however, expected, for the importance of team work development was repeatedly cited in the literature as crucial task for partners collaborating in an equity-child form (Harrigan, 1985 and 1986). Consequently, the interesting part of the results is that this issue is gaining equal credence for the non-equity form of alliances of which 42.8 per cent (6 of the 14 firms involved in non-equaty alliances) assigned high importance to identifying the alliance managers at the outset. As was commonly expressed, this did not completely eliminate conflicts, it rather injected the alliance with a team whose role was to mediate between the partners, solve problems, and control and monitor the activities of the partnership.

On the other hand, the 8 firms which were satisfied by the direct and unguided contacts between engineers, commercials, and other individuals on both sides experienced far more problems and delays and some had to renegotiate specific issues of their deals because of the unwanted diffusion of some technical and/or sensitive information. An alliance was dissolved and the Japanese partner entered a similar arrangement with the firm's rival in the UK, and another was completely transfered to the foreign partner (sold to that partner). Those two alliances have one element in common; the lack of a well defined management team which among other things (e.g. insufficient planning and preparation) has contributed to their termination.

Another important consideration in the team development was the fact that it constitutes personnel belonging to wealth of diverse backgrounds and attitudes to doing business. However, such heterogenity in the alliance work-force was seen as a mixed blessing by about one third of the participating firms (10 companies), particularly providing a great surge in productivity, creativity, and innovation within the alliance.

However, though heterogenity presented in the management team was adversely seen by the remaining two third of the firms (19 cases), if precautions are not taken it creates potential for misunderstanding and conflicts at the work place. However, about 90 per cent of those (17 firms) claimed the attainment of advantages caused by individual frictions over even important issues. An illustrative example is the conflict between the technical engineers of two aerospace firms collaborating on the development of a military craft engine. The planning director of the British firm in the alliance stressed that:

> "each technical manager believed that he possesses the superlative views, and conflicts were dispersing in the air".

Accordingly, a board meeting was called up where both disputing engineers jointly came out with an excellent new perspective.

> "We, obviously, owe the success of the engine to the conflicted views of those two individuals",

continued the director. This result adds a remarkable credence to Hamel, Doz, and Prahalad's (1989) conclusion that complete and continuous harmony is not a vital prerequisite. Indeed occasional conflicts may be a spur to the development of mutually beneficial alliances.

The results also indicate that occasional conflicts may be an effective way of preventing the unwritten surrender of core skills. Therefore, the alliance management team should not necessarily consist of genuinely akin individuals, yet it has to be developed in a way that secures the lowest levels of confrontation by recruiting well-trained and experienced personnel. In addition, all participating firms agreed to the fact that the personnel recruited to the alliance must possess the flexibility and willingness to enter into constructive discussions as well as the ability of absorbing and learning the missing competences of their firms. Also, these individuals as a team must form the work-force that is capable of spotting priorities and organising available resources in a way that ensures the achievement of the objectives to the benefits of all *involved parties.*

8.4.2 The Alliance Plan

Before turnning the ideas into actions, 68.9 per cent of the sample firms (20 companies) insisted upon collating the activities of the alliance in a detailed plan variously called; operations plan, working agenda, working outlines, management plan, or the alliance plan. On the other hand, only 9 firms (31%) were satisfied with a quick summary of their contracts to guide the alliance operations and control.

The alliance plan played the role of a double-barreled gun: first, its development was seen as a good test of the work-force as one compatible team, and second, it provided those in charge of the alliance with enough details of the day-to-day operations in a way that each party's authority was finely defined. In effect, it is this plan against which the alliance activities and ongoing functions were checked.

Simply because the alliances surveyed were of various types (R&D, production, product development, multi-activities alliances) also because every alliance has its own objectives and unique circumstances, the alliance plan varies considerably from one case to another. However, virtually all plans shared one theme and certain common key-notes. The key-notes which were regarded as necessary to be covered by many plans are as follows:

1. A brief summary of the alliance objectives.
2. Details of the commitments and contributions of each party.
3. A clear-cut details of authorities and responsibilities of each member of the team work.
4. Product/service specifications.

5. Details of milestones and operations schedual.

6. A flexible schedule for visits to and from the alliance work place as well as between the partner.

7. A clear reporting system to the alliance management committee and from that committee to the partners.

8. Performance review schedual.

9. Control system to monitor the alliance progress.

10. Resources and revenues check and control procedures.

11. Meetings schedules for the alliance management committee and that of key personnel from the partners' companies.

However, as with any other aspect of strategic alliance management, it was observed that the process of setting up a mutually acceptable plan in which all issues are in complete harmony can be a difficult task, as one chemical firm's planning director expressed:

> "Though we tried to dot all the 'Is' and cross all the 'Ts' right the way down from proper planning to an effective operation plan, still we did not block every source of conflicts or problems in our alliances".

Yet, as concluded by the current research, this issue deserves critical attention especially when one considers the many differences that inevitably exist between the most compatible partners. Hence, without an effective plan these differences and associated problems can invariably result in fatal consequences to one or all partners.

Moreover, if the alliance is to be operated as a true competitive strategy and to fulfil its strategic purposes, there should be a continuous imput of controlled and supervised resources and efforts from both parties as well as the constant flow of information on what competitors are doing and are likely to do. This is an issue which makes the partners recognise and accept the ongoing nature of strategic alliance negotiations and hence consider the alliance plan as the flexible milestones for every renegotiation needed to adapt their alliance to the inevitable changes, be they in the business environment surrounding the firm or in the partners' own objectives. Barely any of the firms surveyed has relied strictly on the initial alliance plan, and about 86.2 per cent of them (25 firms) have readjusted their alliance plans, some of them several times, mainly to rebalance their commitments and to adjust to new demanding circumstances. Whereas, four firms did not undergo any renegotiation of their plans, all of which are involved in R&D alliances and as yet faced no major problems.

8.4.3 Issues for Alliances' Management

It is important to recognise the fact inherent in every strategic alliance. That is, as indicated by the guidelines developed by Lorange (1988) on controlling a strategic alliance, managers seek to strike a subtle balance between the desire and need to control the activities of the alliance on one side, and the greater need to maintain harmonious relationship in their alliances on the other. In this context, the current research aims at developing a comprehensive analysis of certain paradoxical areas which need proper attention and delicate procedures, and particularly those that have been identified in the literature and previous studies as sources of conflicts and problems between partners.

8.4.3.1 Decision Making

The formal structure of decision making varies from one alliance to another. As found by the current research, this often depends on the scope of the alliance activities, the type of each party's contributions, and the existence of clear lines of authority, but not much upon the partners' proportional shares in the alliance.

The present study shows that there is no strategic alliance which can be formulated in such a way as to have a very clear-cut decision making structure that fits in along the life of the alliance. However, explicit identification of each partner's role in the alliance was found to be an effective mean in defining the primary functions of each party which then are coordinated through two levels of authorities; the guiding committee and the board of directors for day-to-day and major decision-making respectively.

The results show that the guiding committee often includes an average of 4 to 6 key management personnel, usually high-ranking managers representing different functional units depending upon their firms commitments to the alliance, e.g.; marketing, manufacturing, engineers, and/or R&D managers. The guiding committee's major function is to maintain communications, understanding, and trust between the partners. Its main role as expressed by 62.1 per cent of the sample (18 firms) is, then, threefold: One is **policy activating-** direct the alliance's operations in support of the agreed upon plan; another is **problem solving-** spot areas of conflicts and disagreements to find suitable solutions or raise them to the board of directors; and a third is **restore fairness-** the committee's role here is to safeguard the proper flow of resources and other commitments by both partners to the alliance, i.e.; maintain and restore the required balance.

While the guiding committee is the day-to-day watchdog and activator, the board of directors consists of high-level executives who regularly meet to discuss major strategic issues, come to unanimous agreement on solutions to key conflicting matters, and most importantly measure progress against the mutually agreed on milestones. The board of directors usually includes another 2 to 4 members in addition to the guiding committee members who sometimes attend the board meetings.

Of the 29 studied firms, eleven (37.9%) have completely relied on the fairly divided authorities which were clearly outlined in the alliance plan for most of their decisions while calling upon board meetings in exceptional and highly significant circumstances, e.g.; to discuss arising conflicts, look into forthcoming problems or unaccounted for changes, and take strategic decisions. Whereas for the remaining 18 firms (62.1%) decisions concerned with day-to-day operations were made as dictated by either the contract's letter of intent or the alliance plan, while other major issues needed first to be studied and discussed by the guiding committee of the alliance and if decisions were difficult to arrive at, the issues then have to be passed on to the higher authority i.e.; to the board of directors.

A close look into the possible reason for this kind of divided attitudes towards decision making processes, puts the sample alliances into two categories: first, a set of 11 alliances characterised by a very limited scope, e.g. R&D, product/technology development programmes, production, or marketing alliances, and another set of 18 alliances which involve two or more operational functions, e.g. cases which take up multiple activities of the value-added chain, for instance, parnterships covering production and marketing at the same time, or technology development and production.

The results show that decision making regarding the limited scope alliances is more straightforward than in the case of multiple functions alliances, not easier, but less complicated. However, this does not imply that one partner is dominating the decision making process with the other being a passive contributors, rather the partners shared the authorities and responsibilities in a fair balance.

Whereas, for the other category, though lines of authority were fairly clear, the complexity of the alliance operations brought far more issues up front for discussion than in the former category.

> "This, though time consuming, opened up new opportunities which arose out of constructive discussions, enriched trust and chemistry between our employees, and ensured the equal and balanced control on the alliance",

argued by an electronic company's executive. Hence, for alliances in either category, British companies felt a need for a balanced and fair control over the decisions of the alliance,

> "if the relationship is to be called 'strategic' and achieve the sought strategic synergies and competitive advantages",

as stressed by an automotive company's director.

In this context, Killing (1987) suggests that: "the more the partners see themselves as having an equal role in managing an alliance, the more organisationally complex the alliance would be". On the contrary, all interviewed firms have, in one way or another, agreed to the same statement, that is;

> "we would not have entered the alliance if we were not sure of having an equal role in managing and controlling it, regardless the percentage share of each party".

Therefore, the need to have an equal and shared role in managing and controlling the alliance did not affect its complexity, the alliance was rather seen as complex when it included many business functions at one time, especially those considered as core competences for one party and not so for the other.

8.4.3.2 Integration, conflicts, and Control

The current research indicates that conflict, integration, and control seem to go on in parallel. The results suggest that in cases where the alliance's activities are intensively integrated with those of the firm's, conflicts are easily spotted and tend to occur more frequently, and the control mechanisms used by the partners tend to be very clear and similar. Whereas, in cases of lower degrees of integration, the control mechanisms used by one partner tend to differ from what is used by the other, conflicts are more difficult to spot yet more complicated when discerned.

The degree of activities' integration differs from one firm to another, however, Table 8.5 presents a comprehensive example of integrations between the sample firms and their alliances for certain activities.

TABLE 8.5

DEGREE OF ALLIANCE INTEGRATION WITHIN THE FIRM

Activity	Complete Integration	No Integration	Average Score*
Production planning	12	10	2.068
Costing methods	10	9	2.034
Product planning	10	10	2.000
Capital expenditure planning	7	7	2.000
Administrative Issues	4	5	1.965
Marketing Functions	6	15	1.689
Sensitive technology	5	14	1.689

* The average score refers to the degree of integration which the respondants attached to every issue (1: no integration, 2: some integration, and 3: complete integration).

The reluctance of the British firms under study to fully integrate activities concerned with sensitive technology and marketing functions confirms the validity of the assumption widely cited by various authors (e.g. and Doz et al, 1986 and Hamel et al, 1989) that is international strategic alliances are usually formed between rivals and high attention must be given to the type of contributions which can be made available to the alliance. Therefore, the results support Hamel et al's (1989) argument for protection against strategic and competitive encroachment.

On the other hand, integration tends to take place more in activities related to issues such as capital expenditure planning, product and production planning, and costing methods and conflicts are more likely to occur over issues associated to those activities. However, such conflicts are easier to spot and deal with than problems arising out of issues such as sensitive technology and marketing functions, i.e., the more likely sources of long term competitive advantages.

Therefore, it is not all as rosy a picture as it might seem at the planning and negotiation stages. A closer look into the alliances formed by the sample firms reveals that none is a problem-free relationship. However, this does not indicate failure as stressed by ICI acquisition manager:

"Conflicts have to take place from time to time to ensure the running of a healthy alliance from both partners points of view and if there is no conflicts, sure something is going odd."

Table 8.6 presents the sources of conflicts between the partners in order of their frequent occurance.

Disputes over costing methods, product and production planning and capital expenditures were comparatively frequent between the partners. Neverthless, they tend to be quickly controlled and simply required the effort of the guiding committee, especially in the cases of comparable size partners where similar control mechanisms for managing the alliance are deployed.

Despite being cited by the majority of the interviewed executives as the narrowest sources of problems, the less integrated activities (marketing functions and sensitive technology) were considered as the alliance danger zone by 68.9 per cent of the cases (20 firms) which equally agreed that conflicts related to sensitive technology, skills, and other competences could be present for long time before they are clearly spotted by the partners. This makes them highly difficult to deal with, and more importantly makes it more difficult to maintain an acceptable balance in the accumulated advantages on the part of each partner. Therefore, well organised control and monitoring procedures must be deployed.

TABLE 8.6

SOURCES OF CONFLICTS BETWEEN PARTNERS

Sources of Conflicts	Frequency of Occurance Rarely (1)	Often (2)	Average Score(3)
Costing Methods	8	6	2.724
Production Planning	9	4	2.414
Product Planning	6	2	2.379
Capital Expenditures	10	3	2.345
Dividend Policy	8	4	2.241
Marketing and Sales	10	4	2.172
Sensitive Technology	12	1	2.069
Administrati-ve issues	9	1	1.966
Quality Control	13	2	1.931
Export and/or Import	5	0	1.448
Reporting Procedures	2	1	1.379

(1) Number of firms stating that the frequency of conflicts occurance as rarely.

(2) Number of firms stating that the frequency of conflicts occuranceas often.

(3) The average score refers to a scale of frequency which participating firms attached to each issue or activity, (1: never; 2: rarely; 3: sometimes; 4: often; and 5: always).

Though common reports were prepared by the alliance management team and the same copy was handed to both partners, different and/or seperate reporting processes were used by the partners for 86.2 per cent of the firms surveyed (25 cases, of which 20 have relied on both common and seperate reporting procedures). In this regard, the survey reveals that continuous reporting to the firm's head quarter and the concerned units forms a good means of retrieving the necessary information. This result gives credence to the hypothesis put forward by Devlin and Blackley (1988) on the necessity of having some procedures for information retrieval from the alliance.

8.4.3.3 Dealing with Conflicts

Problems and conflicts that have been experienced by the interviewed firms can be classified into three main groups. First, **functional problems** which consist of easily spotted conflicts that might be caused by a complete integration of activities (see 8.4.3.2); second, **structural problems** which could be due to some kind of ambiguity, hidden objectives of one or both partners, and/or misjudged issues which could be carried on from the formation stage; and third, **strategic problems** that can be caused by external changes as well as by changes in the partners' aims and goals on the one hand, and by conflicts which are related to non or slightly integrated functions on the other hand.

Conflicts and problems are likely to occur even in the best tailored alliances. No matter how thoroughly the partners try to take prevention measures, they still cannot predict every eventuality. For the present research, only three firms which were highly experienced in strategic alliances developed precautionary measures and plans to tackle potential problems. Nonetheless, these are only suited for functional and operational problems as expressed by one aerospace firm's director:

> "we could only take precautionary measures for functional and operational problems, e.g. those resulting from productions, delays, etc.., however, those are minor problems and are solved without much frustration."

However, the results of the research would not precisely recommend precautionary measures as the best means to prevent or quickly ease conflicts and solve problems, for the pre-planned measures may not be the most adequate solutions to the circumstances whithin which the problem actually take place. The results rather suggest the installation of clear lines of responsibilities for monitoring the alliance as a key issue which help, first, in identifying the source of problem and second, in finding the right authority to deal with it.

Therefore, problem classification is a prerequisite responsibility of the alliance managers. The results indicate that the guiding committee is the best suited body to identify the source of conflicts and label them according to their nature, because one of its main responsibilities is closely monitoring the alliance progress and operations.

Functional Problems: 62.1 per cent of the sample (18 firms) believed that functional problems can be dealt with and limited by continuous and scheduled meetings of the guiding committee which represents an important part of the alliance management team.

The remaining 37.9 per cent (11 firms) partly devoted the responsibility of problem-underpining to visiting personnel. This worked fine as visits were frequent enough in the early months of the relationship. But things deteriorated with the decline in the number of visits made to the alliance and frustration surfaced over the least conflict(s) where every small disagreement needed the board of directors' meeting. Of this percentage, 8 firms had to restructure the management team of their alliances in order to form a kind of joint operational monitoring body which in the views of an electronic company director:

> "helped, not limiting problems, but exploiting the existed chemistry between our personnel and those of our partner's by putting forward a design of unique and creative solutions."

Structural problems: Those can only be discerned by the body whose responsibility is the continuous monitoring of the alliance's activities, i.e., the guiding committe. No one company has felt that such problems can be spotted by executives or engineers visiting either the partner or the alliance site. An important finding in this regard was that once the guiding committee identifies the conflict(s) and classifies it as structural, the issue must then be raised up to structural realignments by holding board meetings for problem solving sessions. That is, because this kind of problems can exist safely for months before being discerned and usually does not have any implications in the early stages of the alliance as experienced by two chemical and pharmaceutical and one electronic firms which obviuosly did not have previous experience in forming collaborative deals. However, the longer structural problems remain uncovered, the harder the solutions are to reach.

Therefore, it is crucial to devote the alliance management to the people who were present at the alliance inception from the planning stage through to the formation stage, for they are (as unfortunately, believed by just a handful executives: 17.2 pre cent of the sample; 5 firms), the personnel with the clearest understanding of what is expected from the alliance and therefore, can focus their control needs properly. Moreover, these personnel are seen as better equipped with the qualified knowledge about the circumstances within which the alliance was put together, they should possess the ability to establish clear, accurate, and timely communications in their alliances; the capability of solving more than just functional problems; and have outstanding experience in dealing with personal conflicts.

The results, therefore, suggest that structural problems are more likely to take place in alliances that involve partners with little or no experience in collaborations; and in cases where the personnel recruited to the alliance were only briefed on the outcomes of the negotiation at the end of the formation stage, and did not actually participate in it. This type of problems usually takes an extensive amount of both partners' top management time in renegotiating some aspects of the deal before they are handed over to the alliance board of director to be finalised.

Strategic problems: Unlike functional and structural problems, strategic problems can be caused by unpredicted changes in external circumstances (e.g. changes in competitive conditions, radical changes in technologies or products) to the extent that the alliance as it is, no longer fits within the partner(s) overall strategy. Further, fundamental changes in one or both partners' objectives and strategic quality of the commitments that nurture the unintegrated functions form two other factors which can precipitate strategic problems and give fertile ground for serious conflicts between the partners.

"Because the alliance is considered as a core part of our business, we cannot overlook such conflicts, we are aware of the continuous changes in the surroundings of the alliance, we expect changes in our partner's goals

> or policies, and we are pretty careful to keep the strategic advantages in balance",

was stressed by the business director of Cable & Wireless who then added:

> "Nevertheless, I don't not believe that there are clear preventive measures for strategic conflicts, and the only successful preventive tool is to be patient, renegotiate if necessary, and give plenty of room for constructive discussions".

Therefore, strategic problems are the most difficult to handle. When they occur, they put the relationship at stake and the partners' good will and faithful intention to effectively pull things together again are set for a difficult test. The current study reveals the significance of a thorough analysis of the problem at hand via a joint operative planning before jumping into actions. An illustrative example is the failed alliance between one electronic firm and its Japanese partner where the partners were faced with the unanticipated slow down of the robotics business combined with the increased divergence in their objectives and no real effort was made to ease the tension between the partners and the board of directors were pressed for solution which caused the partnership to fall apart within less than two months from spotting the problem.

The results of this research, once again supporting Delvin and Bleackley (1988), emphasise the necessity of having a continuous evaluation of the alliance vis-a-vis external changes. This as expressed by

Westland business director:

> "could be done by a couple of managers who play the role of the alliance supporting teamwork, independently at each partner's own head quarters".

Moreover, regular and planned reports from the alliance management committee to the firm is an important monitoring system for predicting strategic conflicts, be they those caused by changes in the partner(s)' goals or by occasional, but serious, inbalance in the quality of commitment to the alliance. Therefore, regular evaluation of the alliance's functions vis-a-vis its environment and partners' objectives as well as continuous monitoring help underpinning strategic conflicts which need mutual tolerance and thorough analysis and planning to reach optimal solutions.

8.4.3.4 Continuous Protection and Monitoring

In addition to the problems illustrated in the previous section, it was found that each alliance is associated with a danger zone which may emerge as a serious and hard to tackle strategic problem. That is caused by the complete and unguided exposure of the firm's core technology, skills or other important know-hows, especially to a partner who is unable to adequately protect it or intentionally let it leak to, for instance, one of his other alliances. This greatly threatens the alliance well being as well as the firm's own competitive advantage.

Protection and Monitoring

Though no one firm has experienced serious leak of core information, 13 firms (44.8%) structured their alliances in a way that made the permeability of the alliance boundaries low, so sensitive information is carefully let through. In such circumstances, the firms in the sample used additional or supplementary contracts to minimize or control opportunistic behaviours and strategic encroachment, to ensure a fair sharing of the gains from the exchange of competences with their partners, and most importantly to ensure that any exchange of sensitive information is not used to mount an independent and probably severe competitive challenge at latter stages.

On the other hand, the remaining 16 firms (55.2%), though having supplementary contracts within the alliance deal, relied more on an organised and guided flow of information from their firms to the alliance, while the concept (suggested by Hamel et al, 1989) of information flowing through one single gate was used by four of those firms, but caused delays and shook the trust between the partners. Therefore, the perception of limiting the flow of information to a narrow single gate which links the alliance with the participating firm is not highly supported by this study. Moreover, complete reliance on legal means to safeguard the firm's core competences can be sometimes counter productive as one firm's director stated that:

> "legal contracts encouraged our workforce to follow the 'we are safe concept' and were unintentionaly passing unrelated information".

Despite the absolute agreement on the need to keep an acceptable balance in the commitments by the firms surveyed, 17 companies (58.6%) put more weight on the type and quality of the different sets of commitments and believed that the balance should be measured in terms of quality and type of contribution where protectionist procedures must be strictly followed. This result positively supports Hamel et al (1989)'s finding that the type of know-hows and resources a firm discloses to the alliance is a critical factor in how easy or dificult its partner can internalise it.

Therefore, partners should be watching the strategic balance of the commitments as well as that of the accumulated knowledge and reward from their alliances. Usually, firms tend to count for technology and other tangible competences more than the accumulation of intangible competences, probably because of the over emphasis on the technology as the best source of competitive advantage. Interestingly, the exchange of managerial and operational skills was seen as very important by 23 firms (79.3%) with no single firm underestimating its significance, of those 18 firms

(62.1%) regarded both intangible skills and technology exchange as a very important complementary source of competitive advantage.

Though the transfer of managerial skills has scored higher than technology transfer, only a few 7 firms (24.1%) have made their management team aware of its necessity, all are involved with Japanese partners. This indicates that the British firms started getting the massage conveyed by Doz, Hamel, and Prahalad (1986, 1989). However, the massage should not only be directed to European partnering with Japanese, it concerns any alliance regardless the nationality of the partner.

Visits and Reports: Not surprisingly, the frequency of visits made to the alliance or the operation sites was far higher than those made between the partners which was at a monthly and quarterly average respectively.

Visits were made by executives from production, marketing, R&D, and sometimes engineers from middle to senior management levels to the alliance or operation sites. The purpose of these visists was to keep up-to-date with the alliance operations and feed back its operators, as each alliance visitor has to prepare a brief report of the visit which is then used as a basis for the feed back reports. On the other hand, visits exchanged between the partners were more likely to involve discussions of the development of the relationship and/or to back up the board of directors in discussing and solving conflicts and problems.

Regular reporting from the alliance management to the firm were a prerequisite procedure (at a monthly average) by 68.9 per cent of the sample (20 firms), while the remaining nine firms (31.1%) claimed that information was supplied at their request, relying more on the reports handed in by their personnel who frequently visit the alliance- all nine firms were involved in equity alliances.

All reports find their way to the strategy analysts or in somes cases to the support team where they are studied, analysed, and checked against the alliance objectives as a means of keeping the alliance under close observation, and on the light of that analysis, feed back reports were sent to the alliance operators. However, only one third of the firms surveyed (10 firms) tend to maintain the regularity of feeding back to their part of the alliance management team on a monthly basis, while the remaining 19 firms were sending feed back reports at an average of two to three months interval.

Though the support rate of the reciprocally regular reports was not too strong, when used it helped the firm to keep its fingers right on the pulse of its alliance. Through regular reporting, one aerospace company effectivelly monitored when and what information can be transfered to the alliance; and another electronic company spotted the emerging of a serious strategic conflict caused by some changes in its partner's main objectives, and then was able to safeguard itself at early stages by changing some of the alliance terms.

8.4.3.5 Continuous Assessment and Review

The results of the study confirms Lorange's (1988) finding that partners to strategic alliances should establish clear milestones against which to measure the progress and performance of their alliances. 25 of the interviewed firms (86.2%) have agreed with their partners upon some common criteria to review and evaluate the progress of their alliances. While only four firms tend to use their own criteria and measurements believing that it is crucial to monitor this in exactly the way they operate their other businesses, and compromises would not prove feasible. Accordingly, as stated by one firm's executive:

> "the review first takes place at our firm's offices, we study the written reports sent to us by our managers at the alliance, sometimes this includes presentations made by those managers. Then the next step is, assuming that the partner is following suit, to hold 'committee meeting' with the partner involving the alliance management team and this time the review consists of elaborated presentations of points of views and alliance progress. The meeting usually encourages hard questioning and sometimes results in a redefinition of the common goals and expectations and solve any emerging conflict."

On the other hand, for the 86.2 per cent of the firms, assessments were done at the regular meetings held by the board of directors where the process took the form of soft and constructive negotiations.

EXHIBIT III

Operation and Control: Company Examples

BOC:

The agreement between BOC and Dow Chemicals resulted in the creation of a third independent entity equally owned by both partners. The alliance was located *in the USA*.

Once the agreement was signed, the partners held one final meeting to clarify two important issues. These were: the alliance management team, and the alliance plan which included the milestones of its operations.

The management team of the new company was selected from both partners on the basis of the required backgrounds and skills. For the alliance board of director, BOC provided the president and a marketing director, while Dow Chemicals supplied a finance director and a president of operation. The guiding committee formed the other part of the management team and included managers and operating staff from both companies.

The alliance plan included a brief summary of the objectives, details of the partners' commitments and contributions, a clear allocation of authorities and responsibilities, details of the activities and operations schedules, schedule for visits, reporting and control policies, and a performance review schedual.

At the new company, the staff and the management team developed trust reasonably quickly. Operations went quite smothly and the development of the project has progressed as was planned. The main reasons for the success of this relationship are:

- BOC and Dow Chemicals were very close to the alliance, particularly in its evolutionary stage.
- There were frequent contacts between the partners.
- Problems were identified and dealt with quickly.
- Both partners were interested in maintainig a fair balance in the relationship.
- Visits were conducted as scheduled, reports were made, and the management team of the alliance received frequent feed back from the partners.

Rolls Royce:

As mentioned in Exhibit II, Rolls Royce and Pratt and Whitney already knew each other through previous relationships. Therefore, trust and chemistry between their personnel were well established. However, before starting on the alliance, it was felt necessary to draw up a plan for the project and to identify the personnel who will be dealing with each other from both companies.

Rolls Royce and Pratt & Whitney did not spend much time on drawing up a plan for their alliance. They were rather satisfied with a precise summary of their detailed contract to guide the alliance activities and operations. The summary covered the alliance milestones and their dates of completion, the specification of the product, and the division of responsibilities and commitments for the project.

In this case, there was no independent entity to carry out the activities of the alliance. Therefore, there was only two employees in the partnership - the project managers (one from each partner). Their task was to manage the project and share the partners' boards in making strategic decisions concerning their alliance.

According to the alliance plan, the project managers initiate the work and the researchers and operation personnel execute it. The coordination has not been difficult and the time scheduals held as expected.

The objective was to carry out the R&D and production of the engine in a consensus between the partners. Information about where the work is actually done was precise and the partners made sure that no parallel working is done by their staff. However, some conflicts arised between the collaborating engineers, but were dealt with through constructive discussions. The project leaders, acting as a guiding committee for the alliance, played an important role as coordinators and ensured the existence of proper lines of communications as well as a contiuous flow of reports.

In this cooperation, the partners are contributing with resources and knowledge that the other regards as valuable and a basis for the alliance. Both firms consider the alliance as an important part of their operations and have been spending time and efforts in monitoring and assessing its activities in order to achieve their objectives.

GKN:

Unlike Rolls Royce, GKN did not have any previous partnership with its partner Mitsubishi. Nevertheless, the relationship was not difficult because GKN has been trading in Japan for long and it has its own Japanese representatives. The company's personnel were well trained and aware of the cultural differences.

Similar to the previous two examples, the alliance plan and its management team were important prerequisites for GKN at this stage.

The alliance plan included a precise definition of the partners' roles, their contributions and responsibilities towards the relationship, details of the activities and operations scheduals, a schedual for visits, reporting and control policies, and a performance review schedual.

As the alliance involved a Japanese partner, GKN made sure that the personnel selected for its management team possess the flexibility and willingness to enter into constructive discussions as well as the ability to absorb and learn the needed competences from the partnership.

In the early days of operations, the senior members of both partners held frequent meetings to provide board policies and strategic directions.

An interesting issue in this example is that GKN's contribution was regarded as unique and very important for its competitive posture. Although the permeability of the alliance boundaries was made low as a precaution against any potential encroachment, GKN's personnel were kept "on their toes". Senior managers, joined with the company's representatives, made frequent visits to the alliance sites (a shared firm in Japan) and prepared detailed reports. Those reports covered important issues like evaluation of the operations and the achievements, assessment of the balance in the type and nature of the partners' contributions, and checking for any kind of unguided exposure of the firm's core competence. Then, GKN would hold a board meeting, reassess its objectives as compared to those of the partner's, discuss the issues of the reports and draw up new guidelines which in turn would be fed-back to the alliance runners.

Therefore, for GKN, the visits to the alliance formed an inportant mean to assist its part of the management team and continuously monitor its alliance.

8.4.4 Recommendations

This part has profferred the analysis of the key issues which were regarded by the British firms under study as useful tips to manage the operations of a strategic alliance. Yet those cannot be considered as golden rules, for each firm may have its unique key priorities for a strategic alliance. However, the development of a thoroughly clear plan for the operation of the alliance and the creation of a leading management team with the right chemistry in place, although not necessary in complete harmony, are two significant issues that can be generalised upon to start off a promising alliance. While for managing and controlling the alliance operations, the following tips are hopefully useful for most international strategic alliances:

1. Operate under one concept: "benefits must outweight costs".
2. Do not betray your "compatible" partner for short-term advantages- you will lose the long-term ones which actually incorporate the needed competitive advantages.
3. Understand the difference between collaboration and participation. The first means full involvement in design, development, and/or manufacturing with significant use of each partner's distinctive resources while the second means: "join in, do things your way, and get your share".
4. Allow enough time to bring harmony in decision making styles.
5. Enhance career prospects of the alliance personnel. This makes them feel more committed to the activities of the alliance.

6. Have clear lines of communications with your partner as well as between your firm and the management of the alliance, and find out how your partner is bridging with the alliance.

7. Ensure that reports are regular and moving in two directions; from and to the alliance.

8. Encourage "information retrieval" as a normal part of working on an alliance.

9. Do not treat the alliance as a strange body. Devote enough time and personnel to monitor it from within the firm, e.g. a support team is a good idea.

10. Regular visits to the alliance operation sites and to the partner's firm are a sign of "I am still interested", they also enhance trust, raise the chemistry of partnering, and help identifying conflicts at early stages.

11. Protect your core competences, yet not to the complete blockage of distinctive information and resource flow, they were the cause of the link in the first place.

12. When conflicts are spotted, the first thing to do is to classify them, for some can simply be solved by the alliance guiding committee and some need the board of directors' meetings, while others could be fatal, they may involve renegotiations and need the involvement of top management from both parties.

13. Take a broad view of your partner's actions and perceptions. Remember your partner is different and does not necessarily see things from the same angle. Be patient, understanding, and supportive. Also, be prepared for renegotiations and take them as constructive discussions, but never consider them as "win-lose" battles.

Though previous researchers (e.g. Harrigan, 1986; Killing, 1982 and 1987; Doz et al, 1986) contend that managers spend too much time on negotiating and dealmaking, whilst far too little on actually managing and controlling the operations of the alliance, the findings of this research reveal that British MNEs put as much emphasis on the implemention, operation, and control of their alliances as the negotiations and dealmaking.

Nevertheless, the findings on the operational and control stage of the alliance are in line with other researchers observations on various themes. Harrigan's (1985, 1986) argument for the importance of the development of a compatible management team for the alliance was highly supported, however, although chemistry was considered necessary, complete harmony amongst the member of the management team was not seen as a vital prerequisite, this in turn supports Hamel et al's (1989) findings. Moreover, protection against strategic and competitive encroachment as recommended by Hamel et al (1989) was remarkably supported by this research.

In addition, the results give credence to Delvin and Bleackley's (1988) argument for the necessity of proper reporting to/from the alliance, clear procedures for information retrieval from the alliance, and continuous evaluation of the alliance vis-a-vis external changes.

Hamel et al's (1989) suggestion of a "single gate" for information flow to the alliance was poorly supported, the results of this research suggest a rather organised and guided flow of information so that trust between the partners is preserved.

8.5 CONCLUSIONS

This chapter has presented a full analysis of the alliance management procedures as practiced by the British firms in the sample where several important issues were in line with data obtained by other researchers on similar themes.

However, a clear conclusion must be put forward. That is, each alliance has its own circumstances and its own rules, thus presenting a list of wholly management guidelines that works in all situations, if possible, the rate of failure for international collaborative arragements would have been zero. Nevertheless, as international strategic alliances have been used in response to changes in the international business environment, the findings of this study imply that they must always be dealt with as dynamic deals which have to be continuously assessed, monitored, and adjusted to retain the best fit for all participants.

The management of international strategic alliances is, therefore, pivotal to their success. The current research accentuates that the process of managing an international strategic alliance starts in the planning stage which forms the basic preparations of crucial and influencial issues (e.g. firm's self assessment, alliance strategic fit, selection of partners); spreads on to the formation stage- for negotiations not only do they impart the substantial contents of the deal, but also establish the needed levels of mutual trust and right chemistry between the partners; and goes on to the third and most important stage, operation and control - where the efforts of both parties must be boosted to prove their abilities to materialise the goals which they jointly accepted at the time they signed their agreement.

Therefore, a balanced as well as intensive attention to planning, formulating, and operating and controlling the alliance is a prerequisite. Moreover, the current research rates equally highly the clear and thorough understanding of the "issue-chains" which link the stages of the management process. The preparation for the negotiations is the ring that bridges the planning stage and the formation stage, while the development of the alliance plan and management team form the strategic ring which ties together the formation and the operational stages. Those "issue-chains" conclude one stage and cement the next with a concrete base, thus should be cautiously and properly undertaken, for they fill important gaps which if left unattended for may generate numerous problems and conflicts.

CHAPTER NINE

PERFORMANCE AND IMPACTS
OF
INTERNATIONAL STRATEGIC ALLIANCES

SUMMARY

Degree of competitiveness, global position/image of the firm, acquisition and/or use of technology topped the list of criteria used by British firms for measuring the performance of their alliances.

The alliance performance is influenced by the scope of its activities as well as the ability of the firm to effectively manage a network of complementary strategic alliances.

Strategic alliances have positive impacts on three significant issues, namely; the international competitiveness of the British partners, the management of the firms, and their technological capabilities.

Firms that equally importantly consider the three management stages of their alliances or network of alliances are more likely to ensure the improvement and/or enhancement of their international competitiveness.

The impact on the international competitiveness is, however, more pronounced in the global industry.

9.1 INTRODUCTION

While the previous chapter has presented a comprehensive analysis of the key issues that should be considered in international strategic alliances, the current chapter is devoted to provide detailed insights into the performance of these alliances and their impacts on the companies undertaking them. For this purpose, a part of the questionnaire (Section H) was designed as to collect as much data on performance and impacts as possible. At this stage the interviewees were asked to choose a representative alliance to which they relate their answers for this part.

Therefore, the chapter starts by examining the performance of the alliances surveyed. Then, it examines the impacts that these alliances have had on the British partners, particularly their international competitiveness. Thirdly, it establishes a clear understanding of the relationship between the management procedures of the alliance and its impacts. Finally, the last section adds a dyadic perspective to the analysis by highlighting the alliances impacts in relation to the industry within which the surveyed firms operate.

9.2 PERFORMANCE

In rating the performance of the alliances under study, three measures were applied: first, as judged by the participating companies directors (see question 55, Appendix III), second, according to six criteria (question 56, Appendix III), and third, in relation to the alliance competitors along four dimensions (Question 57, Appendix III).

The bases on which the performance was measured are ranked in order of their importance to the respondent firms in Table 9.1. Fourteen alliances (48.3%), formed in the period of 1986-1987, were rated as very successful. Of those eleven alliances were of limited scope, i.e., did not involve multiple activities.

On the other hand, the alliances which were established in the period of 1980-85 were variously ranked between successful and unsatisfactory. Six alliances were described as successful, three between successful and satisfactory, four satisfactory alliances, and two unsatisfactory one of which ended in financial losses and failed because of insufficient analysis at the planning stage, and the second was sold to the foreign partner.

TABLE 9.1

CRITERIA FOR PERFORMANCE ASSESSMENT

Criteria	Number of firms rating as most & (least) important (*)	Average score (**)
Degree of competitiveness	21 (0)	2.724
Global position and/or image	16 (0)	2.551
Acquisition and/or use of technology	14 (1)	2.448
Market share	14 (2)	2.413
Return on investment	11 (1)	2.344
Sales growth	6 (0)	2.206

(*) The number of respondents exceeds the number of participants, for some firms assigned equal importance to two or more criteria.

(**) The average score refers to a scale of importance which respondents attached to the critera (1: unimportant, 2: important, and 3: very important).

This result positively supports a statement made by one company's acquisition director that:

> "alliances usually start off very successful and then fade into the successful or satisfactory category".

The main reason for this was found to be related to unforeseen problems, usually caused by changing conditions of business and/or changes in the partners' goals combined with difficulties surrounding the management of such relationships.

Table 9.1 suggests that the degree of competitiveness is regarded as the prime criterion for the measurement of the alliance performance, followed by the global position and image of the alliance as well as that of the partner's, and ahead of the attainment of the required technology. The results would at first seem surprising because the acquisition of technology was ranked as the major motivator for the British firms to pursue strategic alliances. However, this is neither controversial nor startling, for enhancing the company's technological capabilities was sought as a means of acquiring differentiated competitive advantages, hence, to achieve the required degree of competitiveness and to maintain an impressive global position and image. This also explains the importance of market share that was rated almost as highly as the acquisition of technology for measuring the performance of the alliances under study.

For the rating of return on investment, eleven companies consider this factor as very important against only one firm regarding it as an unimportant measure. The significance of this factor, though not seen as important as degree of competitiveness and global position, can be attributed to the management acknowledgement of investors' concern for profit and return.

On the other hand, only six companies rated sales growth as a very important measure for the performance of their alliances. This result does not attenuate the significance of sales growth as a performance criterion, for none of the participant firms ranked it unimportant.

Lastly, the respondants were asked to rank the performance of their alliances against their major rivals in four different areas and the results are presented in Table 9.2.

The above results show the significance of the alliances performance as perceived by the partners when compared to the rivals. Again, in terms of *technology/product development* and degree of competitiveness the majority of the alliances under study outperformed their rivals, however, the same can be said for achieving market share and sales growth, but to a lesser extent. That is, strategic alliances are an effective means for the multinational enterprises to succeed in the fast growing competitive race.

Several researchers (e.g. Killing, 1983; Beamish and Lane, 1982) found that performance of international joint ventures was affected by the equity ownership each partner holds in the venture and degree of management control practiced by the partners. The current research does not support this finding, for the fact that all participants emphasised the balance of management control over their alliances and did not believe that performance would have been better if the management of the alliance was left to a dominant partner (as suggested by Killing, 1983) neither has the equal division of equity influenced performance.

TABLE 9.2

PERFORMANCE OF ALLIANCES AS MEASURED AGAINST THEIR RIVALS

Criteria used to measure performance against that of rival's	No. of firms rating as higher & (lower)*	Average score **
Production/technology developement	21 (0)	2.655
Degree of competitiveness	20 (0)	2.620
Market share	17 (1)	2.413
Sales growth	18 (4)	2.310

* The number of respondents exceeds the number of participants, for some firms regarded their alliances performing better than the rivals in two or more criteria. () Number of firms regarding their alliance performing lower than the competitors.

** The average score refers to the level of performance as seen against the alliance's rivals (1: lower, 2: same, and 3: higher).

The performance of the alliance strategy, however, was influenced by two major factors. First, the scope of the alliance and second, the ability of the corporate management to effectively manage a network of several strategic alliances.

In the cases where the scope of the alliance was relatively narrow, i.e., alliances that involve limited operational tasks (e.g. R&D, production, or marketing alliances) with a finely defined set of objectives, the level of performnace was highly successful, both as measured by the partners and as compared to direct rivals. In this context, one company's director stressed that:

> "As new followers of this kind of strategy, we were very caucious not to involve all our core business into the deal, we chosed to go for a limited and one activity alliance in order to minimize the risk of failure. Any way, we can always extend the relationship."

Therefore, well defined and limited scope alliances have better chance of success, and gradual involvement with the partner not only helps in building up the needed chemistry between the personnel in the shared management, but also limits the potential for technological and other strategic encroachment.

Moreover, for firms which are aggressive alliance followers, such as BAe, Rolls Royce, C&W, and BT, the success of the alliance did not only depend on its scope and well defined objectives, but also on the ability of the firm to manage a network of various strategic alliances which complement each other and which aim at advancing the firm's international competitiveness.

In this regard, one company director addressed that by saying:

> "the business of the 1990s will greatly depend on the webs of alliances formed between yesterday's rivals. It's the task now to train our people to coordinate their skills with those of our partners' in a way that makes the various alliances complement each other in term of getting our main objectives and without making the work on one particular alliance jeopardising the relationship in another".

Another firm's collaboration director emphasised the necessity of having a well planned network of alliances as all together serving the firm to build its way into the fast becoming global market. As for the complexity of managing a number of alliances involving partners from various countries and diverse cultural backgrounds the company's director stated that:

> "as long as you choose the right partner with the right fit, Japanese, American, and European can be the same. The important thing is to give priority to building up a good personnel relationship."

The research results, therefore, give credence to Dunning's (1988) assertion that: "The *MNE* is *now* increasingly assuming the role of an orchestrator of production and transactions within a cluster, or network, of cross border internal and external relationships which may or may not involve equity involvement, but are intended to serve its global interests". Also, the results suggest that the future business of the MNE and the success ot its business relationships will depend on its ability to effectively manage the network of alliances which all together must aim at enhancing and sustaining its international/global competitive position. However, caution must be given to the fact that excessive alliances may have a deterimental effect on the firm's performance by heavily depending on external and shared sources of competitive advantages. This is particularly true when the firm engages itself in a number of alliances, in various key businesses, with the same partner. In such cases, opportunistic actions are more likely to occur. ICL's experience with its long-term Japanese partner (Fujitsu) illustrates this phenomenon. By looking into the details of reasons behind ICL's takeover by its long-term partner Fujitsu that can be related to their alliances, two significant issues arise.

Firstly, and most importantly, is that ICL's managers and representatives were highly concerned about the success of their alliances, while Fujitsu's management, as all Japanese firms (Hamel et al, 1989), was more into seeing the success of their firm through those alliances.

Engaging with the same partner in one deal after the other and probably ignoring the necessity of careful planning and analysis before consuming or extending any partnership was the other influencing issue. In other words, ICL's managers did not give balanced considerations to the three stages of the alliance management while extending the relationship with Fujitsu, they started off in the negotiation stage without having carried out much pre-alliance planning.

Therefore, when extending an alliance, the firm must treat the process the same as a new deal and thorough analysis should be carried out before negotiating an extention. Also, terminating the alliance after it serves its purposes does not mean failure, for extending a relationship which is strategic and important for only one partner would definitely put the other's sovereignty at risk. Moreover, the alliance strategy should not be considered as an end in itself, but simply an important tool to aid the total development of the firm, i.e., strategic alliances must be considered as weapons in the firm's armoury.

9.3 IMPACTS OF STRATEGIC ALLIANCES

This section examines the various impacts that strategic alliances have had on the 29 firms surveyed for the current study. Some issues, believed to form a good source of differentiated advantge as well as keys that may play a major role in enhancing the firm's chances to survive the global arena, were brought forward from the literature review and examined by this research to find out what impacts a strategic alliance could have on the British firms.

As complexity in technology and/or development, globalisation and competitive pressure were identified as the prime motivations to pursue the alliance route (see Table 7.1, Chapter 7), it was expected that the alliances under study would have significant impacts on those issues. Table 9.3 presents the research findings on the impacts that the alliance strategy has had on the British sample surveyed.

9.3.1 Impact on International Competitiveness

International competitiveness of the British firms involved in strategic alliances was variously affected. Twety-four firms (82.7%) claimed a clear impact on their international competitive position. This claim has been confirmed by studying the annual reports of these firms as well as checking published materials that are related to the firms in concern.

Of these 24 companies, only two firms have they experienced negative impacts. Both firms belong to the electronic sector, one experienced some decline in its competitive position and suffered financial losses as a consequence of the failed alliance with its Japanese partner (the main reason for the failure is due to insufficient planning for the alliance, "It was a rushed into deal" expressed by the firm's managing director). The other alliance was sold to the foreign partner resulting in financial gains.

TABLE 9.3

IMPACTS OF STRATEGIC ALLIANCES ON THE BRITISH PARTNERS

Rank (1)	Issues	No of firms stating as most affected issues (2)	Average score (3)
1	International competitiveness	24	1.897
2	Management of the firm	22	1.758
3	Technological capability	20	1.689
4	Operations of the firm	12	0.862

(1) Rank refers to the class order of issues which are affected by the alliance (1: most affected ------- 4: least affected).

(2) The number of respondents exceeds the number of participants, for some firms have experienced several impacts by their alliances.

(3) The average score refers to a no/yes scale measure (yes:1 and no:0).

The positive impact on the international competitiveness of the remaining 22 firms was related to achieving synergy in technology and R&D and production, widening their market territories, and/or reducing the financial requirements needed for certain important projects/products. In this context, one firm's director asserted that:

> "Strategic alliances can dramatically change the whole roots of the global business game, they can positively improve the market conditions for the firm and consequently enhance its ability to become more competitive".

This finding supports, the assumption put forward by several authors (Jain, 1987; Doz et al, 1989; and Porter, 1990) that strategic alliances are a convenient competitive weapon for the increased globalisation of competition.

Alliance's Management and International Competitiveness

Research studies on the motivations for strategic alliances are far from scarce (e.g. Renard, 1985; Harrigan, 1985, 1986, 1988; Porter, 1986; Doz et al, 1986; Jain, 1987; Hamill, 1989; Norburn and Schoenberg, 1990; Ohmae, 1985, 1990). Competitive pressure, fierce competition, and globalisation of competition are terms that have repeatedly been emphasised and greatly linked with the rapid growth of strategic alliances.

Similarly, considering the critical failure consequences of such deals, the managerial issues of strategic alliances have been gaining tremendous attention in the academic circle. Examples include the work of Doz et al (1986), Hamel et al (1989), Harrigan (1985, 1988), Contractor and Lorange (1988), Lorange and Roos (1989, 1991).

Nevertheless, hardly any research study has been extended to link the managerial issues of strategic alliances to that of the competitive consequences on the partners. Therefore, a major area of concern for the current research was to investigate the relationship between the management of the alliance strategy and its impact on the firm's international competitiveness.

In order to satisfy this objective, the management process of the sample firms (those which have experienced a positive and negative or no impact on their international competitiveness) was scrutinised to identify the common characteristics that need to be followed when pursuing strategic alliances with positive impact on the firm's international competitiveness.

Figure 9.1 lists the managerial issues that carry significance for successful strategic alliances and which resulted in the improvement and/or enhancement of the British partner's international competitiveness.

FIGURE 9.1

MANAGERIAL CONSIDERATIONS FOR COMPETITIVE ALLIANCES

PLANNING

Firm's Self Assessment: environmental analysis, resource analysis, strategic comparision, competitors' analysis.

Objective Setting: clear set of objectives, and a thorough analysis of all available strategies including an alliance

Partner's Selection: Very careful analysis of potential partners against important criteria as well as their linkages with other firms, particularly rivals.

NEGOTIATION

The Team: delegation of the negotiation to well prepared personnel and those who are likely to take an active role in the alliance operations.

Exploratory Meetings: one or two exploratory meetings are necessary to check the feasability of a potentially promising alliance.

Negotiation Plan: setting up of a plan including the main issues to be negotiated.

Alliance Boundaries: very tight definition of the alliance boundaries and the degree of their permiability for passing on information from the partners to the alliance.

IMPLEMENTATION

Authorities and Responsibilities: very clear division of authorities and accountabities within the alliance management team.

Guiding Committee: consisting of 4 to 6 personnel with three-fold responsibility, i.e. policy activating, problem solving, and restoring fairness between the parties.

Information Retrieval: a system or process to ensure the effectiveness of learning from the alliance and incorporation of that knowledge into the firm.

Regular Reporting: reports from and to the alliance, particularly concerning information that is related to the strategic objectives of the firm and the partner.

Evaluation and Control: continuous evaluation and monitoring of the alliance progress and operation.

Protection: continuous protection and controlling of the firm's own "Black Box" of special skills and competences.

The results indicate that twenty-two firms (those which experienced positive impact on their international competitiveness) were highly concerned about giving equally balanced attention to the three stages of the alliances' management, i.e planning, negotiation, and operation and control. A similarly significant perception was directed to the "issue-chains" that link each of these stages together, namely; the preparation for the negotiations, the developement of the alliance plan and management team.

Moreover, fifteen of the twenty-two firms have given special considerations to the strategic and organisational fit of the alliance strategy, believing from previous experience, that this represents a crucial issue which eliminates problems in running the alliance and increases the firm's chances of strengthening its competitive position. Each of those fifteen firms is engaged in a network of complementary alliances.

Therefore, it can be argued that strategically managed network of carefully selected alliances is the key route to succeed in maintaining and improving international competitiveness as well as achieving other significant adavantages which all together help in forming a bridge over the Strategic Gap, explained earlier in Chapter Seven. These advantages, as found by this survey (see question 58, Appendix III), include:

* Synergies by combining strengths from diverse corporate resources, e.g. hybridisation of technologies and management skills,

* transfer of technology between companies to maintain a competitive position in their seperate marketplaces,

* increased sales by gaining access to larger markets resulting from new distribution channels and strengths in product planning,

* infusion of financial resources to keep pace with the required levels of R&D, and

* more rapid adjustment to new technological changes as a result of better access to engineering and marketing information.

9.3.2 Other Impacts

The management of the involved firms was also influenced by the alliance strategy. 75.8 per cent of the sample firms (22) have experienced various types of impact on their management. Some stated that strategic alliances made their management more sofisticated, globally oriented, and enabled them to better communicate with their counterparts across their national boundaries. More interestingly, though stated by a few five companies (well experienced in collaborative partnerships), strategic alliances have convinced many "arrogant" managers that someone else can have a better idea or approach for business success.

Moreover, all interviewed directors unanimously agreed that strategic alliances require extensive attention by senior and middle managers who devote excessive periods of their time to planning, negotiating, operating, and continuously monitoring their progress. This result gives credence to Jain's (1987) findings that managing strategic alliances is time and effort consuming.

Technology and/or product development can be an important source for differentiated and long-term competitive advantage. It topped the factors which have motivated the sample firms under study in pursuing the alliance route. This research shows that 68.9 per cent (20 firms) of the surveyed companies have their technological and product development capabilities improved as a consequence of being involved with a competitor and/or complementary partner in a strategic alliance. This was highly pronounced in the cases where the partnerships involved R&D programmes, technology/product development, and production alliances.

However, as warnned by Hamel et al (1989), the immediate or short-term improvement in technological capability does not ensure that this concept would hold on over the life of the alliance and it must be compared to what the company gives in return to that improvement. There is also the risk of losing the firm's own technological competence as possibly conceived to the partner and putting at risk its own market share, especially if the partner is significantly stronger or better at extracting the benefits of the alliance to its advantages. Accordingly, the interviewed directors were asked to rate their firms as looser or gainer in terms of technology improvement.

Confirming Hamel et al (1989), 17 firms (58.6%) were identified as neither losers nor gainers against only 7 firms firmly categorised as gainers.

The risk of losing one's technological competence was unfortunately highly considered by only seven firms. These firms have, in advance, created precautionary measures around their "Black Box", i.e. they have tightened the boundaries of their sensitive technologies and know-how vis-a-vis the alliance so that no unecessary leakage of information took place whilst successfully maintained their attractiveness as partners by accentuating their investment in heavy R&D, so that their partners will continue to highly regard the necessity of the resources and competences which they contribute to the alliance.

While every firm possesses a "Black Box", the results indicate that if both partners to a strategic alliance give up certain unsubstantial part of their "Black Boxes" none will suffer fearful disadvantages. In other words, the risk of competitive encroachment is more pronounced when pursuing alliances that require the commitment of a substantial part of the firm's very differentiated competitive advantages or core businesses.

Lastly, the other impact of international strategic alliances was on the firm's own operations. Twelve firms (41.3%), mainly involved in non-equity type of strategic alliances, have experienced the impact of the alliance on their own operations, for the alliance activities had to be integrated within those of the firms' as no third entity was created to carry the alliance operations. Nevertheless, the impact was not always negative, as ten firms reported that, being involved with an equally strong partner have enhanced the capability of the firms' operations by introducing new approaches which were learnt from the partner through the alliance. The remaining two firms, however, have witnessed certain levels of inconvenience in their operations which were mainly caused by conflicts related to diverse views on operating the shared projects. Though, these conflicts were not very damaging to the ongoing of the alliances, the firms' managing directors were very concerned about any future disadvantages that could be due to the high levels of integration between the operations of their firms and those related to the alliances.

Therefore, the levels of integration between the operations of the alliance and those of the firm, especially if the activities are considered as substantial part of the firm's core competences, must be given particular attention by the management of any international strategic alliance.

9.4 INDUSTRY STUDY

As strategic priorities differ from one business to another, the alliance strategy is expected to have different impacts on the participating firms according to the industry sector they operate in. The performance of the alliance was not influenced by the industry to which the firm belongs, but as stated earlier by the alliance scope and the firm's ability to manage a variety of such deals.

On the other hand, the results of this research, in terms of the alliance impacts, place the sample firms into two categories. First, firms operating in the global and blocked global industries (22 firms), and second, firms operating in the multinational and national businesses (7 firms).

The following two sections present detailed insights into the strategic alliance's impacts on the sample companies as accordingly grouped.

9.4.1 Global/Blocked Global Industry

As defined by Henzler and Rall (1989) a global industry is one in which local adaptation is unnecessary and the firm can master the globalisation opportunities to obtain durable competitive adavantages. While the blocked global industry is one which leaves some room for local adaptation and in which a firm is able to reap competitive advantages through exploiting the globalisation factors.

Hence, it is expected that firms operating in such industries will experience positive impacts on their global/international competitiveness as a result of the alliances they form.

The results show that only two alliances negatively influenced the competitive position of the firms and those belong to the global industry. However, the remaining 20 firms have experienced positive impacts on their international competitiveness. The competitive advantages that most contributed to the improvement of the firm's competitive position were obtained through eliminating existing and potential competitors by making them strategic allies, achieving significant synergies in technology and R&D, and enhancing the firm's own market share in an existing market and/or positioning itself in new key markets.

Nevertheless, the findings indicate that one alliance could not achieve all that, and in most cases the improvement of the global or international competitiveness was related to a series of network of alliances, each contributing in different degrees to the sources of competitive advantages.

Rolls Royce is an illustrative example in that the firm has been involved in a vast number of alliances over the course of the last decade. Three alliances were seen as the most important of all where the interviewed director argued that one alliance (RB199) was aimed at developing an existing technology, it resulted in a significant improvement in all partners' technological capabilities (4 partners); another alliance with Pratt & Whitney, being formed with a strong US rival, not only contributed to Rolls Royce's Know-how, but also reduced the competitive pressure by cooperating with a major competitor; and a third alliance (TAY), mainly aimed at product development and repositioning the firm in the European market, yet in the advancement stages, however, "it is promising", as expressed by the firm's director.

The same can be said about the two telecommunication companies in the sample, Cable & Wireless and British Telecom, which are both heavily involved in strategic alliances which proved to be a strategic as well as significant competitive route into the global market for both firms, particularly Cable & Wireless.

The results also reveal that the alliances have had impacts on the management of the firms (15 of the 22 in these two industries) in a way that makes

> "the arrogant manager accept the concept of sharing control and that others can be as effecient or even better",

emphasised by an electronic company's director, and similarily believed by other four companies (2 aerospace, one automotives, and another pharmaceutical firm). Nevertheless, the alliances have proffered additional responsibilities and burdens to the top managers of the firm in the cases of all 15 firms.

On the part of technological capabilities only 5 firms of the 22 were rated as gainers by their directors. This result is not surprising, for the alliances are formed between compatible and equally strong partners where the balance of the benefits is a prerequisite for those alliances.

The last identified impact of strategic alliances is on the firm's own operations. Of the 12 firms (see Table 9.3) that experienced such impact, five firms belong to the global and blocked global industries. The impact on the firm's operation was to a certain extent negative for two of those firms and was mainly due to conflicts arising because of the high degree of integration between the operations of the alliance and those of the firm's. While in the other three cases, the integration was not so high, but still the impact took place, nevertheless positively, as it was stressed by one firm's director:

> "the alliance introduced better approaches to our own operational methods".

9.4.2 Multinational/National Industry

Unlike global industry, multinational industry is one which manifest regionalisation where the firm is confined by local adaptation and cannot gain feasible adavantages by exploiting globalisation forces. While in the national industry or business local adaptation is significant and there is no sign of advantages for globalisation (Henzler and Rall, 1989).

In these two industries, the results on the alliance impacts form a diverse situation to that of the global/blocked global industries.

The strongest impact of the alliances formed by all seven firms in these two industries was on their own operations. However, the impact was positive in all cases where the firms learnt to integrate acquired skills and know-hows from the partners into their own operations. One firm's managing director explained that:

> "the efficiency of the operations that involved some parts of the alliance product was enhanced by about 30% mainly by ideas learnt from the partner, and I guess the same could be said on the part of our partner".

Similarly, all seven firms experienced an apparent impact on their management as a result of the alliances they formed. Despite the fact that the strategic alliance was commonly seen as time and effort consuming for the firm's top management, it widenned its scope, made it more "sophisticated" and globally oriented, and gave it good background experience for managing future strategic alliances.

On the other hand, only two firms (both belong to the construction and engineering sector) have they improved their international competitiveness through the strategic alliances which they are engaged in, mainly by expanding their market shares. However, the alliance impact on the international competitiveness of the remaining five firms was not great and mainly seen as eliminating existing or potential rivals and reducing competitive pressure which is no longer bound to global industries.

Likewise, two firms (one operating in the oil and gas industry, and the other in the construction and engineering sector) were ranked by their directors as gainers in terms of technological capabilities acquired through the alliances. However, the other five firms were ranked as neither *gainers* nor losers, for their management believed that they acquired knowledge from the partners, but balancing that by giving away similar type of knowledge. Therefore, one should not be overwhelmed by the glitter of gain through the alliance, and that gain must always be weighted agianst what the other side learn or gain from the alliance as well.

9.5 CONCLUSIONS

The present chapter has highlighted the factors which were used in measuring the performance of the alliances as well as the issues that influenced the alliances performance. Detailed overview on the impacts that these alliances have had on the participating firms is also presented. Of prime importance is the positive impact on three significant issues; namely, the international competitiveness of the British partners, the management of the firms, and their technological capabilities and own operations.

While the performance of traditional forms of collaboration (joint ventures) was influenced by the division of equity ownership and the overall management control in the venture, the strategic alliance performance is influenced by the scope of the alliances activities and operations as well as the ability of the corporate management to manage a network of several alliances.

Moreover, strategic alliances have been found to form an effective means for improving the British partners' international competitiveness which at the same time would help to rectify the declining position of the UK industry vis-a-vis its competitors. And that will depend not only on the British firms' ability to rationally adapt their strategies to the dynamic conditions of an ever changing global business environment, but most importantly, their ability to master the management of strategic alliances, be they a few single alliances or a network of complementary alliances, in a way that maximizes the opportunities for strengthening their competitive position and builds a bridge over the Strategic Gap.

Also, the current research shows that the impact of the alliance on the international competitiveness of the firms is more pronounced in the global and blocked global industry sectors. Again, this is also due to the ability of firms in those sectors to form a variety of alliances each contributing differently and effectively to their overall competitive position.

CHPATER TEN

CONCLUSIONS

10.1 INTRODUCTION

The purpose of this research has been to identify, explore, and explain 1) the extent of British MNEs involvement into strategic alliances for the period 1980-1989, 2) the elements that motivated the British MNEs to embrace the alliance route, 3) the issues influencing the management of British-Foreign alliances, and 4) the impacts of those alliances on the British side of the deal.

In *order to fulfil the aims of the study, the* existing literature on strategic alliances and similar strategies was reviewed. From the literature review, a conceptual framework was induced (see Figure 1.2, Chapter One) explaining the growth and formation processes of international strategic alliances. This framework was used as the main guide to designing the questionnaire. Then, incorporating the findings of the research a framework was subsequently developed to result onto a summary design for managing a promising strategic alliance.

The present chapter aims at providing a summary of the results obtained from this study. The implications and contributions and the limitation of the research are pointed out, and future research directions are suggested.

10.2 RESEARCH FINDINGS AND CONCLUSIONS

This section is devoted to presenting a comprehensive summary of the research findings where conclusions are subsequently drawn. Some findings vividely demonstrate the complexity of managing strategic alliances among equal, active, competing and/or complementary partners. Whereas, other findings indicate areas in which further data collection and analysis would be most productive. However, the results of this research, presented in Chapters Six, Seven, Eight, and Nine, present a picture in the evolution of collaborative arrangements as well as in managerial skill and experience necessary to cope with the alliance phenomenon to achieve competitive strategic objectives.

A series of findings were reached based upon the research results. These findings reflect the objectives of the study and will, therefore, be presented under five main headings:

10.2.1 Incidence of Strategic Alliances in Britain (1980-1989)

1. British MNEs' involvement in strategic alliances during

the course of the last decade is as considerable as shown by previous research studies on their counterparts worldwide (American, Japanese, and Euroepan). The most significant increase took place in 1988 (64 alliances of the total 337 for the whole decade).

2. Non-equity alliances (those which do not involve the creation of a third entity) counted for 53.4 per cent of the total 337 alliances formed in the period 1980-1989 and were often created between rivals. This type of alliances showed a significant increase against the decreased incedence of equity alliances which mainly belonged to the first half of the decade.

3. The vast majority of the alliances were concentrated in the high-tech industries (77.8%). Nevertheless, their distribution over the years of the decade under study was somehow stable with the exception of the telecommunication sector which showed an apparent increase. Also, significant growth in using strategic alliances was discernible in the chemical and pharmaceutical and the service sectors, especially in the years 1987-1989. This finding confirms that the alliance route is no longer the norm to the high-tech industries. It is rather a means which, if managed effectively, brings competitive advantages to any firm regardless the sector it belongs to.

10.2.2 Motivations for International Strategic Alliances

Authors on the subject of strategic alliances were active in pinpointing the reasons underlying the formation of strategic alliances between even the very large multinationals (e.g. Harrigan, 1985, 1986 and 1988; Porter, 1986; Jain, 1987; Doz, Hamel, and Prahalad, 1986 and 1989). Some 12 factors were then identified from the literature as activating motives for firms to embrace strategic alliances. In order to confirm or refute the significance of these motivations, the interviewees were asked to evaluate the importance of each of the twelve motivational factors.

The results of the research on this issue are both interesting and informative. First of all, the result confirms the hypothesised motivations as valid, in that each factor received at least some support from a number of firms. Further confirmation was provided by the fact that very few "other reasons" were given by the interviewed directors and those were often related to the suggested factors. Therefore:

4. British MNEs decided to pursue strategic alliances for a variety of reasons, most importantly to keep pace with the increased complexity in technology and product development, with the accelerated rate of globalisation and competitive pressure, and to share the cost of large projects and risky R&D programmes. Also, the

alliance route was a desired option because it was considered as an important complementary strategy in the firm's overall portfolio strategies.

10.2.3 Management of International Strategic Alliances

As Delvin and Blackley (1988) and Hamel et al (1989) make clear the key to success with strategic alliances is to ensure that they are considered within a framework of strategic management. However, this research suggests that the strategic management does not only start in the operational and control stage of the alliance, but in all three stages of the management process (planning, formation, and operational and control stages).

The research findings which are associated with the management issues are grouped under three categories as follows:

<u>Planning</u>

5. A thorough analysis of the opportunities created by changes in the international business environment (e.g. globalisation, changes in technology) and the relevant critical success factors in such environment as well as the firm's position (assessment of strengths and weaknesses) vis-a-vis these factors provide the foundation for planning a competitive strategy. Such analysis helps the firm to effectively identify its strategic objectives.

6. An evaluation of the available strategic options (i.e. alternative strategies) is a prerequisite step at this stage which must end in selecting the strategy that best achieve the firm's objectives.

7. Each firm's decision on whether to join a partnership is based on a complex calculation of benefits and costs; not only those flowing directly from some projects, but also those resulting from the impact on the current and future programmes and strategies. Therefore, effective alliance strategy should be based on an analysis of the alliance strategic fit and its importance as an efficient competitive strategy where continuous examination and assessment of the existing and potential competitors is a prerequisite task for firms involved in strategic alliances.

8. Partners' selection is another significant issue in the planning stage. The British firms in this study, highly rating *the importance of the organisational fit of the* partner, chose their partners, mainly, on the basis of the following factors (listed according to their importance):

    1. **Compatibility of management teams.**
    2. **Complementary technical skills and resources.**
    3. **Competitive position of the partner.**
    4. **Strategic complementarity of the partner.**
    5. **Nationality of the partner.**

9. Timing is a very critical element when forming strategic alliances. The best time for a firm to

approach another is when it has something unique or attractive to offer.

10. Though previous research studies indicate that planning for international strategic alliances is the responsibility of top level managers, British MNEs surveyed tend to delegate this responsibility to line managers whilst making use of the efforts and skills of top managers.

Negotiations

11. Some two or three "exploratory" meetings are necessary to check the feasibility of an alliance with the selected potential partner, also to uncover or understand its motives and objectives.

12. Negotiators must be those personnel who were actively involved in the planning stage as they are the best party to know the exact circumstances of the alliance strategy and have a full understanding of the objectives which are sought through the alliance.

13. Every negotiation needs a plan of key issues to be discussed in the process. This attitude of encouraging teamwork helps in estabilishing the required chemistry between the partners' personnel. Notwithstanding, confidentiality agreements are a necessary evil during the formulation stage of any alliance, regardless of the levels of trust between the partners.

14. Continuous examination of the organisational and strategic fit of the alliance is a prerequisite.

15. Strategic alliances do not work like mergers or acquisitions, their limits must be accorded high attention, and therefore, their boundaries must be well defined early in the relationship. Moreover, although disliked, divorce clauses must be clear in the consumed contract.

<u>**Operation and Control**</u>

16. The development of the alliance management team is very important. It must consist of people who played a major role in planning for the alliance and negotiating its deal. This makes them feel that the alliance is their own agreement and hence encourages the highest degrees of commitment.

17. Regardless of the percentage share of each partner, amalgamated management is needed. Even with minority/majority interests in the alliance, the management and control must be balancely shared between the partners, so that to ensure every party's attainment of its strategic goals.

18. The higher the activities are integrated, the more likely the partners would face problems in managing the ongoing of their alliances. Also, sources of strategic problems (e.g. change in competitive conditions,

fundamental changes in partner(s)' objectives, etc..) must be continuously monitored as they are the most difficult to solve.

19. Distinctive commitments, reporting, monitoring and protections must be regarded as continuous tasks for running strategic activities through the life of the alliance. Also, because international strategic alliances have been used as a response to the different changes in the business environment, they must be dealt with as dynamic strategies which have to be continuously assessed and adjusted to retain the best fit for the partners.

10.2.4 Performance and Impacts

20. The most successful alliances are those which were highly specific in nature and which did not include several activities of the value chain (i.e. limited scope alliances, e.g. alliances involving one or two of the following activities: technology, production, or marketing).

21. The impacts of strategic alliances on the firm's international competitiveness and technology/product developement and expertise was confirmed by a large majority of 82.7 per cent and 68.9 per cent respectively. However, significant impact on the international competitiveness was more pronounced in

cases where the firm is engaged in a web of several alliances.

22. Firms that give equal consideration to the three management stages of their alliances or network of alliances are more likely to ensure the improvement or enhancement of their international competitiveness.

23. 75.8 per cent of the sample regarded strategic alliances as time consuming for top managers, but aggreed that this type of collaboration made their management more sophisticated, internationally oriented, and better equiped for future alliances. And, therefore, international strategic alliances have elevated the strategic management function to a position of significant importance in corporate management.

10.2.5 Closing the Strategic Gap

As described in Chapters One and Seven, the Strategic Gap is the difference between the outcomes from existing strategies, i.e., without engaging in strategic alliances, and the desired outcomes of a change in strategy, i.e., forming strategic alliances and making acquisitions. Narrowing the Strategic Gap requires that the outcomes be of strategic nature.

For this study, the researcher considers the following long-term corporate objectives as strategic outcomes that fit into the Strategic Gap doctrine. These are: attaining the desired level of international competitiveness (improve competitive position), improving the global image (geographical diversification into key markets), acquiring new technology (leverage competences, skills, and capabilities), and gaining added market-share.

The results of the survey, as described in Chapter Nine, show that effectivelly managed strategic alliances have positively influenced the British partners' international competitiveness, improved their global position, helped them in acquiring new technologies, and increased their market share. These outcomes are significant for the firm's long-term growth, which in turn, play an important role in narrowing the Strategic Gap that British MNEs had encountered as a result of the industrial decline in the late 1970s and early 1980s.

Therefore, strategic alliances represent a crucial business strategy which, along other strategies like mergers and acquitions, can be used by multinational enterprises to move towards higher value added products and to expand internationally, thereby contributing to narrowing the Strategic Gap. However, the questions that clearly remains is whether these strategies will be enough to enable the British industry and its MNEs to prospor sufficiently to sustain growth and succeed in fully closing the Strategic Gap.

10.3 IMPLICATIONS AND CONTRIBUTIONS

Three sets of implications and contributions can be claimed by the current research: (1) to the theory of MNEs, (2) to the management of MNEs, and (3) to the international competitiveness of MNEs.

10.3.1 Theory of MNEs

This research exhibited and illustrated a strategy formulation and implementation process; i.e. motivations, planning, formation, and operation of the alliance strategy by a sample of 29 British MNEs. Although the theory of MNEs is not a new discipline, some segments of the theory have not been fully studied and considered, i.e., theory of strategic alliances (with the exception of Duning; 1988 and Casson; 1990).

This research enriches the theory of MNEs in that the findings presented in Chapters 7, 8, and 9 will be useful ingredients for the strategy theory of MNEs. In other words, the findings highlight significant prerequisite conditions that provide the sufficient and necessary motivations and management procedures for strategic alliances and their impacts. The research implications here call for extending the MNE's theory to incorporate these conditions in order to explain international strategic alliances as an important form of international economic involvement.

10.3.2 Management of MNEs

Only a few researchers have they analysed the complete managerial process of establishing, implementing, and controlling an international strategic alliance. Besides, the definitions of strategic alliances adopted for previous research studies may encompass a whole range of business activities starting from simple licensing deals on to full mergers. This study has developed a specific definition for strategic alliances from the research of several pionners in the subject (see Chapter Three). The current research has also developed a framework for managing international strategic alliances, contributing detailed insights into a phenomenon which only recently has started to attract researchers' attention within the field of international business collaborations, e.g. Contractor and Lorange (1988), Hamel et al (1989), and Lorange and Roos (1989, 1991).

The current research concludes that there are two important key rings which strategically link each of the two stages of the chain of the management process of an international strategic alliance. These are, the preparation for the negotiations which links the planning stage with the formation stage, and the development of the alliance management team and its plan that ties together the formation and the operational stages, and these two rings are shown in Figure 10.1 which presents the suggested framework for managing international strategic alliances. This framework deals with the different facets of strategic alliances simultanuously in a way that is hoped will help strategic management of future alliances.

10.3.3 International Competitiveness

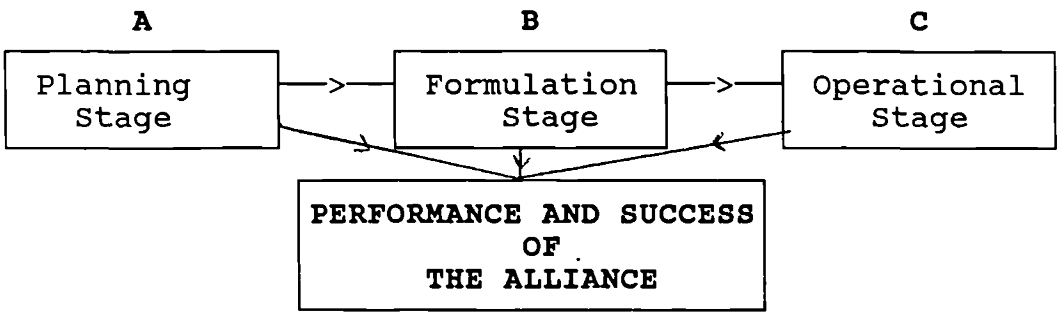
According to the survey conducted, British MNEs consider strategic alliances as a business policy option that has contributed to their international competitiveness, and thereby, attenuating the Strategic Gap which was created by relying on low-value added products, low product quality, and low spending on R&D. Therefore, and referring to what was indicated in Chapter One of the decline of the international competitiveness of British industry, it can be concluded that strategic alliances represent an appropriate approach to rectify that decline and enable British MNEs to sustain the competitive edge required for operating in the current complex international business environment.

However, as found by this research, the attainment of such strategic objectives depends on the success of strategic alliances which in turn is associated with the effectiveness of the alliance management process. This management process is systematically presented in a framework developed as a result of the study (Figure 10.1).

The developed framework in combination with the three sets of managerial guidelines (outlined in the recommendation sections of Chapter Eight) and the results presented in Chapter Nine, indicate that for an MNE to secure the achievement of the required value added and/or competitive advantages, it has to devote a considerable effort to strategically form few alliances and effectively and actively share their management with carefully selected partners. Therefore, the international competitiveness of today's MNEs depends greatly on how well these MNEs can manage to reap the benefits of international strategic alliances.

FIGURE 10.1

FRAMEWORK FOR MANAGING INTERNATIONAL STRATEGIC ALLIANCES



A: PLANNING STAGE

- Environmental or external considerations.
- Firm's self assessment.

Objectives

- Competitors analysis.
- Evaluation of alternative strategies & alliance choice.

Clarified objectives

- Partner's evaluation & selection.

strategic and organisational fit

RING I -- Clear objectives and well prepared negotiators.

B: FORMATION STAGE

- Exploratory meetings with potential partner whereby checking the feasability of an alliance, and uncovering the motives and objectives of the other side (double checking strategic and organisational fit).

Common objectives clarified

- Preparation of a working agenda covering the main tasks for the negotiators and negotiation ingredients.
- Confidentiality agreements, and supplementary contracts (regarding sensitive information).
- Clarifying the alliance milestones, partners' contributions and commitments, and lines of responsibility for every member in the alliance.
- A clear definition of the alliance boundaries and the degree of integration between its activities and those which form the core business of the partners.
- Clear contract, and divorce clauses.

RING II -- Clear division/allocation of accountabilities and responsibilties by a well developed management team which relies on a clearily tailored plan.

V
C: OPERATIONAL STAGE

- Clearly defined goals and objectives.
- Continuous contribution of sufficient resources to the alliance.
- Limit the transparency of firm's core competences.
- Enhance the capacity to learn & absorb skills from partner, by implementing an effective "Information Retrieval" process.
- Control mechanisms & decision making.
- Monitor progress of alliance by:
  * regular reporting from/to the alliance.
  * continuous evaluation and regular committe and board of directors meetings.
  * continuous assessment & objectives review.
  * Evaluation of the alliance impacts.
- Recognise limits of the alliance.

V

Performance and Impact on the Firm's International Competitiveness

10.4 LIMITATIONS OF THE STUDY

Recognition of the limitation of this research is important because it qualifies and tempers the findings, and provides rationale for areas recommended for future research. The results and findings of this study should be viewed in the light of the following limitations:

First, the results of the data base which was constructed for the purposes of this study must be tempered with the sources of data (INSEAD Business School, The Financial Times, and the Acquisitions Monthly).

Second, by focusing on a sample of British MNEs with significant market share and technological capability, this study provides adequate coverage of the alliance management process and its implications on the British side. However, the foreign side of the alliance is ommitted from the research. It may be desirable, if resources permit, to elicit the perceptions of the foreign partners to better understand the strategic alliance phenomenon from the standpoint of the multiple players.

Third, this study did not consider the inter-firm strategies adopted by the sample firms in their home market (British market). This is a limitation of the study, for domestic activities as such may either consume or enhance the firm's resources and capabilities in world markets and have implications to its international activities.

Moreover, the dynamics involved in international strategic alliances are not explored in this research. A longitudinal study to evaluate the changing nature of the cooperation between the partners over time would be desirable. An interesting outcome of such research would be an empirical documentation of "cooperation life cycle" in international strategic alliances.

Finally, international strategic alliances involving British firms represent only a small sub-set of possible international partnership efforts. Therefore, the inclusion of MNEs from other national settings (particularly European) would enhance the generalisation of the findings of this research.

10.5 SUGGESTIONS FOR FUTURE RESEARCH

The alliance strategy is adopted by the multinational enterprises both reactively as a response to external changes (globalisation, technological complexity, etc..), and actively as a rational strategy to enhance growth performance and international competitiveness. As such, the strategic direction and the capabilities of the partners are of prime importance to the alliance performance. Future research should continue to proceed in this direction and include such factors as well as others as they emerge due to the continuous change in the global business environment.

In certain circumstances, one firm may take over the operations of the alliance or the partner itself. Future research of international strategic alliances can be conducted to study the alliances which have been bought out by one of the partners or those which resulted in one partner taking over the other. This could investigate the factors that brought such situations into existence and to examine the validity of the assumption which claims that forming an alliance with a competitor means conceding one's own market to that competitor. Examples of such events include GEC-Toshiba alliance which ended in Toshiba taking over the alliance and establishing itself into the UK market, and the takeover of ICL by its long-term Japanese partner Fujitsu.

The degree of independence available to each partner in the alliance starts off fairly high, with little dependence on each other, but it usually evolves into a situation of more dependence as the partners learn to trust each other and begin to rely on one another's skills and competences. Future research may include alliances that ended in the partners merging one or more of their activities together into an independent firm as a result of that dependence.

The technology and market life cycle concepts and their relationship with the alliance strategy is another related issue that is worth exploring where the changing emphasis of alliances in the firm's strategy portfolio over an industry's different life stages can also be investigated. The important question to be ansewred here is: "Is there an international strategic alliance life cycle just like the popular product life cylce?"

Moreover, on the basis of the limitations of this study enumerated earlier, one more recommendation for future research suggests the expansion of the scope of this study through investigating the perceptions of both sides of the alliance deal. Another expansion can be made through multiple replications in different countries in order to reinforce the generalisability. Such future research would lead to an integrated research stream with action oriented implications for better management of international strategic alliances as well as their implications on the involved firms.

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APPENDIX I

LETTERS TO THE SAMPLE FIRMS

Dear Mr/Ms ....,

I am a Ph.D. student within the International Business Unit at the University of Strathclyde. As a part of my Ph.D., I am conducting research on International Strategic Alliances. This focuses mainly on the management aspects of such partnerships. The fieldwork for the project consists of a series of personnel interviews with a number of British companies involved in Strategic Alliances with foreign partners, anf it is for this reason I am writing to you.

I should be very grateful if you would agree to participate in my study by allowing me the opportunity to come and interview you or a colleague in your company on the above subject.

The issues I would like to discuss are:

- Pre-agreement planning and preparation.
- Negotiation procedures.
- Post-agreement management.

The interview would last no longer then one and a half hours. I realise the limited time you have to deal with request of this type, but the success of my Ph.D. depends on interviewing a sufficient number of companies.

The overall aim of the research is to identify the lessons which can be learned from Strategic Alliances, and to draw some guidelines for planning, structuring, and operating and controlling such partnerships.

Complete confidentiality and ananomity will be maintained in any published results.

Perhaps I could telephone your secretary over the next week or so to arrange a mutually appropriate time if this is convenient to you.

Please find the covering enclosed letter from my Ph.D. supervisor, DR J. Hamill.

I thank you in anticipation.

Yours sincerely,

Sawsan Y. El-Hajjar (Miss)

To Whom It May Concern

Sawsan Y. El-Hajjar

This is to certify that the above individual is a full time Ph.D. student at this University.

I would be extremely grateful for any assistance you could provide in the completion of her Ph.D., the success of which depends on a satisfactory response from her sample companies. Miss El-Hajjar is an extremely hard working and conscientious student.

All information provided will be treated in the strictest confidence.

Yours faithfully,

DR. Jim Hamill
(PhD Supervisor)

APPENDIX II

THE SAMPLE FIRMS

SECTOR/COMPANY	MAIN ACTIVITIES	PRINCIPAL ALLIANCES	STRATEGIC OBJECTIVES
AEROSPACE			
British Aerospace	Spacecraft; civil aircrafts; military aircrafts; electronics systems; guided weapons systems.	TORNADO: Aeritalia & MBB. EUROMISSILE DYNAMICS: Aerospatiale & MBB. SKYFLASH: Rayton. EFA: Smith Ind., CASA, MBB & Aeritalia. AIM 132 ASRAAM: BGT. HARRIER II: McDonnell Douglas.	Market share and global size, complementarity in R&D and technology, face up to competitive pressure.
Rolls Royce	Gas turbine engines; miliatry engines; ancillary equipment for aircrafts and industrial and marine applications; and cars.	TAY: Alfa-Romeo, Volvo, and BMW. RB 211-535 E4: GE. RB199 & EJ-200: MTU, Fiat & Sener. IAE: MTU, Fiat, Aero Engine & Pratt & Whitney.	Enhance global position and competitiveness, R&D and technology sharing.
Smiths Industries	Hovercrafts; electronics systems; guided weapon and control systems; and crafts engines.	HERMAN SMITH HITCO: Hitco. Other alliances with: - Thomson - VDO.	Reduce duplication, complementarities in R&D technology, and product development costs.
Westland Group	Control systems; hovercrafts; helicopters; hydro & mechanical products; electronics systems; civil and military aircrafts.	EH-101: Agusta. LAH: Fokker, Agusta, and CASA. Westland 30: AAC.	Global products & global market share, face up to competitive pressure, complementarities in R&D.
Airship Industries	Ancillary equipment for aircrafts; control systems; crafts engines; electronics systems.	An alliance with: Westinghouse.	Competitive pressure, complementarities in R&D, technologies, and cost sharing.
ELECTRONICS			
Thorn EMI	Rental & retail; financial trading security, electronics & software systems; music and lightenings.	J2T: JVC & Thomson Other alliances with: - GE and JVC - MCD Video - Yaskawa	Global brand & competitive position, sharing key technologies.
ICL	Mainframes; office systems; workstations; and application software and hardware.	ECRC: Bull & Siemens UNIX: Sun Microsystem Others with: - Fujitsu - N. telecom - Geisco - Mitel.	Adoption & sharing of emerging technologies, and improve international competitiveness.
Lansing	Robot welding applications	- Hitashi	Cost & technology sharing.
CHEMICALS & PHARMACEUTICALS			
ICI	Agrochemicals; advanced materials & elecronics; colour and fine chemicals; biological products; explosives; pharmaceutical products & speciality chemicals.	EVC: Enchem Others with: - Dupont - Nipon Oil & Fats	Sharing R&D technology, improve competitiveness and market share to keep the I (international), C (competitiveness), and I (innovation).

BOC	Industrial & speciality gases; domestic & hospital healthcare; special products like: vaccum systems and equipments.	Alliances with: - Dow Chemicals - SPA	Long-term strategy of enhancing global competitiveness, leveraging technology, and gaining market share.
Amersham	A wide variety of high range of medical and industrial products based on highly advanced technologies.	Alliances with: - Prodati Jami - Chugai	Global brand & market share, complementary R&D, technology, marketing, operations and distribution.
Foseco	Scepciality chemicals: metallurgical chemicals; construction & mining chemicals; Diamond & abrasive products.	FOSBELL: Globabell Others with: - Morval - Toyota	Strategy of increased internationalisation in global niche markets in speciality chemicals.
TELECOMMUNICATIONS			
Cable & Wireless	Telecommunication carriers; telephone, telex, facsimile, data transmission; and fiber optics.	IDC: C. Itoh and Pacific Telecom PTAT1: PTAT.	Strategic objectives of becoming world leader in telecommunication, and aiming at linking its geographical basis with a global digital telecommunication.
British Telecom	Domestic & international traffic in voice telephone; data transmissions; facsimile; and telex; radio & satellite communications; and fiber optic	BT&D TECH.: Dupont Others with: - IBM - STET - DIGL	Long-term strategy for achieving a stronger competitive position and widening its market share.
STC	Communication systems like: microwaves, optical and submarine systems; information systems like: retail, defence and financial systems; and electronics including semiconductors.	STC-SAT: SAT Others with: - LSI Logic - Thomson	Strategic objectives for increasing STC's penetration into the world markets, competitive response to 1992.
CONSTRUCTION & ENGINEERING			
BICC	Major construction & engineerings activities & services; power cables; supertension & electronic cables; and communication (optical fibers).	An alliance with: - Corning	Complementarity in R&D and technologies, and sharing the cost of product development.
John Brown Engineering	Design & manufacture of plastic processing machinery; a hihgly focused niche business in power engineering and building products.	Alliances with: - GE - Mitsui	Long-term strategy aimed at increased internationalisation, with the strategic focus on higher value-added products.
AUTOMOTIVES			
Rover Group	Manufacturer & exporter of cars and four-wheels drive vehicles; car components.	LEGEND: Honda. Others with: - DAF - Peugeot	R&D and cost sharing, enhance global position & face up to competitive pressure.
GKN	Transmission equipments for cars; commercial & agricaltural vehicles; tractors; combat vehicles; weapon systems; and autoparts distribution systems.	TRANSLITE: Mitsubishi Others with: - NTN Toyo - Yaskawa	Technology innovation, sharing of cost, risk, and resources.
Lucas	Car braking systems; industrial and aerospace systems; fuel control systems; generator electric starter; and actuation equipments	LUCASYUASA:Yuasa Others with: - Honda - Thomson - TRW	Global brand & global market share; share technology, R&D, and cost; competitive pressure.

T&N Technology	A wide range of automotive components: disc brakes; hollow torsion stabiliser bars; sphirical bearings; turbine components.	Alliances with: - Doungsuh - Sonex	Competitive pressure, global position, and technology sharing.
Perkins Engines	Automotive & Hydraulic components; farm & industrial machinery; diesel engines.	Alliances with: - Detroit Diesel - Shibaura	Globalisation & market share, competitive pressure.
Hadden Maclellen	Multi-spindle drilling, taping, & boring heads for high volume production components for the automotive sector high quality components for civil & military aviation; and nuclear power equipments.	Alliances with: - Hitachi - MKC - Simac	Global brand & market share, technological complexity and R&D rising cost.
BTR (Dunlop)	Plastic composite engine components; car carpets; and wheels.	DUNLOP TOPY: Topy ind.	Technology sharing, and improve market share.
FOOD & DRINK			
Caddbury Schweppes	Wide range of soft drinks, juices, chocolates, and sweeties.	CCSB: Coca Cola	Global brands and market share.
GLASS			
Pilkington	Flat & safety glass; insulation; visioncare & optics; controlled release systems; micro-electronics.	CEBRACE: St. Gobain. LIBBEY: Nippon Sheet Glass.	Long-term strategy aiming at strengthening its global position, complementarities in R&D technologies, and distributions.
OIL AND GAS			
British Petrolium	Oil exploration, production, & refining; minerals; nutrition; petrolium; and petrochemicals.	Alliance with: - Enichem	Strategic objectives of improving competitive position in global markets for speciality products.
SPECIALITY TEXTILES			
British Vita	Cellular Foams; synthetic fiber fillings; coated fabrics; polymeric compounds; mouldings & engineerings thermoplastics.	VICTA: Vocta Acta.	Strategy of increased internationalisation in niche markets, particularly Europe.
AGRICULTURE			
William Sinclair	Horticulture products, e.g. seeds, fertilisers, composts; a wide range of products for home & professional gardening.	Alliances with: - Mitsui - Haddock	Global brand and market share.

APPENDIX III

<u>MANAGEMENT OF INTERNATIONAL STRATEGIC ALLIANCES: THE CASE OF BRITISH MULTINATIONALS</u>

A) <u>Background Information</u>

1. Name of Company: ....

1.1 Name and Job Title of Interviewee: ....

....

2. Main products of your company and percentage share of total turnover.

<u>Principle Products</u>	<u>Total Sale</u>	<u>%</u>
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

3. What is the number of employees in your company? ....

4. Number of HQs Personnel (current) ....

5. Could you briefly describe the formal organisational structure of your company?(e.g. <u>divisions</u>, <u>product</u>, <u>functional</u>, <u>area</u>, <u>matrix structure</u>)

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....

....

....

....

6. Could you briefly describe your company's strategy with regard to the following:

Core business ....

....

Product diversification ....

....

Geographical diversification ....

....

Market share ....

....

Future plans ....

....

Cost reduction ....

....

B) <u>Internationalisation</u>

7. What percentage of total employments, sales, and profits, is accounted for <u>currently</u> by overseas operations?

	%
Total employments	....
Total sales	....
Total profits	....

8. Could you briefly describe the importance of overseas operations to your company? ....

....

....

....

9. What are the most important geographical areas accounted for by your company? Please specify the percentage of total sales in each of them.

Area (Region)	%
....	....
....	....
....	....
....	....
....	....

10. Could you briefly describe the development of your company's internationalisation over the last 5 years, first in terms of importance, and then in terms of geographical distribution?

a) Importance ....

....

....

b) Geographical distribution ....

....

....

10.1 How do you see your company's internationalisation developing over the next 5 years, in terms of:

a) Importance ....

....

....

b) Geographical distribution (prompt with 1992) ....

....

....

10.2 In terms of overseas expansion, does your company prefer the establishment of wholly-owned subsidiaries, equity joint venture, non-equity joint venture, or any other arrangements?

....

Please Specify why: ....

....

....

....

11. How would you describe your company's overall competitive strategy? ....

....

11.1 Could you please give some details about your company's competitive position in:

a) The British market ....

....

b) The European market ....

....

c) The global market ....

....

C) Collaboration

12. Please describe your company's international collaborative agreements over the last 10 years? (e.g. licensing, OEM deals, management contracts, franchising, turnkey projects, etc.)

....

....

....

13. Is your company involved in more than one alliance? If yes, could you please give brief details of these alliances: (For types: technology alliance, production alliance, marketing alliance, multiple activity, etc...).

No.	Name of partner	Country of partner	Equity or non-equity alliance	Type of alliance	Product involved	Alliance Duration	Reason for the alliance	Year of agreement

D) <u>Reasons Behind Strategic Alliances</u>

14. Please briefly describe your company's main motives behind the formation of this alliance? ....

....

....

....

....

14.1 Could you please describe the role that partnerships play in your company's strategy? ....

....

....

....

....

....

....

15. Please indicate how important were the following factors in activating the decision to form this alliance?

Production-Related Determinants	Extrme-Imp.	Very Imp.	Imp.	Avera-ge Imp	Not Imp.
Technological complexity and/or development					
Risk sharing					
Economies of scale					
Large finance requirement in R&D					

Market-Related
Determinants

Speed of entry to a key market- to global market					
Globalisation of markets (improve market share)					
Access to external channels of distributions					
Formation of a single market (1992)					
Reduce competitive pressure					
Match competitors					
Reaction to similar actions by major rivals					

Socio-Political &
Cultural Determinants

Neoprotectionism (to overcome trade barriers)					
Other motivations?					

15.1 If market entry was the most important reason for you teaming up with your partner, why has your company entered that market through collaboration rather than exporting or establishing a wholly owned subsidiary? ....

....

....

....

15.2 How relevant are the following factors to your company as motivations for the alliance?

a) Competitive response (e.g. exchange of threat, follow the leader, etc.): ....

....

....

b) to increase internationalisation, build a strong global position, improve own competitiveness world wide, etc. .....

....

....

16. Do you consider synergy as a suitable justification for your alliances? Yes/No

17. How does your company see strategic alliances as alternative to other strategic options?(e.g. licensing, OEM deals, management contracts, franchising, etc...)

....

....

....

....

....

E) <u>Planning Strategic Alliances</u>

18. Who in your company is responsible for planning, preparing, and executing the partnership? ....

....

....

....

....

18.1 Could you briefly describe the role/functions performed by such individuals in the partnership process? ..

....

....

....

....

....

....

....

19. Does your company seek the help of external agencies in making collaborative partnerships? Yes/No

If yes, what type of service do these agencies provide?

....

....

....

19.1 At what stage of the partnership process do such external agencies become involved? ....

....

19.2 How would you evaluate the usefulness of these external services? ....

....

....

20. Does your company have a well-defined collaborative strategy? (e.g. clear and defined statement of objectives to be achieved, etc...) Yes/No

If yes, please specify ....

....

....

....

21. Has your company considered alternatives other than strategic alliance to achieve the objectives set by its senior managers? Yes/No

If yes, how far were those alternative scrutinised and evaluated against the alliance option? ....

....

....

....

....

22. Does your company usually develop profiles of the type of companies it wishes to collaborate with prior to engaging in search and evaluation procedures? Yes/No

If yes, please specify ....

....

....

....

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....

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....

....

....

22.1 If you are in the process of selecting a prospective partner, which of the following most used in identifying that partner?

a) Through formal search procedures .... ☐
b) Known reputation of potential partner .... ☐
c) Informal personal contacts with potential partner .... ☐
d) Previous business relationship with potential partner .... ☐
e) Other methods (please specify)

.... ☐

.... ☐

.... ☐

If the answer for the above question is (a), please answer the following three questions:

22.1.1 Please specify the nature of such procedures ....

....

....

....

....

....

22.1.2 At what level in the company are such pre-alliance search undertaken? ....

....

....

22.1.3 What external assistance, if any, is obtained in identifying suitable potential partners? ....

....

....

23. Could you please indicate the importance of the following in selecting your partner?

	Very Important	Important	Not important
Nationality of partner			
Relevant partner size			
Competitive position of partner			
Complementary technical skills and resources			
Strategic complementarity			
Compatibility of management teams			
Compatibility of partner's operating policies			
Favourable past associations and/or business relation with partner			
Communication barriers			

Other, please specify:

....			
....			

24. Does your company undertake a detailed analysis of the strength and weaknesses of potential partners prior to formal engagement in negotiating the deal? Yes/No

If yes, could you please rank the following items according to their relevance and importance:

Company history	....
Products, markets, competitors	....
Management organisation	....
Production organisastion	....
Marketing organisation	....
Contracts with third parties	....
Compatibility of partner	....
Management capability	....
Common objectives and goals	....
Management style	....
Cultural factors	....
Competitors' reactions	....
Futures plans and prospects	....

Others, please specify ....

....

....

25. Have you considered your rivals' reactions to the formation of this alliance? Yes/No

If yes, has that altered your objectives and their execution, and how? ....

....

....

....

....

Negotiating The Agreement

26. How does your company make initial contacts with potential partners? ....

....

....

....

....

26.1 In this specific alliance, who made the first approach or suggestion and in what year?

a. your company ☐ year: ....

b. your partner ☐ year: ....

c. Some other party, please specify, ...
.... year: ....

27. Could you briefly describe the various stages or steps involved in negotiating the partnership from initial contact with your partner to final agreement on the alliance details?

....

....

....

....

....

....

....

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....

....

27.1 On average, how long does this process take? ....

28. Were there other potential partners available? Yes/No

a) If yes, how many? .... firm(s)
b) to what extent did you negotiate with other potential partners?

Did not ☐ Quite a bit ☐ Extensively ☐

29. Who in your company is responsible for negotiating the alliance deal? Please tick:

Top level managers ☐

Middle level managers ☐

Lower level managers ☐

29.1 Do the same people who prepare and plan for the alliance negotiate the agreement? Yes/No

30. Do you think that the experience you have gained from negotiating previous collaborative agreements has helped in the negotiation procedures of this alliance? Yes/No

If yes, please specify ....

....

....

30.1 Has the negotiating team been subjected to a special training programme? Yes/No

31. Did you find difficulties in communicating with your partner, regarding cultural and language barriers? Yes/No

If yes, could you please give any example of misunderstanding which had occured and caused problems concerning the ongoing of the negotiation? ....

....

....

....

....

....

32. Did you set up a joint plan of objectives and procedures with your partner for the negotiation process? Yes/No

If yes, were the negotiations progressing according to the joint plan? Yes/No

Please outline the main issues covered in that plan? ....

....

....

....

....

....

....

....

33. Could you please describe the construction of your company's negotiating team, and the role played by each individual during the negotiation process? ....

....

....

....

....

....

34. During the negotiations, was there any kind of information flow from negotiators to higher executives and managers in the company? Yes/No

If yes, please describe the nature of such information ....

....

....

....

....

34.1 Was there a reverse flow of information to help and feed back the negotiators? (e.g. finance team, production team, marketing team, ect.) Yes/No

If yes, please explain the main activities covered by such teams ....

....

....

....

....

....

35. Could you please describe the range of issues covered in the partnership agreement? ....

....

....

....

....

35.1 Are there any ancilliary documents or additional contracts accompanying the main agreement? Yes/No

If yes, could you please specify the range of issues covered by these documents and contracts? ....

....

....

....

....

36. Did your company have any unique or protected know-how (black box) which did not want to be exposed to your partner? Yes/No

If yes, How did you treat it while negotiating? ....

....

....

....

37. Has your company experienced any legal difficulties in negotiating the partnership? Yes/No

If yes, please specify ....

....

....

....

37.1 What other difficulties, if any, had been experienced during the negotiation procedures? ....

....

....

....

38. Are the committments and distribution of revenues clearly stated in the agreement? Yes/No

38.1 Does the agreement include a common statement of objectives and operating policies for both of you and your partner? Yes/No

38.2 Is there a sort of balance in the quality of your committments and that of your partner? Yes/No

38.3 Are the terms of the agreement flexible enough to tackle unexpected problems or emerging changes? Yes/No

G) Post-Agreement Considerations: Management and Control

39. To what extent does the partnership depend on written policies to guide its decision-making?

	a little	moderately	extensively
a. From your company	☐	☐	☐
b. From your partner	☐	☐	☐
c. As part of the alliance agreement	☐	☐	☐

40. Have you set up, with your partner, a single management team to operate the alliance formed? Yes/No

40.1 How many managers, and at what level are, involved in the alliance's operations?

	No. of managers	Level
From your company	....	....
From your Partner's	....	....

40.2 Could you please describe role, function, and responsibility of each participating manager? (from both firms, if possible) ....

....

....

....

....

....

....

41. Could you please describe in general terms the allocation of decision-making responsibility between you and your partner? ....

....

....

....

....

41.1 Could please tick in the appropriate column(s) regarding the decision-making for the following issues:

	Totally by you	Totally by partner	Mainly by you	Mainly by partner	Shared equa-lly
Capital expenditure plan					
Product planning					
Production planning					
Sensitive technology					
Marketing functions					
Costing methods					
Administrative issue					

42. Do you perceive the contributions to and the returns from the partnership as equitably shared between your company and that of your partner?

I. Contributions:

a. Your company's Yes/No

b. Your partner's Yes/No

II. Returns:

a. Your company's Yes/No

b. Your partner's Yes/No

42.1 How do you allocate costs among yourselves? ....

....

43. How often do you shecdule meetings with your partner? .

....

44. Please tick in the appropriate column the frequency of visists made by executives from your company:

	Week-ly	Month-ly	Quarter-ly	½ Year-ly	Year-ly	Never
Visiting the "Child Company"						
Visiting the partner's firm						

44.1 Could you please give job title of such executives and the purpose of their visits?

Job Title Purpose of visits

....

....

....

....

....

44.2 Please tick in the appropriate column the frequency of visists made by executives from your partner's company:

	Week-ly	Month-ly	Quarter-ly	½ Year-ly	Year-ly	Never
Visiting the "Child Company"						
Visiting your firm						

44.3 Could you please give job title of such executives and the purpose of their visits?

Job Title Purpose of visits

....

....

....

....

....

45. Do you exchange information when it is needed by your company or by your partner? (e.g. market analysis) Yes/No

45.1 What kind of information is most likely to be exchanged between both your company and your partner?

....

....

....

45.2 Do you consider the exchange of managerial skills and technology know-how as:

	Very Important	Important	Not Important
Management Skills	☐	☐	☐
Technology Know-how	☐	☐	☐
Other Know-how, please specify:	☐	☐	☐
....	☐	☐	☐

46. Do you find it difficult to get your partner to meet deadlines? Yes/No

46.1 Is it difficult to create and maintain a kind of team identity and spirit with your partner? Yes/No

47. How often have disagreements occured with your partner over the control of the following issues? Please tick in the appropriate column.

	Never	Rarely	Somtimes	often	Always
Capital expenditure					
Product planning					
Production planning					
Quality control					
Marketing & sales					
Costing methods					
Sensitive technology					
Administration					
Reporting procedures					
Dividend policy					
Export/Import					

48. Is there an integration between the operations of the alliance and those of your company? (e.g. production, finance, marketing, or R&D integration) Yes/No

If yes, does that kind of integration create problems to your company? ....

....

....

49. Has your company experienced any inconvenience in terms of timing of decision making or others? Yes/No

50. Do you and your partner have CEO-to-CEO relationships which would help the alliance? Yes/No

51. Has your company established any security controls regarding the access to its core technology and other sensitive know-how and operations? Yes/No

If yes, briefly describe the undertaken procedures ....

....

....

....

....

....

....

....

....

52. Please specify any procedures laid out by your company to ensure that your personnel carry out an effective "Information Retrieval" process? ....

....

....

....

....

....

....

....

....

52.1 How has that enhanced the capability of your company to learn and absorb the required skills from the partner?

....

....

....

....

....

....

....

53. To what extent have the following been used by your partner? Please tick in the appropriate column.

	Never	Rare-ly	Some-times	often	Al-ways
Challenge of decisions					
Veto power					
Witholding contributions					
Withdrawal of important per-sonnel from the operations					
Emergency meetings					

Other similar actions? please specify:

....					
....					

H) Alliance Performance and Impact

54. Have you agreed with your partner upon common criteria to evaluate the performance of your alliance? Yes/No

54.1 Could you please specify those criteria? ....

....

....

....

54.2 Do you use the same criteria in evaluating the performance of your company? Yes/No

If no, does that create problems or inconvenience to your company? Yes/No

55. How would you rank the performance of the alliance? Please tick:

Very Successful	☐	Not Satisfactory	☐
Successful	☐	Very Poor	☐
Satisfactory	☐		

55.1 On what criteria the above judgement was based? ......

....

....

56. Could you please indicate, **First,** the importance of the following factors in evaluating the performance of this alliance, and **Second,** the extent to which level the listed factors met your expectations?

	Importance of factors			Level to which expectations are met		
	V.Imp	Imp	Not Imp	High	Moderate	Low
Return on investments						
Market share						
Sales growth						
Acquisition &/or use of technology						
Competitiveness						
Global position or image						

Others, specify:

....						
....						
....						

57. Please rate the performance of this alliance relative to its competitors along the following dimensions?

	V.low	Low	Same	High	V.High
Market share					
Sales growth					
Degree of competitiveness					
Production & technology development					

58. How do you think of the followings as advantages achieved by your company from this alliance?

a) Synergy, please specify type ....
....
....

b) Access to wider distribution channels ....
....

c) Access to core technology ....
....
....

d) Enhance R&D capability ....
....
....

e) Improve competitive position ....
....
....

f) Others, please specify ....
....
....
....

59. From your experience, what are the key ingredients for a successful international strategic alliance? ....

....

....

....

....

....

....

60. What about the downside of these international partnerings? What are, in your opinion, the main factors responsible for the failure of such partnerships? ....

....

....

....

....

....

....

61. What lessons have you learned from collaborating with foreign firms concerning the following:

a) Pre-alliance planning? ....

....

....

....

b) Choosing and evaluating potential partners? ....

....

....

....

c) Competitors analysis? ....

....

....

d) Negotiating agreements? ....

....

....

....

e) Post-alliance management, control and other considerations? ....

....

....

....

....

....

62. Does this alliance affect your activities in other alliances with other partners? Yes/No

62.1 Do you see any leakage of your firm's specific know-how to a third party by your partner through an alliance between both of them? Yes/No

If yes, how would that affect the relationship between you and your partner? ....

....

....

....

63. Could you please describe how your company's technological know-how improved since you formed this alliance? ....

....

....

....

64. Has this alliance affected the international competitiveness of your company? Yes/No

If yes, In what way? ....

....

....

64.1 What impact has this alliance had on the followings:

a) Your company as a whole? ....

....

....

....

b) The management of your company? ....

....

....

....

c) The operations of your company? ....

....

....

....

65. Concerning new projects, will you extend the existing relationship with your current partner, or rather look for a new partner? (Please state why)

....

....

....

66. How do you agree with the following costs or disadvantages of an international strategic alliance?

a) Mutual dependence of one or both partners on each other?

....

....

b) Conflicts on product design? ....

....

....

c) Uncertainty about the committments and outcomes? ....

....

d) Opportunistic behaviour by the partner, regarding technology and other firm specific know-how? ....

....

....

e) Difficulties in maintainning one's competitive advantage?

....

....

f) Difficulties in maintaining trust between partners? ....

....

....

g) Difficulties in sharing authority and responsibility?

....

....

h) The extensive use of top management time and efforts?

....

....

66.1 Do you have any worries about losing control or suffering a take over as a result of your alliance? Yes/No

67. Has the relative importance of <u>overseas operations</u> changed significantly since you formed the alliance? Yes/No

If yes, please briefly specify the nature of this change:

....

....

....

67.1 Has the <u>geographical distribution</u> of your <u>overseas operations</u> changed significantly since you formed the alliance? Yes/No

If yes, please specify ....

....

....

67.2 In terms of technology transfer, do you consider your company as a looser or gainer?

Gainer .... ☐ Looser .... ☐

I) Concluding Remarks

68. What advise would you give to companies that plan to enter an international strategic alliance? ....

....

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69. Would you perceive benefits in forming strategic alliances with the U.S. and Japanese companies? ....

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....

69.1 How would you compare your alliance with a European firm and that with a U.S. or Japanese firm? ....

....

....

....

70. Do you agree that international strategic alliances have become essential to firms with global ambitions?

Yes/No

71. How would you explain the failure of some British-foreign collaborations? ....

....

....

72. In few words, how do you predict the future of this alliance? ....

....

THANK YOU FOR YOUR COOPERATION IN THIS RESEARCH