THE GOVERNANCE OF TENSIONS IN STRATEGIC ALLIANCES

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Declaration of authorship

This thesis does not contain any work which has been presented for any degree at University of Technology Sydney or another university or tertiary institution.

The work presented for examination in this thesis has been conducted by myself, except where acknowledgement has been given.

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I owe more than words can say to our son and our daughters. It is to Jacqueline, Nicole and Adrian that I dedicate this thesis.

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THE GOVERNANCE OF TENSIONS IN STRATEGIC ALLIANCES

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Abstract

The focus of this thesis is the study of strategic tensions between organisations engaged in a dyadic alliance relationship and the influence that the partnering firms' corporate strategies may bring to bear on the governance of the alliance venture and the subsequent performance of these partnerships. Prior research on alliance outcomes has largely ignored the relationship between strategic fit, alliance process and evolution. This is despite the clear demonstration, in Doz's (1996) longitudinal study of alliances, that the initial structural conditions and subsequent evolutionary processes influence alliance outcomes (see also Noorderhaven, 2005).

The literature review examines both academics' and practitioners' various definitions and terminologies used to describe alliances. Three scholars, Arthur (1996) (whose view of organisations is embedded in institutional theory) and Das and Teng (2001) (whose perspective of alliances is as organisations emerged in internal tension), essentially share a similar perspective. This is that alliances are based on a tentative equilibrium of reciprocal opposing forces that can quite readily shift if one force gains strength. In this thesis, theoretical contributions and models, along with empirical findings that inform an understanding of the dynamics and processes of coevolution that shape the alliance development process, were evaluated, with the evolution of paradigms and paradoxes that influence and shape the logic behind the adoption of an alliance strategy being identified as providing a basis for explanation.

The primary research question for this thesis was how internal tensions between partners influence alliance performance and the value appropriated by individual partners. To answer this question, it was necessary to understand the origins and drivers of internal tensions in an alliance. Alliance tensions are influenced by the environment, structural choices and contextual, structuring, organizational and discursive processes that broadly shape the effective implementation of an alliance strategy.

To answer criticisms of fragmented contributions to the strategic management agenda (Ansoff, 1987; McKierman and Carter, 2004) a research model was developed to guide

the research and testing. The framework essentially acknowledges the dualities and interdependence of the collaborative process. Factors influencing internal tensions and alliance performance include availability of resources, differential bargaining power, alliance structure, alliance goals, stages of industry life cycles, and changing market conditions. The model provides insights into the process through which balance may be restored, or deteriorate further.

Research questions and propositions were developed around the various dialectic tensions, then reviewed using the empirical data collected on how strategic tensions were processed in alliances and implications for alliance performance and evolution. Some of the key propositions formulated include: 1) that the divergence of strategic intent between parenting firms in a joint ventures will be inversely related to the difference between the level of cooperation and the level of competition between the alliance partners; 2) that alliance tensions are more likely to be in equilibrium where the partners are satisfied with the perceived value contributed to their firm (private benefits); and 3) that an alliance is more likely to move towards continued cooperation when the value appropriated met or exceeded partners' objectives and tensions are in equilibrium.

The research design incorporated a two-stage design. The purpose of the exploratory pilot study was to answer the question: 'What are the origins of dominant internal competing forces (tensions) that influence alliance performance'? The pilot study was designed to examine this question from the perspective of senior alliance managers, chief executive officers (CEOs), or General Managers (GMs). The next step was to find out how the governance (influencing/manipulating) of internal tensions by senior managers influenced alliance performance (measured by the level of partners' satisfaction with the contribution of the alliance to their organisation). This required the design of an iterative process of ongoing case study-based research to more fully understand the phenomenon. Adopting a grounded theory approach, the sample for the exploratory pilot study was drawn from 27 executives who were, or had been, engaged in alliance management at a senior level and who were likely to have knowledge of strategy in the supply chain. Each case study was selected to represent a unique alliance structure, and was guided by Das and Teng`s (2001) classification framework for investigating alliance structures and tension.

The research findings suggest that overall tension levels and sub-systemic dialectic tensions (i.e. short-term versus long-term; flexibility versus rigidity; collaboration versus competition; common versus private benefits) evolve over time and reconstitute relationships and shape the evolutionary trajectory of an alliance. The case studies findings suggest a process of accelerating tensions and significant imbalances in their configuration will favour certain outcomes. All propositions formulated in this thesis were supported by the findings of the studies.

The main contribution of my research is to extend current theory by examining converging and diverging forces/tensions and their impact on alliance value creation. This was done through the use of a dynamic model based on organisational learning and strategy theory. The governance process of alliance resources, in the context of the value creation process and perceived risk, is a key strategic element that influences internal tensions and alliance evolution.

The in-depth seven qualitative case studies approach was an appropriate research methodology because of the complexity of the phenomena investigated. Since the process elements involved are not accessible though traditional quantitative methods (Doz, 1996; Arino and de la Torre, 1998), a longitudinal case studies approach was followed to monitor the interactions between the partners. However the design simultaneously constrained the testing of the findings. It would have been useful to have data from a larger sample of firms within these industries. Future studies that would include larger data sets would provide the opportunity to explore and test the model at different points in the supply chain.

In conclusion, the research identified the origin of internal alliance tensions as the product of the variance between partner's strategic intent for alliance conditions (perceived normative collaborative conditions), actual alliance conditions and perceived risk. This sets the groundwork for future research which will examine the degree to which the individual tensions are determinants of alliance performance, and obtain a deeper understanding of the interrelationships between the tensions identified in the proposed model.

Chapter 1 Overview and Rationale

This chapter presents a general overview of the content and structure of the thesis. It first presents the broad conceptual background for the studies reported in the thesis, followed by a statement of the rationale and significance of the empirical studies. Finally, an outline of the structure of the thesis is presented.

1.1 Background to the Research

It has been observed that both academics and practitioners use various definitions and terminologies to describe alliances (Doz & Hamel, 1998). There is no single agreed upon definition for strategic alliances (Hennart & Zeng, 2005) nor is there a common agreed upon typology, the term strategic alliances referring to a broad range of various different arrangements (McGee, Thomas & Wilson, 2005). It can however be argued that strategic alliances are frequently described in the literature as 'business relationships between two or more independent firms to pursue a set of important goals, where partners pool, exchange or integrate key strategic business resources for mutual gain (e.g., Hermens, 1996, 2002).

Strategic alliances engender a great deal of interest amongst practitioners and researchers alike. It has been suggested by Ring, Doz and Olk (2005) that to be successful in the contemporary global business environment firms are increasingly relying on alliance strategies. The importance of strategic alliances to the global economy is also highlighted by a number of scholars, for example Harbison, J. and P. Pekar (1998) propose that revenues from alliances globally will exceed $30 trillion in 2005 and de Rond, (2003) who observed that alliances are growing at such a rapid rate that they have penetrating every industry sector of the global economy. This trend is also reflected in the Australian business environment that is currently ranking fourth in the number of new strategic alliances deals signed by OECD countries (Golub, 2003).

Previous research suggests that the increase in strategic alliances heralds a significant shift in the way business is being conducted in the global business environment (e.g. Dyer, Kale & Singh, 2001; Gulati, 1998a). This observation prompts Garry Hamel

(2000b) to reflect that companies all around the world are now faced with the challenge to change and adapt their once successful strategies in order to meet the challenges presented by an uncertain environment (Clegg, Clarke & Ibarra, 2001). The growing popularity of strategic alliances as a business tool has also evoked a remarkable degree of research attention being drawn upon them by academics (e.g. Singh & Mitchell, 2005). Despite the sheer volume of this research activity, the Larson, Brousseau and Driver (2003) suggestion that "strategic alliances seem to be more advantageous in theory than practice" (2003: 9) illustrates the confusion surrounding alliance performance. More and McGrath (1999) investigating alliances in the Australian telecommunication industry conclude that despite the ever increasing research interest, alliance practice and theory leave a lot unanswered, especially how interorganizational collaboration evolves and prospers.

Research findings on alliance performance is ambiguous, for example Chan, Kensinger, Keown, and Martin, (1997) and Anand and Khanna, (2000) argue that, alliances do create economic value whilst others studies find that roughly half the alliances formed end up failing (Kogut, 1989; Bleeke & Ernst, 1993; de Rond, 2003). A number of empirical studies on alliance outcomes and failure have focused on the antecedents and formation of strategic alliances for example; lack of strategic fit of complementary resources, lack of organizational fit in terms of compatible cultures, decision-making processes, and systems (Kale, P., H. Singh, & Perlmutter (2000), lack of trust (Arino & De la Torre, 1998), inappropriate choice of governance structure (Williamson, 1985; Hennart 1988), inability to manage conflict (Doz & Hamel, 1998), lack of adaptable inter-organizational exchange processes (Zajac & Olson, 1993), lack of prior and/or on-going alliance experience (Fiol & Lyles, 1985; Child & Yan, 1999; Anand & Khanna, 2000).

Duysters, Kok & Vaandrager, (1999) however caution that the 'definition' of alliance failure varies significantly in most studies and is too broad too accurately reflects a true overview (Royer, 2000). For example, in the 1960s McLeod, a large South Australian retailer, formed an alliance with France's Michelin, to market and distribute its tyres in Australia. The arrangement lasted for only a few years. Yet by the time it ended, McLeod, had learnt enough about automotive products to lay the foundations for a strong car and truck tyre business; and Michelin had a solid foothold in the Australian tyre market. Even an alliance that ends is not necessarily an alliance that fails.

Mainstream research on collaborative performance has gradually shifted during the past decade from examining issues associated with alliance formation to focusing on exploring the dynamics of interfirm collaboration. There is however little consensus on what defines alliance success or failure (de Rond, 2003). Doz and Hamel (1998) argue "what an alliance contributes over time to the competitiveness of each of its partners is a more important measure of its success than longevity of the alliance proper" (1998:23).

Sharma (1998) however argues that "success in strategic alliances is achieved more by interacting with the alliance partner than by the initial strategic compatibility between partners" (524:1998). Lasserre, (2003) and Contractor and Lorange (1988a, 1988b) suggest that the key to successfully implementing collaborative strategies is the sharing of important capabilities and resources that neither one of the collaborating firms involved have or possess the ability to develop internally with the view of enhancing their competitive advantage.

Lerpold, (2000) and Osborn & Baughn, (1990) proposal that central to an understanding of alliance performance is the requirement to be able to evaluate the interactions between an alliance and its environment. Alliance activities and evolution are influenced by the external (e.g. economic conditions, industry structure) and the internal environment for example the strategic intent, strategic objectives, strategic fit of the partnering firms. Snow, Miles and Coleman (1992) suggest if the strategic intent of an alliance is predominantly, knowledge and or resource exchange/acquisition the managerial focus is to achieve convergence in systems and strategies. On the other hand if the strategic intent of an alliance is predominantly knowledge and or resource specialization, then the strategic focus is to ensure that the partners are complementary. It can be argued therefore that strategic intent has significant structural implications for alliances. Prior research on alliance outcomes has largely ignored the relationship between strategic intent and fit and alliance structures and processes even though it was clearly demonstrated by Doz, (1996) longitudinal study of alliances that the initial structural conditions and subsequent evolutionary processes, influence alliance outcomes (see also Noorderhaven, 2005).

There can be a tension between alliance structural conditions and evolutionary processes. For example, it can be argued that interfirm differences (knowledge, skills, technologies, core competencies, resources, etc.) that form the underlying strategic motivations for entering into and maintaining an alliance can paradoxically have a negative impact on the longevity and effectiveness of collaboration (Adler & Graham, 1989; Parkhe, 1993b). De Rond proposes that alliances are paradoxical complex social phenomena. In the social sciences, particularly in management research, an important basis for theorizing is the development of contradiction based paradigms, which stress dialectics, tensions, dilemmas, and paradoxes (see Clegg, Cunha & Cunha, 2002; Das & Teng, 2000a; Faems, Janssen, Madhok,Van Looy, 2008; Gill & Butler, 2003; Kogut, 1989; Poole & Van de Ven, 1989; Quinn & Cameron, 1988; de Rond, 2003).

1.2 Overview of the Empirical Studies

A recent framework that has proven fruitful in understanding the dynamics of alliance performance is Das and Teng, (2000a) theory that strategic alliances are dialectical systems and their hypotheses that alliance success (performance) is determined by balancing multiple dialectic (conflicting) forces. These authors suggest that alliance failure can occur when any one pole of three important dialectics dominate, i.e., too much competition and too little cooperation among the partners, too much structural rigidity and little flexibility in daily operation of the alliance, too much long term orientation and little attention to short term performance the alliance will experience significant change or are terminated. It is argued that to maintain the collaborative relationship, alliance partners must manage the paradox of a "permanent dialectic" (Cunha, Clegg & Cunha, 2002). The studies reported in this thesis have adopted the above dialectic theoretical lens but also seek to address a number of unanswered questions.

Factors that have not been considered in previous research studies that have adopted the theoretical lens of the dialectic paradigm are:

1) the alliance environment	(is the complexity of managing alliance tensions influenced by industry environment);
2) alliance conditions	(is there a relationship between strategic fit and alliance stability);
3) structural choices	(does equity moderate the governance of internal tensions and alliance norms);
4) operations	(do the different planning horizons of partnering firms affect the co-evolutionary dynamics of alliances);
5) performance	(do different operating structures and norms influence the relationship between internal tensions and alliance performance)
6) evaluation	(does a focus on common benefits moderate internal tensions and alliance outcomes);
7) outcomes	(does an imbalance in the dynamics of internal tension shape the evolution of an alliance)

Attention is given to the relatively neglected area of the dynamics of alliance tensions that operate during the various stages of the alliance evolution; how these are influenced by internal and external factors. A number of researchers (Singh & Mitchell, 2005; Reuer, 2004; Gill & Butler, 2003) suggest that theoretical attempts to link the dynamics and the evolution of alliances to date have been mixed and sparse. To answer criticisms of fragmented contributions to the strategic management agenda (Ansoff, 1987; McKiernan & Carter, 2004) a research model was developed for tentative testing. Alliance tensions are influenced by the environment, structural choices and contextual, structuring, organizational and discursive processes that broadly shape the effective implementation of an alliance strategy. The research framework suggests that the process of evaluating an alliance contribution to the partner's goals and objectives contextualizes alliance outcomes, i.e. alliance stabilization, reformation, decline or termination (organizational integration or segregation). The model provides insights into the process through which balance may be restored, or deteriorate further. Factors influencing internal tensions and alliance performance include availability of resources; differential bargaining power; alliance structure; alliance goals; stage of industry life cycle, and changing market conditions. The framework essentially acknowledges the dualities and interdependence of the collaborative process. The model recognizes both the overt and covert nature of the collaboration.

Research questions and propositions were developed around the various dialectic tensions (short vs. long term perspective; private vs. common benefit; cooperation vs. competition; flexibility vs., rigidity) then reviewed using the empirical data collected on how strategic tensions were processed in alliances and implications for alliance performance and evolution. The empirical research reported in this thesis comprises seven empirical investigations; seven case studies from four industry sectors. These industries are chosen because they are believed to be different in terms of the environmental volatility. Each case study was selected to represent a unique alliance structure guided by Das & Teng classification framework for investigating alliance structures and tension. These authors propose seven structural choices that predispose the alliance to emphasizing certain tensions rather than others.

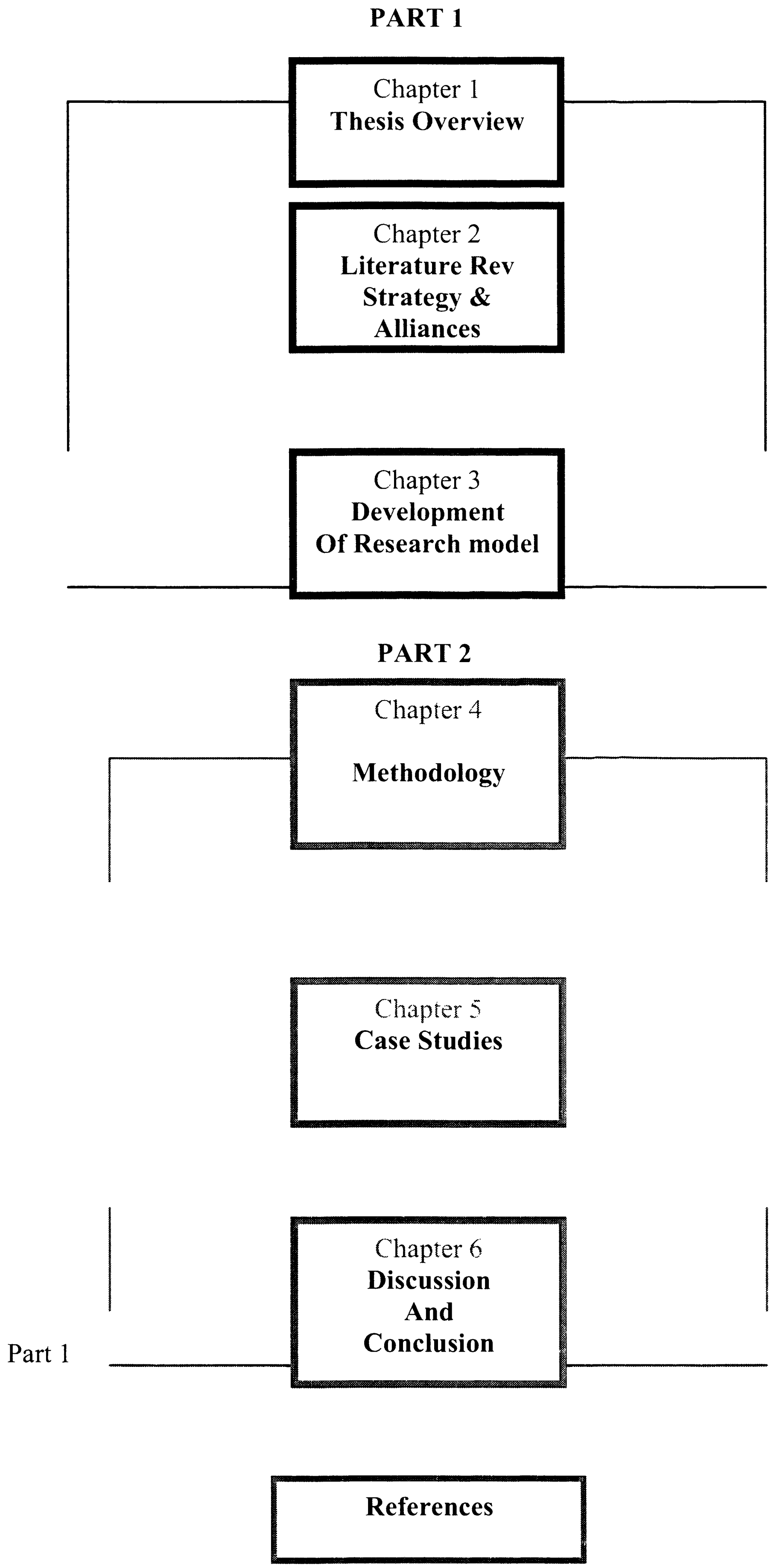
1.3 Structure of the Thesis

The thesis is presented in two parts:

Part 1 comprising chapters 1 to 3 (see diagram 1). The first chapter presents an over view of the thesis and its rationale. The next chapter reviews the strategy literature, the first section explores how the different philosophical perception of individuals on 'what business strategy may influence the actions and behaviour of individual's in the partnering organization. In the next section the review explores various strategic frameworks focusing on the relationship between strategic intent, strategic objectives and strategic tensions. The chapter concludes with a discussion of the governance of internal alliance tensions and the dynamic of the various competing forces. Chapter three discusses the development and design of the research model that addresses the research question. 'How do the individual parents' firms' strategic agenda's influence the dynamics of alliance tensions; what are the implications for alliance performance and evolution; what happens when the balance between the different competing forces shifts toward the dominance of one force or the other?

Part 2 of the thesis consists of chapters 4 to 7 and presents the empirical studies, discussion of the research findings and conclusions drawn. The case study methodology was seen to be the appropriate model and the seven in-depth investigations detail how various rationalities play against one another in different types of alliances in differing contextual and strategic agenda's. The first study's identifies the dominant tensions in a dyadic alliance; the source of these tensions; and the relationship between an imbalance in dominant tensions and alliance performance. The second study contextualizes strategic tensions and alliance performance. The third study explores the relationship between industry environment and managerial complexity. The fourth study focus is how differing alliance purposes shape internal tensions, dynamics and outcomes. The fifth study investigates whether resources and bargaining power influence the imbalance in internal tensions and alliance outcomes? Specifically does industry environment moderate the relationship between the degree of dialectic tensions and alliance management complexity? The two concluding studies case studies analyse the relationship between strategic management and governance of alliance tensions. The final chapter presents the discussion and conclusions. The limitations of the research are discussed, and suggestions are given for future research. On these foundations, the report can proceed with a detailed description of the research.

Figure 1.1 Thesis Structure



Chapter 2 Literature Survey – Strategy and Alliances

> *Paradoxes ... seem to smile ironically at our nicely constructed theories with their clear-cut distinctions and point at an unthought-of possibility, a blind spot in oppositional thinking. (Ybema, 1996: 40)*

2.1 Chapter Overview

The aim of this chapter is to provide a theoretical and empirical background to the study of strategy and alliances by examining the evolution of the theoretical frameworks, paradigms and paradoxes that influence and shape the logic behind the adoption of an alliance strategy. The focus of this study of the literature is managing strategic tensions and the impact on alliance performance.

2.1.1 Chapter Structure

The survey of the literature in this chapter is presented in two parts. Part One identifies the dynamics between the socioeconomic environment and the evolution of strategic management theory and interprets some of the differing views on 'what strategy really is'. This occurs through a review of various relevant theoretical frameworks, paradigms and paradoxes that influence and shape the logic behind the adoption of a strategy, and an examination of the theoretical context for the differing perspectives and paradoxes that envelop the growth of alliance research, theory and practice.

Part Two of this chapter, which focuses on the alliance literature, aims to provide an overview of the various perspectives and divergent views held amongst researchers of alliances. The relationship between strategic intent and objectives is conceptualised in the context of alliance performance. Issues that frequently generate strategic tensions between partners are then explored. Finally, firms' interactions with one another and their environment are analysed in the context of alliance contribution to the partners' individual firms.

2.1.2 *Background – Defining the Problem*

Dominant themes in the management literature of the first decade of the twenty-first century indicate that firms around the world are entering into a new era of business competition (Davis & Stephenson, 2006). Global forces such as converging markets, rapidly escalating technological change and increasing economic turbulence are seen to be shaping the international corporate landscape. Adding further complexity to this competitive environment is the emergence of a relatively new phenomenon in business competition: firms based in rapidly developing economies competing globally. These emerging global competitors challenge traditional ways of thinking about the process of acquiring, leveraging and governing resources for value creation via effectively leveraging home country factor advantages through integrating the latest technology in product and process design. Confronted by new patterns of global competition and the rapid pace of technological advances, businesses are being driven to fill the gap between internal capabilities and the required resources for superior value creation by seeking partners with complementary resources. Firms in emerging and mature economies are opting to form cross-border strategic alliances to acquire missing technological and human resources (Miotti & Sachwald, 1999).

Hermens (2001) argues that an alliance strategy is a necessary response to economic turbulence that often cannot be managed by individual organisations because of a lack of resources or the inability of single firms to control externalities. This collaborative paradigm is embedded in the 'reality' that competition in the twenty-first century global business environment occurs more progressively between networks of firms rather than firm-to-firm (Achrol, 1997; Achrol & Kotler, 1999).

Strategy scholars generally agree that collaboration among firms with complementary resources is necessary for survival and growth but warn that this strategy also creates substantial risks. Strategic alliances can have "a negative impact on the efficiency of participating firms, and indirectly on other firms and consumers" (OECD, 2001:110). Bamford & Ernst (2002) suggest that firms should carefully consider when alliances should be used to fill key gaps in technology and skills, to reduce the intensity of assets, or to exploit unique capabilities.

A strategic alliance creates new opportunities and demands hitherto unknown organisational competencies (Clegg, Hermens & Porras, 2001). Opportunities for collaboration and managing strategic alliances occur in an environment that provides both opportunities and potential threats. Greater job mobility among managers coupled with the revolution of technology in global communication and transport has extended the business and social networks of management teams. This can increase a firm's ability to leverage innovation, scale economies and acquire resources, and can also promote the diffusion of knowledge and competencies across a firm's traditional boundaries.

The literature suggests that companies are responding to economic pressures by entering into strategic alliances and joint ventures. Das &Teng observe that "strategic alliances are an increasingly popular strategy in an era characterised by blurring industry boundaries, fast changing technologies, and global integration" (2003a: 279). Ernst and Bamford add that "the typical corporation relies on alliances for 15% to 20% of its total revenue, assets or income" (2005: 133). Harrigan (1986) and Anderson (1990) propose that corporations recognise alliances to be attractive vehicles for growth and expansion.

The aim of these collaborating firms is to build strategic relationships that are capable of generating cost savings, create flexibility and produce greater efficiency in managing resources. Ultimately, as Das and Teng, (2003a), suggest, any strategy has to be evaluated in terms of success. Despite considerable research into alliance performance (eg Mjoen & Tallmann, 1997; Parkhe, 1993c; Mohr & Spekman, 1994; Contractor, 2005), the matter remains poorly understood. Many alliances are plagued by inadequate performance and lack of success. Whittington, (2003b), suggests that different philosophical perceptions of individuals as to 'what business strategy is' creates fundamentally different implications for the process of formulating and implementing an alliance strategy. Indeed, varying philosophical interpretations of the intent and process of formulating and implementing a strategy may create tensions between the collaborators and influence the actions and behaviour of individuals in the partnering organisations. Respondents in the study undertaken in this dissertation cited tensions as key influences in shaping the evolution of the alliance and contribution made to their individual firms.

Strategic alliances usually involve the commitment of substantial resources from both sides. The complexity of an alliance strategy involves creating superior value for the collaborating firms by focusing on key value drivers – efficiency, complementarities, lock-in and innovation. Time is another dimension in alliance complexity and value creation. For example, a firm can successfully forge a strategic alliance with another firm but if the strategic intent of the collaborators is longevity then a short-lived alliance may not meet one or both partners' objectives.

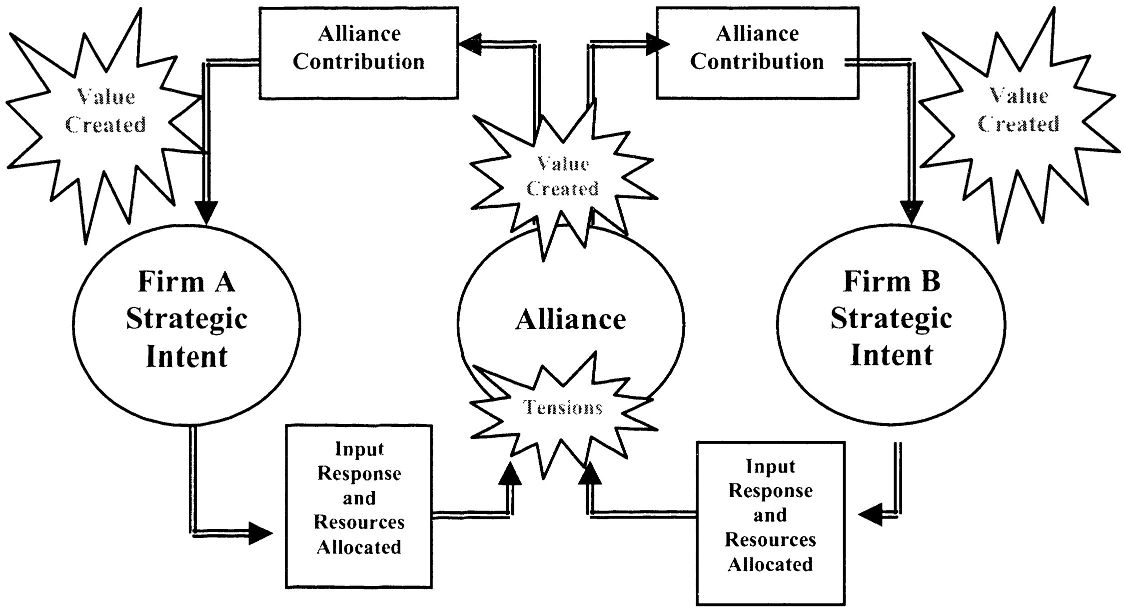
Internal and external forces generate and stimulate strategic tensions that subsequently shape alliance performance. External influences include economic and industry conditions, the regulatory environment and the availability of resources. Internal influences include the perceived level of risk, co-operation, control and satisfaction with the economic value created by the alliance.

The sustainability of the strategic architecture of an alliance as an effective form of organizing for value creation is contingent on how the collaborative structure aligns with the goals and strategies and opportunity costs available to each partner. The process of the governance of alliance tensions shapes the dynamics of the strategic architecture of the alliance. This process incorporates the identification of expected benefits for the alliance and its partners, the effects on any other strategic stakeholders, anticipates competitors' reactions and considers a range of benefits that management expects the alliance to create in the future. Williamson suggests that the term strategic alliance specifically defines a range of interorganisational relationships where the parties maintain autonomy but are bilaterally dependent to a non trivial degree (1991:271).

Inter-firm differences are essential to the formation and maintenance of an alliance. This thesis argues that the erosion or convergence of these differences destabilises an alliance relationship and generates internal alliance tensions. Thus, the study of the literature focuses on the strategy 'behind the alliance' (Bamford, Gomes-Casseres & Robinson 2002:73). The rationale that guides this exploration of the literature is contextual. An alliance has to be understood in its context, which is the strategic value of the alliance to its partners (see Lasserre, 2003). Slowinski & Sagal suggest that the importance of linking the alliance to the strategy of both partners cannot be overemphasised (2003: 9).

Alliances continuously evolve and change over time, with considerable skill necessary to manage such collaborative ventures. Essential for collaborative success is flexibility, the ability of alliance partners to manage interactions and continuously adapt, and acknowledging that the organic nature of an alliance spawns goal, resource and process uncertainty (Sharma, 1998). Tensions are forces that push an alliance together and pull it apart. These forces are stimulated by uncertainties as individual partners monitor alliance contribution systematically to evaluate whether they are better off pooling their resources or acting independently (see Figure 2.1).

Figure 2.1 Value Creation Process in the Dyadic Alliance



Alliance value creation and a partner's value appropriation opportunities are some of the key dimensions that influence a partner's strategic intent, relationship commitment and the resources allocated to the alliance venture. The performance of an alliance is measured as the sum of the common value created by the venture/relationship and the private benefits extracted/appropriated by the individual partner. Market commonality, resource characteristics and resource alignment are critical components that shape the characteristics of an alliance condition. Collective strength, interdependencies and interpartner conflicts in turn dictate the level and intensity of tensions generated between alliance partners.

This raises a number of new questions for strategy scholars examining tensions between strategic partners and alliance performance:

> Do strategic alliance tensions influence alliance performance?
>
> Does a focus on common goals moderate alliance stability?
>
> Does an imbalance in the dynamics of internal tensions shape the evolution of an alliance?

The purpose of this research is to achieve a greater understanding of the role of internal strategic tensions and the impact on the performance and evolution of the alliance by generating and testing a theoretical model.

Strategic alliances, involving horizontal (competing firms) and vertical (supply chain) dyadic relationships, provide the context for exploring internal tensions and their governance of alliance performance. These strategic alliances combine co-operation and competition. The level of analysis is the role of senior management in shaping alliance strategy and implicitly determines the primary underlying tensions of collaborative relationships, the limits of knowledge and the limits of control over the alliance members. Senior managers in alliance ventures must plan for the long-term but they cannot ignore parent companies' demand for strong short-term results.

The relevance of the literature survey is embedded in speculation by Harrigan (1986) on the future of hybrid organisations and whether they are temporary reactions to changing market dynamics or more permanent organisational structures. This author suggests that the concept of alliances between complementary organisations will endure. A study by Teece (1980) concluded that factors that are linked with successful capital raising, co-ordinating systems and managing complementary assets are better enabled through the use of alliances. Recent research linked innovation and alliances with competitive advantage (see Johnson, Manyika & Yee, 2005). Harrigan supports the notion of collaboration as a strategy stating that, "the future will bring more, not fewer, strategic alliances because managers realise that the benefits provided by joint ventures and other cooperative strategies make them well worth the extra effort of learning how to manage them effectively" (1988: 69). Thus, the relative importance of strategic alliances as twenty first century organisational systems (Bourdeau, Cronin & Voorhees. 2007; Dhanaraj & Beamish, 2003) contextualises the motivation of the research.

2.1.3 Approach to this Study

The rationale for reviewing the literature through the lens of the paradox is an attempt to move beyond oversimplified and polarised notions and to recognise the complexity, diversity, and ambiguity of business and organisational life (Quinn, 1992). A dialectic structure is appropriate as the framework facilitates:

> *...an approach that understands the practical and political necessity of holding opposites apart but that, at the same time, takes the relationship between them seriously, looking for a synthesis in the mutual supporting interactions between the two opposites that binds paradoxes in the organisations (Clegg, Cunha & Cunha, 2002: 499).*

de Wit and Meyer (1998) suggest that the dual existence of collaborative and competitive advantage is a paradox. This paradox delineates the scope of this thesis and is embedded in the perspective that individuals, groups, and organisations are inherently paradoxical and embroiled in tensions and reinforcing cycles. Mason and Mitroff, (1981) suggest that employing a dialectic approach, a critical examination of the thesis-antithesis-synthesis of rival perspectives or strategic paradoxes, is crucial to solving a strategic problem.

The fundamental premise of this dissertation is that the strategy literature presents an incomplete picture of the origins of strategic tensions between alliance partners (see Das & Teng, 2000b) and the influences these countervailing forces exert on an alliance strategy. There appears to be only a partial explanation for the tensions between partners and the implications alliance stability may have for performance. The literature on internal alliance tensions and performance (see Das & Teng, 1997, 2000b, 2003b) is largely conceptual and has a normative functional perspective (de Rond, 2003). The dialectical perspective and its ontological, epistemological, and methodological implications that inform this thesis' analysis of the governance of internal strategic tensions in alliances are discussed in some detail in Chapter 4 'Research Methodology'.

It can be said that a realistic view of collaboration sees alliances built on a foundation of dualities. Osborn and Hagedoorn, (1997) suggest that alliances are: temporary structures but often produce long lasting relationships; both co-operative and competitive weapons; strategically determined and emergent; and have intended purposes and emergent benefits that may be more important. Hermens, (2001) proposes that alliances are best thought of as dialectic systems where alliance stability is determined by balancing multiple conflicting forces and designing systems of accountability that can handle the tensions. Managers are thus challenged to think more strategically and more innovatively about the process of delivering value to their customers and their firm's constituents.

2.2 Literature Review – Strategic Management Theory

2.2.1 Introduction

Whittington's question 'What is strategy – and does it matter?' (2001:1) is illustrative of the ambiguity surrounding the topic of strategy. In Part One of this chapter the evolution of, and recent developments in, the strategy research literature are considered. The objective here is to provide a theoretical context of the strategy literature necessary for exploring the evolution of alliance theory and practices presented in Part Two of the chapter.

The origins of strategy and the different philosophical perception of individuals on 'what business strategy is' are reviewed in Section 2.2. Furrer, Thomas and Goussevskaia (2008) suggests that to theorize about strategy and future directions of strategic management research there is a need to reflect on its origins and observe changes and evolution in the field. This section also examines definitions of strategy and the critical assumptions upon which they are based, and explores the relationship between the environment and the main developments in strategy that contextualise the alliance evolution.

Section 2.3 reviews conflicting strategy theories and paradigms, and the diverse views of researchers and scholars in the field in order to assess their likely impact on future developments in the strategy discipline. Contemporary and emerging perspectives from the literature are examined to identify any implications for future research direction. Whittington's, (2001) typology that integrates and categorises the various perspectives, as well as the process approach to integrating strategy and evolutionary theory, is then examined in some detail.

The competitive paradigm that is at the centre of strategy theory is examined in Section 2.4. This section also considers: theories relating to organisational performance, and the sources of strategic tensions.

2.2.2 The Evolution of the Intellectual Basis of Strategy

The aim of my early discussions is to identify the factors that have influenced the evolution of strategic management research. One may argue that the intellectual basis upon which the discipline of strategy has developed can be found in its origin and the evolution of literature itself. The word strategy is derived from the Greek word 'Strategos' and its concise translation means 'Generalship' (White, 2004). The verb 'stratego' means to plan the destruction of an enemy through the efficient application of resources (White, 2004:8). The link between strategy and its roots in military warfare is historical with strategic management described as:

> *the management of an army in a campaign, moving troops or ships so as to impose upon the enemy the place and time and conditions for fighting preferred by oneself, the detail of which are the tactics or the realisation of strategy.*
>
> *(Kare-Silver, 1997:17).*

The discussion of the concept of strategy in either its military or political context has been linked with a number of well known classical authors, including Sun Tzu, Clauswitz, Kant, Shakespeare, and Tolstoy (Davis & Devinney, 1997), while the practices of strategy concepts are often associated with "illustrious militarists and political theorist(s) such as Machiavelli, Napoleon, Bismarck, Yamamoto and Hitler"

(Bracker 1980: 113). From its military origins, early strategic theorists assumed a limited battlefield or competitive terrain, with opponents rivalling each other for control or "market share" in which combatants "try to outperform their rivals in order to grab a greater share of existing demand" (Kare-Silver, 1997:19). Kim and Maugborgne, (2005) suggest that the military origins of the term strategy still have a strong influence on how it is conceptualised in contemporary business terms.

Perspectives about strategy (its origins, nature and purpose) however are diverse and controversial. Hitt, Boyd and Li, 2005 for example argue that the genealogy of strategy can be traced back as far back as 320 BC to the work of Sun Tsu (Sun Tsu, 2002). On the other hand Carter, Clegg and Kornberger (2008) argue that "the idea that strategy may be traced in a seamless continuity of development from the ancient Greeks before the birth of Christ to the current day is patently absurd" (2008: 2). These scholars propose that strategy is largely a US invention that evolved post World War 2.

The first use of concept strategy and the notion of man as the rational strategist were introduced into the management literature in the publication *Theory of Games and Economic Behaviour* (Neuman & Morgenstern, 1944). Since then, the evolution and refinements to these concepts has mainly occurred in the management literature (Hofer & Schendel, 1978). William Newman, of the Columbia University Business School, was the first writer to use the word strategy in the context of management practice in the organisational literature, with the publication of his 1951 textbook *Administrative Action: the Techniques of Organisation and Management* (Mintzberg, 1990: 113). Three years later, Peter Drucker (1955) defined strategy as essentially providing the answer to the question what is our business and what should it be?

Moore argues that there is no single person that can claim to have invented corporate strategy "just as military strategy did in the eighteenth century, it emerged during the 1960s" (1992:1). Nevertheless there are three researchers, K. Andrews, H. I. Ansoff and A. D. Sloan, who were the first to formally define the area of strategy in terms of concepts, definitions, and methodologies. Ramos-Rodriguez and Ruiz-Navarro, (2004) in their study of the management literature identified the contributions of Penrose (1959), Chandler (1962), Cyert and March (1963), Ansoff (1965), Thompson

(1967), Lawrence and Lorsch (1967), Rumelt (1974) and Andrews (1971) as constituting the basis of strategic management as a discipline.

It was not until 1962, when Chandler published his seminal work *Strategy and Structure: Chapters in the History of American Industrial Enterprise,* that the concept of strategy was defined in some detail in the literature. Chandler defined strategy as "the determination of the long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (1962: 16). In Chandler's definition of strategy, formulation and implementation are integrated, whereas the Hofer and Schendel definition of strategy, that is "matching organisational competencies with the opportunities and risks created by environmental change in ways that will be both effective and efficient over the time such resources will be deployed (1978 cited in Moore 1992: 220), does not specifically refer to goals and objectives.

Snyder and Glueck (1980) on the other hand, introduced the concept of planning into strategy, referring to strategy as a plan with all parts of the plan integrated to tie all parts of the enterprise together. Porter (1980): established what is arguably the best framework of generic strategies namely cost leadership, differentiation and focus. However this has been described as a simple classification system and its effectiveness for leading to superior performance attracts a great deal of debate in the literature (Kotha & Nair, 1995).

Mintzberg conceptualises strategy as a plan, ploy, pattern, position and perspective, and adds that strategies can be either deliberate or emergent (Quin, Mintzberg, & James, 1988). He advocates a process approach to strategy that is applicable to different stages of core business development: locating, distinguishing, elaborating, extending and preconceiving (Mintzberg, 1987). However, this process approach to strategy (see also Pettigrew, 1992, 1997) does not address the practice of strategy, in particular the micro practices and the everyday routine of strategy formulation (Whittington, 2004). In contrast, both Ansoff (1965) and Quin (1988) discuss yet another classification of strategy whereby concepts distinguish corporate strategy ('what business we are in') from that of business strategy ('how to compete in each business unit') (see also Wheelwright 1984; Andrews 1971). Hamel supports the "view that imagination rather than investment determines an organisation to be strategic" (1996a: 80). In a recommendation to managers about enriching their strategy formation process this author suggests, "you must engage the revolutionaries, wherever they are in your company, in a dialogue about the future" (Hamel. 2000b: 6).

In sum, the foregoing discussion is captured by the observation of de Wit and Meyer (1998) that there are many differing opinions on the key issues of strategy and as a result there is no common agreement on what defines the term strategy. Given the diverse range of theoretical perspectives on the dimensions of strategy, a concern has emerged namely that strategy theory may not be relevant to practice (Whittington, 2006). An increasing number of Strategy as Practice scholars have called for further research to explore the actual practice of strategy, linking micro and macro perspectives in order to advance the knowledge and field of strategic management (Jarzabkowski, Balogun, & Seidl, 2007).

2.2.3 Definitions and Critical Elements

In order to gain insight on what strategy is, this section examines various definitions of strategy and the critical assumptions upon which they are based. A review of the principal strategy texts published since 1996 (see Table 2.1) explains the numerous definitions for strategy in the contemporary management literature and provides evidence of the continual divergence in strategy theory. In an attempt to find common ground between the different schools of thought, Hax (1990) identified a number of fundamental characteristics of strategy and combined them into a single more comprehensive definition of strategy: "Strategy becomes a fundamental framework through which an organisation can assert its vital continuity while at the same time purposefully managing its adaptation to the changing environment to gain competitive advantages" (cited in de de Wit & Meyer, 1998: 32).

A large scale survey of strategic management scholars by Nag, Hambrick and Chen suggests that "strategic management's success as a field emerges from an underlying consensus that enables it to attract multiple perspectives, while still maintaining its coherent distinctiveness" (2007: 935). The various theoretical paradigms of strategic management that have evolved over the past thirty years reflect prevailing cultural, economic and political conditions.

These paradigms however have often been developed as dialectic antitheses to each other (de Rond & Bouchikhi, 2004). As a result of these conflicting perspectives the question of what strategy is and the quest for a common definition in the literature has proven to be elusive. One could argue that the definition that endeavours to capture the various themes and disparate perspectives that are offered by contemporary writers describing 'what is strategy' is the explanation offered by Thompson and Strickland that describes strategy as, "a game plan management uses to stake out a market position, conducts its operations, attracts and pleases customers, competes successfully and achieves organisational objectives" (2003: 3). Nevertheless, in light of the various and diverse perspectives listed in Table 2.1, it can be argued that a single concise articulation of the strategy process does not exist. Volberda for example, suggests that "the strategy field is replete with competing prescriptions and directives with regard to successful performance" (2004: 35)

Table 2.1 Strategy Defined and Critical Elements

Author	Definition	Critical elements of the strategy
Balogun, J., Jarzabkowski, P., and Seidl, D. 2007 in Strategy as Practice Perspective, Palgrave MacMillan	Strategy is a situated, socially accomplished activity, while strategising comprises those actions, interactions and negotiations of multiple actors and the situated practices that they draw upon in accomplishing that activity	
Pearce II J.A. and Robinson Jr, R.B. 2005 'Strategic Management: Formulation, Implementation and Control,' 9th ed., McGraw-Hill Irwin	By strategy managers mean their large-scale, future-oriented plans for interacting with the competitive environment to achieve company objectives (2005:4)	Company's game plan Reflects a company's awareness of how, when, and where it should compete; against whom it should compete; and for what purpose it should compete

Author	**Definition**	**Critical elements of the strategy**
de Kluyver. C. A and Pearce II J. A 2005 Strategy A View From The Top: An Executive Perspective, 2nd edition Prentice Hall.	Strategy is about positioning an organisation for sustainable competitive advantage	Involves making choices about: 1. which industries to participate in 2. what products and services to offer 3. how to allocate strategic thinking corporate resources 4. primary goal is to create value for shareholders and other stakeholders by providing customer value
Kaplan. S. and Norton, D P. 2004 'Strategy Maps: Converting Intangible Assets Into Tangible Outcomes', Harvard Business School Publishing Corporation	A strategy describes how (the organisation) intends to create value for its shareholders, customers, and citizens" (2004:9)	Balances contradictory forces Based on a differentiated customer value proposition Value is created through internal business processes Consists of simultaneous complementary themes
Hill, C.W and Jones, C.R. 2004 Strategic Management Theory an Integrated Approach, 6th ed. Houghton Miffin Company	A strategy is an action that a company takes to attain one or more of its goals (2004:72)	Primary objective of strategy is to achieve a competitive advantage because then superior profitability will follow 2. To use strategy to achieve competitive advantage a company must create distinctive competencies
Thompson A.A., Gamble, J. E. and Strickland A.J. 2004 Strategy: Winning In The Marketplace, McGraw-Hill Irwin	Strategy is the game plan management use to stake out a market position, attract and please customers, compete successfully, conduct operations, and achieve firm objectives (2004:3)	Consists of both offensive and defensive elements powerful strategy consists of a series of moves, both in the marketplace and internally that produce sustainable competitive advantage
Hubbard G. 2004 'Strategic Management: Thinking, Analyzing and Action', 2nd ed. Pearson Education Australia	Strategies are those decisions which have high medium term to long-term impact on the activities of the organisation, including the implementation of those decisions, to create value for customers and key stakeholders and to outperform competitors (2004:1)	Decision making Making long-term impacts of important decisions for the organisation The integration and focus of business functions Implementation of the decisions Creating value for customers and key stakeholders Outperforming competitors

Author	Definition	Critical elements of the strategy
Hoskisson R. E., Hitt M.A., and Ireland R.D. 2003 Competing for Advantage, South-Western Thompson Learning	Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage (2004:7)	The primary objective the firm seeks by using strategy the creation of value for shareholders and other stakeholders Firms can choose effective or ineffective strategies By choosing a strategy executives set priorities for their firm's competitive actions and reactions.
Johnson, G. Melin L. & Whittington R. (2003). Micro-Strategy and Strategising: Towards an activity based view, Journal of Management Studies, Vol 40 (1) 3-32.	Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configurations of resources and competencies with the aim of fulfilling stakeholder expectations	The long term direction of an organisation The scope of an organisation's activities Gaining advantage over competitors Addressing changes in the business environment Building on resources and competencies (capabilities) Values and expectations of stakeholders
Hitt,M.A. Ireland, R.D. and Hoskisson, R.E. 2003 Strategic Management Competitiveness and Globalisation (Concepts and Cases), South-Western Thompson	Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage (2003:8)	Seek strategic competitiveness and above average returns The fundamental nature of competition has changed, firms must learn how to compete in highly turbulent and chaotic environments Two major models – industrial and resource-based – indicate what a firm should do to earn above average returns Strategic intent and strategic mission are formed in light of a firm's internal and external environment Stakeholders can affect and are affected by a firm's strategic outcomes An effective strategic management process is grounded in ethical intentions and conduct and demands trade-offs often among attractive alternatives Strategists are responsible for the design and execution of an effective strategic management process. Strategists can be a source of competitive advantage

Author	Definition	Critical elements of the strategy
Mintzberg, H., Lampel, J. Quinn, J.B. & Ghoshal, S. 2003 The Strategy Process: concepts and cases, Pearson Education	A strategy is the pattern or plans that integrates an organisation's major goals, policies and action sequences into a cohesive whole (2004:10)	5. Have clear, decisive objectives 6. Maintain the initiative 7. Concentrate superior power at a place and time likely to be decisive 8. Build in resource buffers and dimensions for flexibility 9. Co-ordinated and committed leadership 10. Use surprise, speed, secrecy and intelligence to attack and expose unprepared opposition Secure resource bases and vital operating points for the enterprise
Hunger, J.D and T.L. Wheelen 2003 Essentials Of Strategic Management, 3rd ed. Prentice Hall	A strategy of a corporation is a comprehensive plan stating how the corporation will achieve its mission and objectives. It maximises competitive advantage and minimises competitive disadvantage	Corporate – overall direction in terms of its general attitude towards growth and management of its various businesses and product lines Business emphasises improvement of the competitive position of a corporation's products or services and are composed of cooperative and competitive strategies Functional strategies to achieve corporate and business unit objectives and strategies by maximizing resource productivity.
Grant, R.M. 2002 Contemporary Strategic Analysis Concepts, Techniques, Applications, Blackwell Publishers Inc	Strategy is about winning. It's a unifying theme giving coherence and direction to the actions and decisions of an individual or organisation (2002:4)	Strategy is a link between the firm and its environment; external and internal analysis are the two primary ingredients in strategy formulation Goals are simple, consistent and long-term Profound understanding of the competitive environment Objective appraisal of resources Effective implementation
D'Aveni, R.A. 2001 Strategic Supremacy: How Industry Leaders Create Growth, Wealth, And Power Through Spheres Of Influences, The Free Press NY	Strategy is using different combinations and patterns of competition and co-operation to create strategic supremacy (2001:10)	Strategy is an art as much as it is a science Great strategies come from experience, intuition, insight and inspiration 3. Strategic supremacy is a special kind of power that transcends size, reach and longevity, involves owning your core market by continually creating superlative value for your customers

Author	Definition	Critical elements of the strategy
Prahalad C.K. 2000 'Changes in the competitive battlefield', Gertne, R., Friedman. A., Dyes, G., Jensen, H., Mitchell, W., Decie, K., Hopwood, A., Davis, J. in Mastering Strategy: Your Single Source Guide To Becoming A Master Of Strategy. Financial Times	Strategy is increasingly about influencing, shaping and creating in a given industry space. It is an exercise in imagining a new competitive space and acting to influence the migration toward that future. (2000:78)	Strategy as stretch and leverage Creating new industry space Total organisational process An analytical and organisational process 5. Creating the future
Kay, J. 2000 'Strategy and the delusion of grand designs', Gertne, R., Friedman. A., Dyes, G., Jensen, H., Mitchell, W., Decie, K., Hopwood, A., Davis, J. in Mastering Strategy: Your Single Source Guide To Becoming A Master Of Strategy. Financial Times	Business strategy is concerned with the match between a company's internal capabilities and its external environment	Is no longer about planning, visioning or forecasting – it is a set of analytical techniques for understanding and influencing a company's position in the marketplace.
Brown, S.L. and Eisenhardt, K.M. 1998 Competing On The Edge: Strategy As Structured Chaos, Harvard Business School Press	Creation of a relentless flow of competitive advantages that taken together, form a semi coherent strategic direction: "the result an unpredictable uncontrollable and even inefficient strategy that nonetheless works" (1998:4)	1. Improvisation 2. Co adaptation 3. Regeneration 4. Experimentation 5. Time pacing
de Wit and Meyer 1998 'Defining The Concepts Of Strategy' in R. de Wit and R. Meyer, Strategy Process Content Context, International Thompson Business Press	Is any course of action for achieving an organisation's purposes	Three dimensions of strategy: process, content and context Real life strategic problems are complex At the heart of every set of strategic issues, a fundamental tension between opposites can be identified Viewing strategy tensions as 'strategy paradoxes' will encourage the use of creativity to find ways of benefiting from both sides of a tension at the same time

Author	Definition	Critical elements of the strategy
Davis, J. and Devinney, T. 1997 The Essence Of Corporate Strategy: Theory For Modern Decision Making Allen and Unwin	The whole pattern of decisions that sets the long-term direction of the organisation (1997:7)	Planned or intended strategies are the pure actions that a firm's decision makers take based upon their perception of other firms' actions and of the expected gains from pursuing those actions. Actual or realised, strategies are the actions that the firm's decision makers ultimately take based upon new and emerging information
Porter, M. E. 'What is strategy?' Harvard Business Review (November-December 1996a: 61-78)	Strategy is the creation of a unique and valuable position, involving a different set of activities (1996:68)	Operational effectiveness is necessary but not sufficient Strategy rests on unique activities Sustainable strategic position requires trade off Fit drives both competitive advantage and sustainability Strategy is creating fit among a company's activities Competitive strategy is about being different, deliberately choosing a different set of activities to deliver a unique set of values.
Pax, A. 1990 'Defining the concepts of strategy' in de Wit, B. and Meyer, R. (1998). *Strategy Process Content Context*, International Thompson Business Press	Strategy is a fundamental framework through which an organisation can assert its vital continuity, while at the same time purposely managing its adaptation to the changing environment to gain competitive advantage (1998:52)	11. A coherent unifying and integrative pattern of decisions 12. A means of establishing an organisation's purpose in terms of its long-term objectives 13. Definition of a firm's competitive domain 14. Response to external opportunities and threats and to internal strengths and weaknesses as a means of achieving competitive advantage 15. A logical system for differentiating managerial tasks at corporate, business and functional levels 16. Definition of the economic and noneconomic contribution the firm intends to make to its shareholders 17.
Oster, S. M. 1994 Modern Competitive Analysis, 3rd ed, Oxford University	A strategy is a plan to get us from here to there (1994:ix)	1. Is developed in an environment in which organisations are in continuous contact with one another and in which the results of organisational choices depend on what other people do 2. Is made in the context of limited information and market frictions

Nag, Hambrick and Chen agree that the literature generally reflects differing opinions on most of the key issues within strategy, and it is frequently argued among scholars that strategic management as a disciplinary field of study is fragmented and lacks a coherent identity (2007: 935). This assertion however is somewhat puzzling and contrary to the reality given the great success that strategic management has enjoyed over a number of years. For example it is argued by Nag, Hambrick and Chen (2007) that strategic management's inherent pluralism is it strength. These researchers surveyed 57 academics drawn from four distinctive scholarly orientations, Economics, Sociology, Marketing and Management, and concluded that strategic management's success as a field emerges from an underlying consensus that enables it to attract multiple perspectives, while still maintaining its coherent distinctiveness (2007: 935). It is worth noting that 'performance' (86%) and firms (64%) were the most commonly cited elements in respondents' definition of strategy (see Table 2.2).

Table 2.2. Explicit Definitions of Strategic Management: Major Conceptual Elements and Their Component Words.

Conceptual elements	**Words**	**Incidence of appearance in definitions (%)**
Strategic initiatives	Action, Plans, Strategy, Choices, Positioning	45
Internal organisation	Process, Internal, Behaviour, Implementation, Practices, Organizing, Routines	30
Managers and owners	CEOs, Managers, Top Leaders, Executives	30
Resources	Resources, Capabilities	14
Performance	Performance, Advantage, Value Success, Outcomes, Sustainability, Profits	86
Firms	Firm, Organisation, Business, Company	64
Environment	Competition, Environment, Market, External	43

Source: Nag, R., Hambrick, D.C. and Chen, M.J. 2007. 'What is strategic management, really? Inductive derivation of a consensus definition of the field', *Strategic Management Journal* 28 vol 9: p.947

2.2.4 Strategic Management and the Socioeconomic Environment

As noted in the previous section, the field of strategic management is disparate and ambiguous in nature. However the discipline is linked by implicit consensus around a common, underlying, but permeable core (Nag, Hambrick & Chen, 2007). There is historical evidence in the literature to support the theory that strategic concepts have grown and developed as a result of the constantly evolving socioeconomic environment (Drejer, 2002). This is not a recent or singular observation, with Schendel and Hofer (1979) suggesting that two major developments significantly influenced strategic management thinking: the rapid change in both the technological, social, political and economic environment, and the evolution of organisational and structural forms of business (cited in Moore, 1994: 24).

These developments are arguably the consequence of global trends, economic liberalisation, technological advances, capital market developments, and demographic shifts. This has resulted in significant realignment of economic activity globally as well as regionally. Shifts within regions, for example, are as significant as those occurring across regions and some industry sectors, such as information technology, manufacturing and services, are particularly effected (Davis & Stephenson, 2006). Firms, in many instances, have responded to the changing environment by making conscious strategic adjustments to their managerial processes and organisational structures, proactively identifying, interpreting and acting upon early signals from their internal and external environment (Cockburn, Henderson & Stern, 2000). For example, intense rivalry and the race to renew corporate capability or overcome resource constraints have persuaded many companies to enter into collaborative arrangements (Noteboom, 1999). In this context it can be argued that the process of strategy formulation and implementation is a multi-dimensional activity requiring firms to consider a range of factors, all of which may have consequences on the outcomes for the firm (Rumelt, Schendel & Teece, 1994). Some strategy scholars, for example, argue that success is secured when there is a match between an organisation's situation and its strategies and structures. In reviewing the evolution of strategy theory there appears to be support for the perspective that there is a strong link between cause and effect. From 1945 to the mid to late 1960s, demand in the world economy was larger than supply and the challenge to businesses was to meet demand. The role of strategy was to mobilise economic resources, with long-term planning at the centre of strategy. The mid 1970s to the mid 1980s was an era marked by stagnation where change became discontinuous, growth slowed, inflation accelerated, and supply outstripped demand. Effective allocation of resources, including cash flow, and generating above average profits to ensure adequate return on investment, became the priority of strategists. Portfolio management of the firm's product and services and an increasing competitive marketplace required strategising at the corporate, business and functional level of the firm. The emphasis of strategy was on the external environment with optimal positioning firms becoming leaders in attractive markets.

The 1980s witnessed significant activity by Michael Porter in the development of theory and application of strategy by integrating Andrews' strategy approach (see Table 2.3) with the framework provided by the academic discipline of 'economics' (White, 2004).

Table 2.3 The Evolution of Strategic Management

PERIOD	**1950s**	**1960s**	**EARLY TO MID 1970s**	**LATE 1970s EARLY 1980s**	**LATE 1980s EARLY 1990s**	**LATE 1990s EARLY 2000s**
Dominant Theme	Budgetary planning	Corporate planning	Corporate strategy and competition	Analysis of industry	The quest for competitive advantage	Strategic innovation and the new economy
Main Issues	Financial control through operational and capital budgeting	Planning growth	Diversification and portfolio planning	Choice of industries, markets, and segments, and positioning within them	Sources of competitive advantage within the firm	Competitive advantage through strategic innovation. Competing on knowledge Adapting to the new digital networked economy

PERIOD	1950s	1960s	EARLY TO MID 1970s	LATE 1970s EARLY 1980s	LATE 1980s EARLY 1990s	LATE 1990s EARLY 2000s
Principle Concepts and Techniques	Financial budgeting investment planning Project appraisal	Business forecasting investment planning models	Synergy Strategic Business units Portfolio planning matrixes	Experience curve and returns to market share Analysis of industry structure Competitor analysis PIMS analysis	Resource analysis. Analysis of core competencies	Organisational flexibility and speed of response, Knowledge management and organisational learning Competing for standards Early mover advantage
Organisational Implications	Financial management the key	Rise of corporate planning units and medium term formal planning	Diversification Multidivisional structures Quest for global market share	Greater industry and market security industry restructuring Active asset management	Corporate restructuring, business process reengineering Refocusing and outsourcing	The virtual organisation The knowledge based firm Alliances and networks The quest for critical mass
Author	Christenson Andrews and Guth Andrews Ansoff	Boston Consulting Group	PIMS	Porter	Wernerfelt, Barney, Hamel and Prahalad Senge	Hamel and Prahalad D'Aveni Brown and Eisenhardt, McMahan, Wright
Developments	Designing strategy by scanning external and analysing internal environment	Multi-business portfolio planning techniques	Business profitability relationships	Five forces industry analysis Generic strategies National competitiveness	Resource-based view Core competencies	Learning organisation Strategic Human Capital Management

In this decade, change became more complicated and unpredictable largely as the result of globalisation, and the technology revolution. Deflationary trends emerged which in turn created overcapacity in various sectors of the economy. The focus of strategists shifted into these new areas of concern: government deregulation, contrasting economic trends and environmental concerns in a rapidly globalising business environment.

The evolving complexities and ambiguities of the geo political environment challenged normative business policies and practises (Prahalad & Hamel, 2001). Macroeconomic forces such as deregulation and privatisation, free trade agreements, the integration of Europe under the European Union single market program, the formation of the World Trade Organisation, the collapse of Communism and China's growth as an economic power, shifted the focus of strategy theory development. Both internal and external competitive forces became more important in determining wealth creation (Ghemawat, Kennedy & Khanna, 1998).

The subject of competitive advantage and performance particularly since the 1990's have proven to be a fertile area for research and debate among strategy scholars and researchers including, competitive strategy (D'Aveni, 1994; Gimeno, Chen & Bay, 2006), corporate governance (Daily, Dalton, & Rajagopalan, 2003; Hoskisson, Hitt, Johnson, & Grossman, 2002), international strategy (Lu & Beamish, 2004; Penner-Hahn & Shaver, 2005; Tallman, 2001), strategic leadership (Finkelstein & Hambrick, 1996; Hambrick & Cannella, 2004), and dynamic capabilities (Helfat & Peteraf, 2003; Teece, Pisano, & Shuen, 1997; Winter, 2003).

The search for competitive advantage has moved over the past decade from focusing on those resources that are housed within the firm to examining and exploring value creating linkages between organisations:

> *"Firms who combine resources in unique ways may realise an advantage over competing firms who are unable or unwilling to do so" (Dyer and Singh, 1998: 661).*

D'Aveni (1999) in his article '*Strategic Supremacy through Disruption and Dominance*' suggests that as a result of the changing global economic environment, the contemporary focus of strategy must be on understanding the relationship between an environment's turbulence and the company's choice of strategy (1999: 53). Building on this theme, Hoskisson, Hitt, Wan and Yiu (1999) suggest that organisations' search for new ways to gain competitive advantage challenges traditional theories and paradigms of what constitutes effective strategy, its formulation and practice.

This setting is described by D'Aveni (1994) "as 'hyper-competitive' with pressure of globalisation, short product lifecycles, a high degree of technological change, market turbulence, increased expectation of corporate responsibility, and customisation" (D'Aveni, 1994: 217). Firms endeavouring to achieve their organisational objectives use strategy to cope with the challenges of the changing environment (Chaffee, 1985). Coulson-Thomas (1992) illustrates the common theme expressed by the aforementioned researchers by proposing that globalisation has made the economic world more complex and messy. The operational imperatives of competition in a hypercompetitive business environment can be attributed to "the shift of locus of power from competitors to the customers", thus compelling "companies to satisfy an immeasurable array of customer wants faster than ever before" (Johnson & Lawrence, 1998: 98). This has led organisational theorists to observe that it is difficult for a single business in a hypercompetitive environment to create all the critical resources needed to prosper and grow (Simon, 1960). Success in a hypercompetitive environment demands innovative strategies and structures (Mintzberg, Lampel, Quinn & Ghoshal, 2003).

It can be concluded from the above discussion that the notion and/or perception of what strategy is and its associated concepts has evolved as a result of the constantly changing socioeconomic environment. This situation of a continuously evolving landscape presents researchers and practitioners with an evolutionary environment that requires continuous change, innovation and adaptation. It is contended that organisations are responding to "this new operating environment by shifting away from the monolithic model corporation' held together by ownership, to a confederation of alliances, held together by strategy (Drucker, 1998:12). Contractor & Lorange (1988b) suggest that firms can enhance their performance in an increasingly complex and turbulent environment through strategic collaboration. As more twenty-first century companies come to specialise in core activities and outsource the rest, they have greater need for workers who can interact with other companies, their customers, and their suppliers. Thus the traditional organisation, where a few top managers co-ordinate the pyramid below them, is being upended (Bleeke & Ernst, 1993).

2.3 Theories and Paradigms

This section of the chapter explores a number of conflicting theories and paradigms in strategy. Theory often evolves to cope with a changing world, to understand the relationship between the various, sometimes confusing perspectives on strategy and organisational performance. Consequently, it is useful to consider some of the major paradigms under which these perspectives have been formulated.

Clarke and Clegg define paradigms as a "systematic set of ideas and values, methods and problem fields, as well as standard solutions that explain the world and inform action" (1998: 9). Paradigms reflect what managers tend to do in practice and are influenced by culture, economics and politics (Joyce &Woods, 1997; Clarke & Clegg, 1998; Clegg Carter & Kornberger, 2004). Hambrick and Fredrickson comment that "after more than 30 years of hard thinking about strategy, consultants and scholars have provided an abundance of frameworks for analysing strategic situations" (2001:48). This seems somewhat problematic in terms of the practice of strategy when taking into account Whittington's reflection that "it is remarkable how little we know about what it means to be a strategist" (2001 cited in Clegg, Carter & Kornberger 2004: 21). This lack of knowledge is reflected by D'Aveni's suggestion that some managers have become disillusioned with their chosen strategy paradigm(s) because they do not understand the different paradigms, nor when it is appropriate to use each model to "create wealth and strategic supremacy" (1999:135).

A survey of the strategy literature by Mintzberg's, reported in "Strategy Safari – A Guided Tour through the Wilds of Strategic Management (Mintzberg, Ahlstrand & Lampel, 1998) ten major approaches to strategy were identified. The following list categorises these into prescriptive (three) and descriptive (seven) perspectives:

Prescriptive (how strategies should be formulated)

- the Design school (1960s) – strategy formation as a process of conception /informal design

- the Planning school (1960s to 1970s) – strategy as a systematic process of formal planning
- the Positioning school (1980s) – the selection of strategic positions in the economic marketplace / analytical process.

Descriptive (aspects of the process of strategy formation)

- the Entrepreneurial school: strategy formation as a visionary process by the great leader
- the Cognitive school: strategy formation as a cognitive mental process
- the Learning school: strategy formation as an emergent process /in small steps as an organisation learns
- the Power school: strategy formation as a process of negotiating
- the Cultural school: strategy formation as a collective process based in the culture of the organisation
- the Environmental school: strategy formation as a reactive process to external contexts
- the Configuration school: strategy formation as a process of transformation.

Mintzberg then linked these schools of thought with recent approaches to strategy formation (see Table 2.4).

Table 2.4 Linking strategic approaches and schools

Approach	**Schools**
Dynamic capabilities	Design, learning
Resource-based theory	Cultural, learning
Soft techniques (eg scenario analysis and stakeholder analysis)	Planning, learning or power
Constructionism	Cognitive, cultural

Approach	Schools
Chaos and evolutionary theory	Learning, environmental
Institutional theory	Environment, power or cognitive
Intrapreneurship (venturing)	Environmental, entrepreneurial
Revolutionary change	Configuration, entrepreneurial
Negotiated strategy	Power, positioning
Strategic manoeuvring	Positioning, power

Source: Mintzberg, H. and Lampel, J. 'Reflecting on the Strategy processes' in Mintzberg, Lampel, Quinn & Ghoshal 2003, *'The Strategy Process: Concepts, Contexts, Cases'* 4th edition p.27

On the other hand, Joyce and Woods (1997) propose three distinct paradigms of strategic management: modernist, postmodernist and new modernist along the six dimensions of the role of top management, nature of successful change, expectations of subordinates, approaches to planning, attitude to change and organisational requirements (see Table 2.5). Each distinct paradigm suggests "different approaches [as to] how executives bring order to a series of strategic processes and decisions spanning years" (Quinn, Mintzberg, & James, 1991: 104). The authors perceive that the attitude towards knowing the future is of major importance in distinguishing different schools of strategic management thought.

Table 2.5 Approaches to Strategic Management

Dimensions	Modernist	Postmodernist	New modernist
Top management role	Decision-making elite	Back successful initiatives by lower level managers	Responsible for intellectual leadership
Successful change	Programmable	Discoverable	Based on foresight and experiment
Expectations about those at lower levels	To be committed to proposals and to implement strategic plan	To show diversity, difference and spontaneity (empowerment)	To have their own agendas – but agendas which can be included

Dimensions	Modernist	Postmodernist	New modernist
Attitude to planning	Planning is core activity	Proactive planning is impossible	Planning is emergent
Attitude to chance events	Need to plan for flexibility	Require chaotic action in response	Chance events can be opportunities
Organisational requirements	Operational management to be shaped by strategy	Anti-hierarchy culture – support for informality	Organisational readiness – commitment and competence- which have to be developed

Source: Joyce & Woods 1997, *Essential Strategic Management*, p.49

Volberda's (2004) classification (see Table 2.6) introduced a category that has evolved from modernism, namely post modernism. Post-modernism extends the effectiveness of rational planning by emphasising commitment, accommodating chance and unpredictability. However, the distinction between the two paradigms of postmodernism and modernism is somewhat vague.

Table 2.6 Perspectives in strategic management

Classical	Modern	Postmodern
Top-down	Bottom up/ top-down	Multi-actor
Planning	Experimenting	Sense-making
Analytical	Incremental	Cognitive
Perfect rationality	Logical rationality	Substantial rationality

Source: Volberda in 'Crises in strategy: fragmentation, integration or synthesis, *European Management Review* 2004 (1), p. 36.

The various paradigms discussed above each adopt a mechanistic perspective of the classic economic model of profit-maximizing firms. Thus the paradigms see firm performance being linked to influences such as environment, firm strategy, resources and organisational structure (Farjoun, 2002), and are guided by the concept of a decision making process based on planning and rationality (Rumelt, Schendel, & Teece 1991). In the mechanistic perspective, strategy is mainly viewed as a posture (ie position and scope) and strategic management as a static process (ie a onetime sequence of formulating and implementing a single choice). Creating competitive advantage in the mechanistic perspective strategy relies on being discrete, directional and differentiated.

During the decade of the 1980s many scholars applied the structure-conduct-performance approach ushered in by Porter (1980, 1985) or the strategy-structure-performance in their investigation and analyses in strategy research. The 'Strategy-Structure-Performance paradigm' (Chandler 1962; Stopford & Wells, 1972; Rumelt, 1974; Franko, 1989; Miles & Snow, 1978, Porter 1980) provided a causal model that emphasises the importance of organisational structure and processes to performance (see Table 2.7). The 'Structuralist perspective', often referred to as the 'Environmental Determinism perspective', is shaped by the Industrial Organisation economics paradigm. This paradigm suggests organisational performance is determined by market forces in that market structure is shaped by supply and demand which in turn impacts the conduct of buyers and sellers and ultimately determines performance. The Structuralist perspective thereby "assumes that industry structure conditions are given and firms are forced to compete within them" (Kim & Mauborgne, 2005: 108).

The Structuralist paradigm finds its roots in Bain's cross industry empirical framework as noted in his work *Barriers to New Competition: Their Character and Consequences in Manufacturing Industries* (Bain, 1956), and is based on the Structure-Conduct-Performance paradigm. In the Structuralist view, the context of strategy, the marketplace and the focus of competitive advantage is "building a defensible position against the competition in the existing market space by building advantages over the competition" (Kim & Mauborgne, 2005:105).

Another approach is 'Contingency theory' which embraces the nature of cause and effect.

According to this perspective, success is secured when there is a match between an organisation's situation and its strategies and structures. For example, mechanistic bureaucracies are appropriate for stable environments but flexible, organic structures are required for turbulent environments (Stacey, 1993).

Table 2.7 Major Theoretical Approaches to Strategy

Theory	**Primary area of Attention**
Strategy- Structure-Performance	Organisational structure Organisational processes
Structuralist (Structure- Conduct-Performance and Positioning)	Industry structure Industry profitability Competitors positions
Transactions Costs Economics	Markets and market availability of goods and services Internal productions costs
Agency theory	Incentives, controls and contracts between management and owners
Game theory	Actions and reaction of competitors over time
Behavioural Theory	Identification of stakeholders Understanding goals and power of stakeholders Understanding decision-making processes within the organisation
Managerial theory	Managerial motives and actions Organisational aims
Contingency theory	Success is a state of equilibrium between the organisations situation and strategies and structures.
Resource-based view	Identifying unique, valuable resources within the organisation
Dynamic capabilities	Identifying the underlying processes of the organisation which lead to the existence of the resources of the organisation
Evolutionary theory	Analysis of the past learning processes and existing learning capabilities of the organisation
Chaos theory	Understanding the elements of the system of organisations and environment in which the particular organisation exists Understanding how organisations in the system have adapted, grown and self-organised, or have failed
Strategy as Practice	Formal planning of strategy making Strategy practice based models based in sociology Focus on micro-practices and everyday routines of strategists

Source: adapted from Hubbard G 2004, Strategic Management: thinking, analysis & action pp.8

The 'Resource-based perspective' argues that firm heterogeneity explains differential firm performance (Lippman & Rumelt, 2003; Rumelt, 1984; Wenerfelt, 1984). In contrast to Porter's argument that industry structure is the critical element in a firm performance the Resource Based perspective argues that firm factors are the vital elements in performance. Firms that are able to accumulate valuable and non-substitutable resources that are difficult to imitate will achieve a competitive advantage over competing firms (Barney 1991; Dierickx & Cool, 1989) and therefore achieve superior performance (Henderson & Cockburn, 1994; Powell, Koput, & Smith-Doerr, 1996). Supporters of this view discuss the embodiment of unique skills and capabilities as a source of innovation, differentiation and therefore competitive advantage (see Quinn, 1978; Mintzberg, 1987; Hamel & Prahalad, 1990), and the capacity to respond appropriately (Burgelman, 1994) and to create decision structures and processes (Bower, 1974; Levinthal, 1997).

The 'External Context view' (Structuralist and Contingency) is oriented more toward adaptation to the external environment, while the 'Process view' (eg, Resource-based, Dynamic Capability and Evolutionary theory) delineates the role of resources on firm growth (Penrose, 1959; Pettigrew, 1985; Mintzberg & Waters, 1982) and emphasises differentiation, decentralisation, rivalry and pluralism.

In terms of the Evolutionary theory, Schendel suggests it "may provide a mechanism for understanding complexity by providing an integrating framework in which competing theories may work and contribute" (Fiegenbaum, Hart & Schendel, 1996:223). A feature of the Evolutionary approach to strategy research is that it values studying the complete population, their successes, as well as failures, in order to understand the processes by which superior positions are achieved (Barnett & Burgelman, 1996).

Another development is the application of 'Chaos theory' to business (Stacey, 1993; Prigogine and Stengers, 1984). To Chaos theorists, strategy is an organic and dynamic experimental process. This group argues that the environment has become more chaotic and unpredictable and therefore organisations must match strategies to circumstances, creating internal chaos by focusing on single strategic issues and challenges at many levels of the organisation (Stacey, 1993; Weick, 1987).

More recently, the 'Strategy as Practice Approach' has developed, with a community of scholars interested in the everyday processes, practices and activities involved in the making of strategy (Whittington, 1996). This approach adapts the sociological paradigm to strategy (see Schatzki, Knorr-Cetena & von Savigny, 2001; Whittington, 2002) and advocates a more sustained empirical focus on practice. Researchers share a concern for firm performance but also emphasise the significance of potentially multiple strategising outcomes and their interactions through time. The Strategy as Practice perspective encourages researchers to focus on the praxis, practices and practitioners of strategy (Johnson, Scholes, Whittington, 2008); and to study strategy making in-depth, both at the micro and macro level, in the context of outcomes in the broader social environment (see Table 2.8).

Table 2.8 A summary of how empirical strategising research operationalises key concepts in the SAP agenda

Exemplars	**Dominant practitioner focus (who is a strategist?)**	**Main practices examined (What do strategist do)**	**Level of Practice (What does it explain)**	**What theoretical bases are used**
Balogun & Johnson, 2004,	Middle managers in multiple divisions	Sense-making specific to what role (eg engineer or services) the strategist occupies Social practices of interaction	Firm-level: implementation of strategic change	Sense-making/schema theory
Balogun & Jarzabkowski, 2007	Top middle and operational managers	Strategic planning as a practice for constructing and distributing strategy knowledge	Activity level: distributing strategy making within and between levels	Perspectives-making and perspective – taking social theory of practice
Johnson.G, Melin, L. &. R. Whittington 2003	Multiple organisational levels according to workshop participation	Workshops	Activity level: impact on strategy development	Institutionalisation and diffusion of practice
Jarzablowski, 2003, 2005	Top managers	Formal administrative practices and face-to-face interaction and their uses in phases of the evolution of activity	Activity-level: evolution of streams of strategic activity over time	Social theories of practice Strategy process theory

Exemplars	Dominant practitioner focus (who is a strategist?)	Main practices examined (What do strategist do)	Level of Practice (What does it explain)	What theoretical bases are used
Jarzablowski & Seidl, 2007	Top managers	Strategy meetings	Activity-level: role of meetings in stabilizing or destabilizing strategic activity	Social theories of practice
Maitlis & Lawrence, 2003	Top managers, board members, other employees	Use discursive resources specific to the context and political practices according to their power bases	Firm-level: failure in strategy formation	Discourse theory Theories of power and politics
Mantere, 2005	Top, middle and operational managers	Strategy formation practices; organising practices; and control practices specific to what role the strategist occupies	Individual level: construction of the self as a strategist	Structuration theory
Regnar, 2003	Top and peripheral (SBU) managers	Sense making practices and localised know how specific to whether the strategist is a peripheral or top manager	Firm-level; strategy creation and renewal over time	Strategy process theory
Rouleau, 2005	Middle managers	Engage in sense-making and sense-giving narratives that are specific to who the strategist is Gendered embodiment of agency in interpreting and selling change	Firm-level implementation of strategic change	Sense-making theory Narrative theory

Source: adapted from. Jarzablowski, P., Balogun, J., & Seidl, D. 2007 Strategizing: The challenges of a practice perspective, *Human Relations* 60 p15

These scholars are involved in in-depth qualitative research that examine the inside of strategising processes, and link the concern for both content and process, and for both intentional and emergent activities and outcomes: Strategy is not just about rationally analysing what's going on nor is it simply survival of the fittest but a complex web of moves (Clegg, Carter & Kornberger, 2004:72).

de Witt & Meyer's (1998: 14) observation seems particularly relevant at this point, given the dynamic nature of the environment and the fact that strategy is an interdisciplinary subject. Strategic management may never enter an era of normative science but will probably always offer shifting perspectives.

2.3.1 Research and Theoretical Complexity

In this section the cause and effect of strategy's complexity and the diverse views that are held by researchers and scholars are considered in the context of future research developments. The review of the literature thus far exemplifies the growth in the number of researchers, practitioners and academics in the field since 1965. This has resulted in the field of strategy research becoming very complicated. Hubbard (2004) attributes the increasing complexity and divergent views among researchers to the popularity of strategy as a field of study in universities. Academics are being chosen on the basis of their research records rather than practical experience in the field of strategy. The academic adage 'publish or perish' has resulted in an abundance of detailed studies of the strategy phenomena but with limited impact on organisational practice. Many theoretical lenses have been applied in strategy research providing different insights and perspectives (Mintzberg, Lampel, Quinn & Ghoshal, 2003).

The wide range of theories being applied to the field of strategy exhibit considerable overlap between perspectives but significant differences in their focus exist. There is no one clearly agreed upon meta-theory or integrating perspective which is accepted (Hubbard, 2004). Various individual theoretical lenses when applied in strategy research will influence the type of data gathered and analysed, the description of the problem and solution proposed. Different approaches to strategy and concepts have evolved over time. For example, Porter developed his theory and application of strategy by integrating Andrews' strategy approach with the framework provided by the academic discipline 'economics' (see White, 2004). The result is that firms' differences are contextualised against an industry background (Porter, 1980, 2008; Oster, 1994). The proposition is that smart managers who understand the implications of structural analysis are likely to outperform those who do not (Ghemawat, 2002; Shapiro & Varian, 1998).

Many of the strategy theories are in direct conflict which each other, particularly in terms of how to deal with strategic issues. There are a number of strong opposing bodies of opinion on strategic theories, frameworks, models and issues. Ansoff (1965), and Argenti (1974), view strategy as a prescriptive and rational model of decision making primarily focusing on outcomes such as market share and profit maximisation. These theorists adopt a 'Normative approach' and promote frameworks rather than models.

In contrast, the 'Positivist perspective' to strategy suggests that strategy is primarily a process rather than a means to an outcome (see Hamel & Prahalad, 1990; Miles & Snow, 1978; Mintzberg, 1987; Pettigrew, 1990; Quin, 1980; Kay, 1993; Stalk, Evans, & Schulman, 1992; Grant, 1991; Senge, 1990). Positivists contend that constructing detailed strategic plans is impractical. Instead, these theorists argue that the day-to-day flow of decisions that deal with developing core competencies and capabilities ultimately dictate the organisation's strategic direction.

In his watershed article, *Towards a dynamic theory of strategy*, Porter (1991) suggests that the vigorous nature of the modern firm's environment means that strategy research must extend beyond 'models' that are mathematically rigorous statements about specific situations of limited complexity. He recommends that research 'frameworks' better address greater complexity but are more open to opinion and judgement than to scientific hypothesis testing. The essence of framework building is providing the smallest number of core elements that captures the richness of a phenomenon with the most limited number of dimensions. Porter (1991) argues in support of cause and effect: the longer the time framework of the research, the greater the chain of causality has to be studied. Researchers who embrace a more liberal evolutionary perspective of strategy theory development have extended research away from a rigorous model of initial conditions to embrace the concept of managerial discretion and studying the complete population of organisations, that is the failures as well as the survivors (Fiegenbaum, Hart & Schendel, 1996: 223).

Pettigrew (1985, 1990) rejects the view that strategy is a rational process of deliberate calculation and analysis. He believes that strategy is a combination of internal political struggles and external pressures and constraints. Child and Smith (1987) link objective conditions for success (customer satisfaction, quality and profitability), prevailing managerial consensus and collaborative networks/alliances in the operating sector to strategy formulation and implementation. In short, most scholars agree that strategic management lacks an overarching paradigm. Some see this as a major weakness whilst others consider it an advantage and opportunity (Frederickson in Pettigrew, 1990).

2.3.2 Strategy Paradox: Art or Science

In this section of the review, emerging perspectives and their implications for future developments in the field of strategy are considered. Culture and norms account for differing approaches to strategy. Research indicates that there are wide differences in the ways decisions are made and viewed in British and American settings (Wilson & Jarzabkowski, 2004). Whittington (2004) rationalises that Europe introduced a postmodern approach to strategy (Rosenau, 1992), while the United States retained its respect for modernist values. However, globalisation made the economic world more complex and messy and the modernist approach to planning failed because of its mechanical approach and use of quantitative methods (Coulson-Thomas, 1992).

Research in strategic management presents some particular challenges as "there are different views of what counts as evidence" (Joyce & Woods, 1997:14.) Mintzberg, for example, is not convinced that it is worth basing arguments on scientific research. In reply to Ansoff's (1991) critique of the lack of scientific statistical evidence to support Mintzberg descriptive statements, he suggests that "the whole literature trying to evaluate the impact of planning never proved anything" (1990:83).

Theorists that promote a more Positivist approach to strategy (such as Rumelt, Schendel, & Teece, 1991, Teece & Pisano, 1994a) identify the four fundamental issues that define the field of strategic management as: "how do firms behave; why are firms different; what is the function of, or value added by, the headquarter unit in a multi business firm; and what determines the success or failure of the firm in international competition?" (Rumelt, Schendel & Teece, 1994: 12).

A number of scholars disagree with the Positivist approach. For example Marsden (1993) argues that managers have the capacity to fulfil their own strategies because they control the resources, possess the power of command over organisation members, regulate the flow of knowledge, and centralise amongst themselves the organisation's strategic expertise. Marsden (1993) argues that Positivist Organisation theory, including strategic management, permeates business school MBAs, that this philosophy is institutionalised and supported economically by the powerful managers to legitimise and retain managerial control within the firm. Berger and Luckmann arguably share a similar perspective when they argue that "is correct to say that many theories are concocted in order to legitimate already existing social institutions" (1996: 118).

Davis and Devinney (1997) suggest that strategy is both an art and science and that it is impossible to separate the contributions of each. Hamel and Prahalad (1990) argue that employees must operate in an open system where decision making is based on a strategic vision of the future and strategic intent provides a sense of direction that is shared with organisation members. The focus of the argument is that creativity and harmony can be maintained by a strong strategic intent and this enhances chances of success. Essentially these scholars support the notion of organisational learning as opposed to relying on what a firm has already learnt.

Hamel (1996b) builds on the notion of organisational learning and advances an integrated philosophical approach to strategic management that incorporates every arena of the organisation. In his landmark article *Strategy as Revolution* (1996b), Hamel advocates that an effective strategy process must involve all levels of the organisation and cannot be simply the result of top down command. This author promotes the devolution of the strategy formation process to allow for a wider contribution to the concept of what the future of the firm, and its role in industry, will be.

Whittington (2004) and Flyvberg (1998) support the epistemological and practical approach offered by the Strategy as Practice perspective. These scholars argue that the Positivist approach to strategy research offers little insight into the human condition. Whittington (2004) suggests that it is "an epistemological straight jacket that values scientific detachment over practical engagement, the general over the contextual" (2004: 62).

A less Positivist approach to strategy is also proposed by the writings of Clarke and Clegg (1998) and Clegg, Carter and Kornberger, (2004). These scholars adapt the Sociological paradigm to strategy and advocate a more sustained empirical focus on practice and thus support the Strategy as Practice approach. Clegg, Carter and Kornberger (2004) are critical of the strategic planning perspective suggesting that strategy formulation is vulnerable to the inevitable discrepancies between: "Managerial fantasy and organisational capabilities; actual clear goals and possible, unpredictable futures; planning and implementing; planned change and emerging evolution; means and ends; planning head (management) and a planning body (organisation); and order and disorder" (2004: 22).

A number of strategy scholars have misgivings about the Strategy as Practice approach. Chia (2004) draws attention to the ambiguity associated with the meaning of the concept of practice. This scholar suggests that understanding strategy is a process of "engagement with 'Heidegger's notion of 'dwelling', Bourdie's idea of habitus and Dryfus' idea of style" (2004: 6). Hermens (2006) observes that the sociological paradigm of the Strategy as Practice (SAP) approach does not discriminate the strategic thinking from the strategic planning process. In a similar fashion, Wilson and Jarzakowski (2004) argue that strategy is best understood as being a combination of action and direction. Jarzabkowski and Spee suggest that SAP researchers should further develop a detailed analysis of how, "what strategists do to constructs particular outcomes; and investigate explanations of variation, using comparative methods that examine how differences in what strategists do explain variations in the outcomes that are constructed" (2009:93).

There is no agreement on where the focus of strategy research should be centred. Volberda (2004) suggests that the synthesis for a practical program of research in strategy should be anchored in a few clusters of strategic management problem areas. These include: drawing of organisational boundaries; the development of dynamic capabilities; and the viable configuration between the organisation and strategy. However, Hambrick and Fredrickson, argue that strategy should focus on providing answers to five questions: "where will we be active; how will we get there; how will we win in the marketplace; what will be our speed and sequence of moves; and how will we obtain our return?" (2001: 48).

Most scholars agree that strategic management as a discipline lacks an overarching paradigm. Yet, there is no consensus as to the implications of the shifting perspectives in strategy, with some seeing it as a weakness and others an advantage and opportunity (Nag, Hambrick & Chen. 2007; Fredrickson & Westhphal, 2001). Mintzberg supports the notion of shifting perspectives by stating that "The greatest failings of strategic management have occurred when managers took one point of view too seriously" (Mintzberg, Lampel, Quinn, & Ghoshal, 27: 2003). The rationality for his observation is contextualised in the metaphor that:

> *Some researchers competing for discoveries to explain why some strategies succeed and others do not, "like butchers, they chop up reality for their own convenience but such behaviour ultimately does not serve the practicing manager. These people have to deal with the entire beast of strategy formation, not only to keep it alive but to help sustain some real life energy. (Mintzberg, Lampel, Quinn, & Ghoshal, 2003: 26).*

2.3.3 Strategy, Thinking and Planning

The purpose of this section is to explore some of the important issues surrounding the concept of strategic thinking. A discussion on the subject of strategic thinking and strategic planning essentially revolves around the paradox of creativity versus the analytic. Hamel and Prahalad define strategic thinking as "crafting strategic architecture" within a paradigm of creativity, exploration, and understanding discontinuities (1989b: 25). Stacey (1993) proposes that the aim of strategic thinking is developing creative new ideas and designing actions on the basis of new learning. This scholar suggests that strategic planning focuses on following pre-programmed rules. However, Wilson and Jarzabkowski (2004) disagrees and conceptualises strategic thinking as an evolutionary process of thinking about strategy and as an enhanced approach to strategic planning.

Mintzberg (1994) offers another perspective, arguing that strategic planning is the systematic programming of pre-identified strategies from which an action plan is developed. In contrast, strategic thinking is a synthesising process utilising intuition and creativity whose outcome is an integrated perspective of the enterprise. Mintzberg suggests that traditional planning approaches tend to undermine, rather than appropriately integrate, strategic thinking and thus impair successful organisational adaptation.

Miles and Snow (1986) offer another line of reasoning by extricating strategic thinking into two modes: strategic planning as a data-driven, information processing approach, and strategic thinking as creative imagination. Leidtka (1998) proposes a dialectical framework where strategic planning and strategic thinking work in harmony as opposed to Mintzberg's perspective that strategic planning impedes the flourishing of strategic thinking. Leidtka strongly argues that the strategy-making process incorporates strategic thinking and strategic planning as related activities, each valuable in its own right in an ongoing process of creating and disrupting the alignment between an organisation's present and its future. Heracleos (1987) conceptually shares Liedka's perspective and suggests that strategic thinking and strategic planning are interrelated in a dialectical process, where both are necessary for effective strategic management, and each on its own is necessary but not sufficient.

Lawrence (1999) conceives strategic thinking as a creative, divergent thought process, a mode of strategy-making associated with re-inventing the future, and the creation of new competitive space. Accordingly, strategic thinking questions the strategic parameters themselves and is thus similar to double-loop learning.

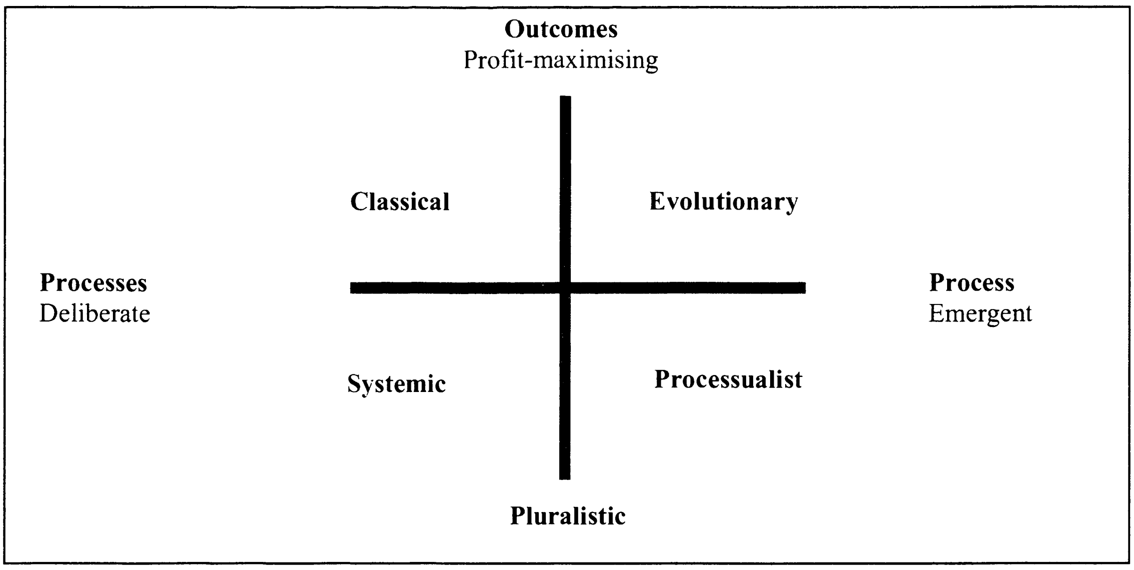
2.3.4 Integrating Theoretical Perspectives

This section focuses on Whittington's typology of strategic management. In an attempt at sense making, it is appropriate to choose a model that integrates and categorises the various perspectives held by prominent strategy scholars and researchers. The propensity amongst strategy theorists to categorise by analogy the many different strategy models can be daunting. The social anthropologist Douglas believes "squeezing each other's ideas into a common shape so that we can prove rightness by sheer numbers of independent assent" is the process by which we build institutions (1986: 91). One can speculate that the motivation of various strategy theorists who promote their classification is to add weight to the institutionalisation of their preferred model.

The rationale for selecting the Whittington typology is that its four variables are more widely known and less ambiguous than others parameters. The four dimensions in the model (1996, 2002) relate to the scientific perspectives and assumptions that researchers bring with their models of managing strategy. It is along these dimensions that Whittington believes the differences between models become accentuated. In a similar way to Ansoff (1987), Hrebiniak and Joyce (1985), Van de Ven (1992), Hamel and Prahalad (1990), Thompson and Strickland (2003), Hoskisson, Hitt, Wan and Yiu (1999), Burrell and Morgan (1979), Whittington attempts to categorise the differing strategic approaches into various ontological, epistemological or sociological processes.

Whittington (1993, 2003b) identified four generic approaches to strategy (see Figure 2.2). This taxonomy is not perfect, since writers such as Mintzberg, Child and Smith fit into several approaches. However, it does provide valuable insight into the classification of the various approaches as shown in Figure 2.2. In the 'Classical approach', strategy is a rational process of long-term planning aimed at profit maximising. The 'Evolutionary perspective' essentially views strategy as an efficiency driven process operating within deregulated markets, that continues evolving as the future is too volatile and too unpredictable for effective planning.

Figure 2.2 Taxonomy of the Various Approaches to Strategy



Source: de Wit and Meyer 1998, *Strategy Process, Content, Context.* 2nd edition: p.51

Evolutionists emphasise that organisations must focus on maximising day-to-day activities in order to ensure long-term survival and like their Classical counterparts, believe that the purpose of strategy is profit maximisation. Consequently, outsourcing, restructuring, and re-engineering can be compatible with an Evolutionary perspective (Burt & Doyle, 1993; Mason & Mitroff, 1981; Nolan & Croson, 1995). The paradigm is one of an environment that is highly competitive and unpredictable where long range planning is a distraction from the everyday task of survival.

In the 'Processualist view', strategy occurs within an environment of entrepreneurship and as an emergent process of learning and adaptation. Similar to Evolutionists, Processualists have little confidence in long range planning. The 'Systemic perspective' argues that the rationale on which strategy is based is typified by the sociological context within which the organisation operates, and favours government intervention and leadership in industrial policy. Furher, it holds that managers should exploit the full range of options made available by their social environments, interlocking state and business strategies in creating competitive advantage. In this paradigm, effective companies capitalise on external environmental opportunities whilst attending to issues of internal organisational dynamics.

The Systemic perspective challenges the focus of managerial politics to professional competition within a society. Accordingly it disputes the proposition of Miles and Snow (1978) that firms dominate by production and accounting professionals tend to be "defenders", inward-looking in their strategic orientations, whilst marketing, research and development dominated firms are more innovative and risk taking (cited in Hambrick, 1983: 24). The Systemic approach suggests that various professional groups can gain prestige in certain societies which give them systemic advantages both inside a company and throughout that economy. These four perspectives are compared across a number of dimensions in Table 2.9.

Table 2.9 Four Perspectives on Strategy

Strategy	**Classic**	**Processual**	**Evolutionary**	**Systemic**
Rationale	Profit Maximisation	Vague	Survival	Local
Focus	Internal	Internal	External	External

Strategy	Classic	Processual	Evolutionary	Systemic
	(plans)	(politics/ cognitions)	(markets)	(societies)
Processes	Analytical	Learning	Darwinian	Social
Key influences	Economic/ Military	Psychology	Economics/ Biology	Sociology
Key authors	Chandler Ansoff Porter	Cyert and March Mintzberg	Hannan and Freeman Williamson	Granvetter Marris
Key period	1960s	1970s	1980s	1990s

Source: de Wit and Meyer 1998, Strategy Process, Content, Context. 2nd edition: p. 51

The Classical, Evolutionary and Processualist theorists offer "one best way" approaches whereas the Systemic approach adopts a contingency method to strategy. A Processualist or Evolutionary approach is best suited to organisations whose decisions are strongly influenced by "internal politics" rather than organisational objectives. Organisations with mechanistic structures would favour the adoption of a Classical approach to strategy, whereas organisations with organic structures would resist a Classical form of strategy.

In general, within the strategy literature, the argument seems to be shifting away from seeing strategy as a solely rational, mathematical process to that of an outcome of management's ability to leverage its strengths and competencies. This is in sharp contrast to contemporary management practices in the western business world (Burnes, 1996) where the Classical approach to strategy is still widely practiced. Criticisms of the Classical approach to strategy include that it is "mechanistic, prescriptive, inflexible and relies on quantitative tools and techniques of dubious validity" (Burnes, 1996: 13).

Another perspective has been argued by Pettigrew (1990), Child and Smith (1987). This approach combines aspects of the Processualist and Systemic perspectives by asserting that managerial choice and preferences can influence an organisation's approach to strategy. Managerial choice is constrained by internal and external forces although managers can to some extent manipulate or influence these constraints.

Strategy focuses on the search for competitive advantage so that superior rates of return can be earned. Competitive advantage attempts to explain organisational performance differentials. Thus, the core of strategic management is the creation of competitive advantage through managerial choice.

While all the views described above have merit in their contribution toward a better understanding of the complexity of the relationship between strategy and organisational performance, they are grounded in fundamentally different sets of assumptions about organisational life and its relationship to the external and social environment. The Classical, Evolutionary, Systemic and Processualist perspective each fail to offer an optimum approach – there is no "one best way". de Wit and Meyer (1998) conclude that it is too simple to hope that one can deal with the contradictory opinions within the field of strategy by discovering which strategy theories are right and which are wrong. Each view offers useful insights and approaches to strategy formulation, although the Evolutionary and Systemic approaches appear to be favoured in an international and western business operating context.

It can be concluded from the review in this section that the focus for future research should aim to address the needs for a common platform of assumptions about organisational life and its relationship to the external and social environment. It is from an agreed upon basic set of assumptions that a better analytical and empirical understanding of the types of managerial processes that are correlated with superior performance can be developed (Cockburn, Henderson & Stern, 2000).

2.3.5 Integrated Process Approach to Strategic Management

The insights that are offered by Whittington's generic perspectives on strategy present a useful schema. However no one view can offer a truly holistic perspective on the nature of organisational strategy. It is suggested that the best understanding may be able to be achieved through the development of an integrated approach to strategy. An integrated approach should contextualise the process of strategy making in a broader organisational purpose, and thereby be built on the conglomeration of people, processes, and internal and external environments.

The *Balanced Scorecard* framework developed by Kaplan and Norton (1996) provides a methodology for an 'Integrated process approach' to strategy. This model adopts a largely classical perspective of strategy with the core of the strategy process being the vision which is operationalised by the long-term drivers of success. The authors suggest that through the processes of translating the vision, feedback and learning, business planning and communicating and linking, organisations develop an integrated strategic management system built on, and driven by, the vision and mission of the organisation.

Strategic decisions however are never simple to make. Behavioural economics shows that any decision with an element of risk is subject to universal human biases such as over- optimism and loss aversion. Strategic decisions are also susceptible to the 'principal-agent problem': when the incentives of certain employees are not aligned with the interests of the company, those employees look after their own interests in deceptive ways. Johnson, Manyika, and Lee (2005) suggest that companies can reduce their exposure to these intertwined and harmful patterns of distortion and deception by adjusting their decision making processes and strengthening the culture of debate.

This perspective is also supported by Foster and Kaplan (2001) who argue that the focus of the corporation must shift from minimising risk, and thereby inadvertently stifling creativity, to facilitating creativity that is needed to strengthen long-term performance. Foster and Kaplan's research on the performance of more than 1,000 corporations in 15 industries over a 36-year period, suggests that in order to improve long-term corporate performance, the overall planning and control processes of the corporation need to be rethought. These authors suggest that the conventional strategic-planning process has failed most corporations as it stifles the very dialogue it is meant to stimulate. Effective strategic management requires the co-existence of both divergent and convergent thinking and the establishment of corporate-control systems to control operations and to increase the rate of creative destruction. Whether the dialogue surrounding the strategy process should only be contextualised in convergent and divergent thinking is debatable.

Schendel suggests "that evolutionary theory may provide a mechanism for understanding complexity of strategy by providing an integrating framework in which competing theories may work and contribute" (Schendel, 2000: 3). A feature of the Evolutionary approach to strategy research is that it values studying the complete population, their successes as well as failures, in order to understand the processes by which superior positions are achieved (Barnett & Burgelman, 1996).

A recent exemplar of the Evolutionary approach to research where competing theories provide an integrated framework for understanding complexity is Navarro's (2005) study of the various approaches that are adopted by firms during the business cycle to strengthen the firm's competitive or sustainable advantage. These research results provide key insights into two important controversies debated in the strategy literature. The first focuses on system theory and asks 'can a business cycle be predicted in a timely and accurate manner as to be meaningful in a strategic planning context?' The second controversy centres on the Resource-based view and examines 'how do firms over the course of the business cycle create value that is long lasting enough to differentiate the enterprise from competitors in a way to build competitive advantage?' In the next section, the discussion so far is linked with one of the key issues of strategic management theory, namely that of organisational performance.

2.4 The Competitive Paradigm

This section reviews the competitive paradigm that is at the centre of strategy theory, research and practice, that is the achievement of competitive advantage (Barney, 1986; Caves, 1998; Porter, 1980). Competition is a controversial topic but is the very cornerstone of commerce in an open economy. The centrality of competition to business is evidenced in both economic studies and public policy (Kaserman & Mayo, 1995). In the literature, the historical and economic context of competition can be traced back as far as Adam Smith in his book *The Wealth of Nations* (1776). Smith advocated the concept of competition, open markets and liberated commerce, theorising that the drive for personal gain by economic actors ensures optimum outcomes for society. The 'natural regulator' in the system is the marketplace finding a natural state of equilibrium through demand and supply.

Creating competitive advantage in a business context is defined as a continuous process of strategic adjustment driven both by exogenous initial variation and strategic intent responding with foresight to changes in the environment (Cockburn, Henderson & Stern, 2000; Schendel, 1995). The important and distinctive role of various capabilities, co-specialised assets, and/or resource bundles in the creation and maintenance of competitive advantage has been acknowledged by many scholars (Hamel, 1991; Grant 1996). However, in terms of competitive markets, Navarro (2005) argues that most such assets, capabilities or resources can be copied or imitated quite economically. This researcher contends that a complex and highly related set of business cycle-sensitive capabilities and resources allow an organisation to create value and (some) advantage over rivals. These capabilities and resources include: a degree of business cycle literacy of top management team; the deployment of various forecasting resources; an organisational structure that facilitates the timely acquisition, processing, and dissemination of macroeconomic information as well as timely decision making relative to rivals; the observable application of a set of business cycle sensitive management principles; and a supportive organisational culture that supports the firm's business cycle-sensitive management activities (Navarro, 2005: 72).

In formulating a strategy, whether one should adopt a generic approach or a hybrid approach is dependent on the *raison d'être* of the organisation, namely the internal and external operating environment and the resources it has available. At the core of formulating strategy is competitive advantage leading to superior returns. An effective strategy for competitive advantage must incorporate both organisational effectiveness and strategic positioning (Mintzberg, Lampel, Quinn & Ghoshal, 2003). Choice of generic strategy will primarily impact the process of strategic positioning. The issue that has raised a great deal of interest amongst strategists is the problem of whether the generic strategies of low cost and differentiation are mutually exclusive.

Porter (1980, 1985) has argued against the simultaneous application of both strategies due to conflicting resource and organisational implications. There is a substantial body of literature (see Miller & Friesen 1986; Phillips, 1994) supporting the argument for hybrid strategies. For example, a recent study by Spanos, Zaralis and Lioukas (2004) on strategy and industry effects on profitability appears to support the hybrid approach in certain circumstances. This study concluded that firms pursuing pure strategies are found to be less profitable than those that adopted hybrid strategies, providing low cost was one of the components.

2.4.1 Strategy Formulation and Organisational Performance

In this section a number of theories are examined in the context of organisational performance. The aim of this section is to identify the evolution of theory and research in strategic management. The shifts in changes and approaches by strategy researchers and scholars have been likened to the swings of a pendulum, ie from an outside perspective to an internal perspective and back again to considering exogenous factors (see Hoskisson, Hitt, Wan & Yiu 1999).

The strategy literature supports the theory that there is a cause-and-effect relationship that accounts for differing organisational performance in which some firms consistently outperform others (eg, Rumelt, Schendel & Teece, 1991; McGahan, 1999). The actions of companies facing the forces of globalisation, deregulation, technological change, and social change have compelled an examination of the basic issues underlying strategy formulation and implementation. Arguably, there are many factors within an organisation that have an effect on the way strategy is formulated and implemented and as a result the strategy process varies from one organisation to the next (Cockburn, Henderson & Stern, 2000). This in turn produces a range of divergent outputs across firms. Superior performance is attained by organisations that are able to create more efficient or attractive outputs as a result of the way in which they combine these factors and effectively use their resources (Dyer, 1996).

In the period between 1960 and 1970, the study of strategy assumed that firms with better leaders would ultimately extract superior performance from their organisation compared to their competitors. This focus shifted outwards during the 1980s, from the narrow internal focus on superior leadership to a broader approach that included the analysis of the underlying economics of the firm's industry through a 'five force analysis' framework (Porter, 1980, 2008). This industry organisational perspective (Porter, 1980; Oster, 1994) rationalises that a favourable industry structure explains superior returns and performance. According to this perspective, strategic alliances with another organisation largely depend on a strong interdependent relationship.

Porter's five forces framework and strategic group analysis have been found to be sound theoretical constructs (Nath & Gruca, 1997) that help explain the competitive structure of an industry. Both frameworks have been used for the development of competitive strategies within industries. Various studies (eg Newman, 1978; Porter, 1979; Barney & Hoskisson 1990; Lewis & Thomas, 1990) have also applied these frameworks to analyse firm profitability. These frameworks however do not take into account the influence the formations of strategic alliances have on industry structure or firm performance.

The study by Spanos, Zaralis, and Lioukas (2004) broadly reflects McGahan's and Porters (1996b) research findings that industry structure has a significant influence on firm profitability. There are however several surprising aspects to these authors' findings, the most intriguing one that firms with no clear strategy, or a 'stuck in the middle strategy', were found to be more profitable than those firms that adopted pure strategies. The study did not however moderate for culture or factor conditions (see Porter, 1990, McGahan, 1999). It can be argued nevertheless that companies choose to adopt hybrid strategies in an attempt to create and capture value, rather than making a clear choice between competing on cost or product attributes.

Porter however argues that superior organisational performance is founded on two essential processes: strategy and operational effectiveness. The literature does not always clearly distinguish between these processes and uses substitute terms such as competitiveness, hyper competition, superior performance, competitive advantage, re-engineering, total quality management, alliances, partnerships and change management.

Operational effectiveness refers to performing similar activities better than competitors (Porter, 1996a). It is not a source of sustained competitive advantage as competitors in today's high-tech environment can quickly imitate these techniques. Organisational effectiveness does raise the entry or qualifying standard for both new entrants and industry incumbents. Porter (1996) argues that competition based on operational effectiveness alone is mutually destructive. He instead suggests that for a strategy to be unique it must incorporate tradeoffs that make it difficult for competitors to imitate and impossible for them to cover both strategic positions, that is the original and the new one ("straddling"). These tradeoffs can be any one of a combination of inconsistencies in image or reputation, the logistics or equipment associated with the activities themselves, and/or limits on internal co-ordination and control. The proposition here is that smart managers that understand the implications of structural analysis are likely to outperform those who do not (Ghemawat, 1991; Shapiro & Varian, 1998).

McGahan and Porter (1997) investigating interfirm perform variance compared industry, corporate and business segment classes to identify performance differences among firms. These research findings suggest that firm performance and profitability are influenced either by industry segment, and or the life cycle stage of an industry, and or a firm's evolution. This study however has been criticized by Hoopes, Madsen and Walker for a "lack of evidence for the factors that enable or underlie persistent performance differences" (2003: 897). These scholars offer the Resource Based View's (RBV) basic tenants as an alternative perspective to research interfirm performance variance and competitive heterogeneity. The resource based view (RBV) argues that competitive advantage is attributable to a firm's heterogeneity (Barney, 1991; Rumelt, 1984, 1991; Wernerfelt, 1984). Hoopes, Madsen and Walker (2003) concede however that it is not clear whether strategy scholars all agree on the RBV premises. The question whether industry structure or firm resources are responsible for firms performance is at the core of the strategy literature (eg Rumelt, Schendel & Teece, 1991; McGahan & Porter, 1997).

The RBV of strategy emerged in the mid 1980s and assumed prominence in the 1980s and early 90s (Wernerfelt 1984; Barney 1991; Peteraf, 1993), although somewhat similar and arguably complementary to the Environmental perspective that emphasises external industry structure, suggests that internal capabilities and investments are the tools that can shape the environment. It combines economics, business policy and organisational theory and stresses the idea that technological or market positions reflect internal organisational capabilities.

Over the past fifteen years the RBV has become central to explaining the origins of competitive advantage (Bowman & Ambrosini, 2007). This perspective suggests that firm based performance is most influenced by unique organisational processes (Conner, 1991; Barney, 1986: 1991) and industry structure is less important than distinctive historical factors that have given rise to firms' differences. Galbreath and Galvin, (2007) suggest that given the nature of competition and shifting global economic conditions resources are becoming more important determinants of firm performance than industry structure.

Whilst the RBV is a theory about what firms are and how they function, its popularity largely due to an absence of limiting behavioural assumptions (Gray & Wood, 1991). The RBV seeks to explain the relationship between a firm's resource endowment and its performance and growth. The advantage of the RBV as a theory is that in conjunction with other theoretical domains such as organizational learning it can be used to explain complex relationships that can seldom be understood using a single theoretical lens (see Gray & Wood, 1991). Specifically, the RBV of the firm have been incorporated into areas of research such as international strategy (Hitt, Hoskisson, & Kim, 1997), strategic alliances (Kogut & Zander, 1992), and mergers and acquisitions (Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001).

At the core of the RBV theory is a fundamental tension: how do firms develop inimitable resources and capabilities that competitors cannot and what factors impede the imitation of valuable resources and capabilities (Lippman & Rumelt, 2003). Cunningham and Rivera (2002) suggest that managers that adopt a resource-based perspective can be criticised for focusing too narrowly on individual resources and capabilities, without adequately appreciating the interactions among multiple resources and capabilities and their interactions with the environment.

The RBV is broadened by Zott (2003) contribution by highlighting that strategy is about differentiation as opposed to imitation. It is argued here that the learning process is essential as it focuses to decrease the cost of adoption by shaping the trajectories that determine the resource manipulation paths. This author suggests that small initial differences, even among firms with similar dynamic capabilities, can generate significant intra industry differential firm performance. Timing, cost, and learning effects foster the emergence of robust variations among firms regarding the level of dynamic capabilities, particularly in terms of differences in their costs of imitation and experimentation. This may translate into differences in resources and capabilities which then cause differential performance. The field of organisation behaviour however has a different basic assumption from economics (see Table 2.10).

Table 2.10 Economics v Strategy

Economics assumes	**Organisational behaviour assumes**
Market equilibrium will be reached, primarily through adjustments of, and reactions to, the pricing mechanisms	The fundamental unit of analysis is the individual
Managers and their firms have limited capacity to act independently or to perform differently from competitors	Individuals have different attitudes, values and skills, deriving from differences in genes and environmental experience
All competitors have similar information	Organisation structures, systems and values influence individual, group and organisational behaviour
▪ Transactions costs are zero	▪ The goals of the organisation arise from the interaction of individuals within the organisation
▪ There are many competitors in most markets	▪ 'Rational' Behaviour is not based simply on economic rationality
▪ All companies in the market have similar resources	

Lippman, S. A. and Rumelt, R.P. (2003).'The payments perspective: micro-foundations of resource analysis'. *Strategic Management Journal*, 24 (11) 1069-1086.

Organisational theorists argue that competitive intensity is a fundamental characteristic at the core of industry and market structure, firm conduct, and firm performance (Bain, 1956; Demsetz, 1995). The resource-based view and the relational view on the other hand argue that strategic alliances help meet competitive pressures (Burgers, Hill, & Kim, 1993), overcome resource constraints and potentially promote firm growth. These authors argue that there is a causal relationship between firm performance and number of alliances in the automobile industry. Nohria and Garcia-Pont, (1991) propose that the oil crisis of the 70s and the emergence of Japanese firms induced the adoption of alliances among global car producers. Michael Gerlach in his study of the social organisation of Japanese business observed that "the industries in which the intermarket keiretsu are strongly represented are among those most central in an industrial economy" (85:1992).

The resource-based view (RBV), however, suffers from ambiguous theoretical constructs imported from microeconomic theory. The RBV is permeable and eclectic in its nature (Lockett, Thompson & Morgenstern, 2009), partially based on evolutionary economics (eg, Nelson & Winter, 1982), equilibrium theory (Gould, 2002) and knowledge-based theory (eg, Pyka, 2002). This presents a number of methodological and practical difficulties that limit the generation and testing of direct hypotheses. Lockett, Thompson and Morgenstern, (2009) observe that the RBV as a theory has not generated clear unambiguous hypotheses in the manner of more narrowly conceived theories of firm behaviour or even transaction cost economics (TCE).

In the late eighties and early nineties, organisations were shifting away from the 'monolithic model corporation held together by ownership, to a confederation of alliances, held together by strategy' (Drucker, 1998:12). Research (see Bartlett & Goshal, 2001) suggests that in the automobile, banking, and airline industry, strategic blocks were formed in order to match the collective capabilities of other groups. Another study (Vanhaverbeke, 1995) found that the competition for industry standards in the electronic industry provided a stimulus for the formation of alliances. Research by Walker, Kogut and Shan (1997) in the aluminium industry offers another insight namely that the formation of alliance clusters can be an industry wide response to changing economic conditions. In light of this background, the 'Relational perspective' gained prominence. The Relational perspective argues that in a contemporary global business environment, a company's ability to effectively manage collaborative relationships and human capital, impacts on its performance at a significantly greater degree than the ability to invest in and manage physical assets (Adler & Jelinek, 1988; Kaplan & Norton, 1996).

The continuing growth of strategic alliances has made the 'Relational' perspective and the analysis of dyad routines and processes an important unit of analysis for understanding competitive advantage (Dyer & Singh, 1998). The shift towards more complex interactions through collaborative strategies, such as alliances, outsourcing etc, has dramatic implications on how companies organise and operate. One perspective is that superior performance is attained by those organisations that are able to create more efficient or attractive outputs, as a result of the way in which they combine these factors and use their resources effectively (Dyer & Nobeoka, 2000).

Dyers and Singh are critical of the resource based view for its focus on internal resources for explaining the origins of superior performance and offer an alternative perspective. The Relational view' (Dyer & Singh, 1998) contributes another dimension to the Resource Base View of the sources of competitive advantage. These scholars argue that potential sources for competitive advantage extend beyond the limits of a single firms ie, "a firm's resources may span firm boundaries and may be embedded in interfirm resources and routines" (Dyer & Singh, 660:1998). Mutual support and cooperation (interdependency) among constituent members of an alliance is one of the central themes of the relational view (see also Doz, 1996; Gulati & Singh, 1998; Lado, Boyd, & Hanlon, 1997; Reur, Zollo, & Sing, 2002; Ring & Van de Ven, 1992). The 'relational view' focuses on the network of relationships a firm is embedded in and hypothesises that "(1) relation specific assets, (2) knowledge sharing routines, (3) complimentary resources and (4) effective governance are potential sources for superior alliance performance" (Dyer & Singh, 1998: 660).

It can be argued that both competitive and collaborative intensity influences industry dynamics and the presence of alliances in an industry influence and shape competitive dimensions. Studies in the biotechnology industry (Barley, Freeman & Hybels, 1992; Kogut, Shan & Walker, 1992) for example found that the formation of alliances revolutionized the basis of competition in that economic sector. Strategic alliances are multidimensional and therefore can either be a defence against competition and or inflict stronger competition on rivals (see Silverman & Baum, 2002).

A number of recent studies offer further insights to the dilemma of collaboration and competition across industry boundaries including that:

> A "flexible setting of multiple companies are major drivers of interfirm networks that have become so apparent in many high tech industries'(Hagedoorn, 2002: 492);
>
> In industries where dense network of alliances are present the rules of competition has changed (Garcia Pont, 2006);
>
> Competitive intensity determines the likelihood of interfirm collaboration, and that the interaction of competitive and collaboration influences firm growth. In technologically less intensive industries however collaboration leads to higher growth for firms facing higher levels of competitive intensity compared to those facing lower levels of competitive intensity. However in more technology

intensive industry collaboration can lead to higher growth for firms facing lower levels of competitive intensity than for firms facing higher levels of competitive intensity (see Ang, 2008);

Alliances in related industries have a significant positive correlation with increases in innovation and performance in adjacent industries (Keil, Maula, Schildt & Zahra, 2008) found. Ang (2008) adds however that technology intensity moderates this relationship. Sampson (2007) investigated how to maximise innovation in research and development alliances in the telecommunication equipment industry offers another insight when she concluded that the most innovative alliances had the ability and willingness to share the information and had a high level of technological diversity and organisational independence.

2.4.2 Strategic Tensions Competition and Collaboration

The aim of this section is to explore the process dynamics of tensions in organisations. The review of the strategic management literature presented so far highlights the strongly differing opinions among researchers and theorists on most of the key issues within strategy. The contradictory opinions within the field of strategy presents a dilemma and discovering which strategy theories are right and which are wrong is too simplistic. De Wit and Meyer, (1998) argue when two theories suggest a different approach to the same problem, a fundamental tension between apparent opposites can be identified. These scholars propose that all strategy theories make assumptions explicitly or implicitly about the nature of these tensions and that many of the major disagreements within the field of strategic management are rooted in the different assumptions made about coping with strategy tensions.

As indicated earlier, competitive advantage is achieved by a firm when it can offer superior products to customers relative to its competitors (Porter 1985, 2008). An alternative to the 'go it alone approach' to competitive advantage is to develop a collaborative advantage through strategic relationships deriving mutual benefits (eg Miles & Snow 1986). Offering a different perspective, Kluyver and Pearce (2005) link superior organisational performance with strategic competence by proposing that corporate success is rooted in a link between senior managers and their ability to craft and implement innovative yet effective strategies. For example, Perlmutter and Heenan (1986); Teece (1986), Teece, Rumelt, Dosi and Winter (1994b) argue that it is imperative that senior managers, in their role as strategists, realise that striking a balance between competition and co-operation is crucial for superior performance and survival of a business enterprise. This view is shared by Lado, Boyd and Hanlon (1997) who contend that success in the contemporary business environment frequently requires that firms simultaneously pursue both competitive and co-operative strategies.

The quest of simultaneously pursuing both competitive and collaborative strategies makes strategic alliances an important tool that is used in the formulation and implementation of a firm's competitive strategy (Inkpen & Ross, 2001). Competitive strategies are not an end on their own, but are employed to ensure that the organisational objectives are realised (de Wit & Meyer, 1998). Competition generates economic efficiency in three ways by: enabling firms to optimally allocate scarce resources, providing the motivation for innovation and entrepreneurship, and reducing transaction costs between exchanging parties (Lado, Boyd & Hanlon, 1997).

Table 2.11 Comparing discrete and embedded organisation perspectives

	Discrete organisation perspective	**Embedded organisation perspective**
Emphasis on	Competition over co-operation	Co-operation over competition
Structure of the environment	Discrete organisations (atomistic)	Embedded organisations (networked)
Firm boundaries	Distinct	Fuzzy
Preferred position	Independence	Interdependence
Interaction outcomes	Mainly zero-sum (win/lose)	Often positive-sum (win/win)
Source of advantage	Bargaining power	Specialisation and coordination
Multicompany level strategy	No	Yes
Use of collaboration	Temporary arrangement (tactical)	Durable partnership (strategic)
Basis of collaboration	Power and calculation	Trust and reciprocity
Structure of collaboration	Limited, well-defined, contract-based	Broad, open, relationship-based

Source: de Wit and Meyer 1998, 'Strategy Process, Content, Context'. 2nd edition: p52.

There is a lack of consensus in the strategy literature as to whether strategists should prefer more competitive or more co-operative relationships with organisations in their environment (see de Wit & Meyer, 1998). As indicated in Table 2.11, a competitive strategy relates to a 'Discrete organisation perspective', while a co-operative strategy relates to an 'Embedded organisation perspective'.

At the core of the Embedded organisation perspective is the belief that enterprises that collaborate closely are more successful than businesses that operate independently (Culpan & Kostelac, 1993a; Teece, 1986; Hagedoorn, 1993). Strategists that subscribe to this perspective argue that firms can obtain significant benefits by surrendering a part of their independence and develop close relationships with a group of other organisations (Gomes-Casseres, 1994; Weidenbaum & Hughes, 1996). It is hypothesised that in alliance and collaborative relationships companies develop and align their strategies jointly to the advantage of all the partnering firms.

However there is little empirical evidence of the link between collaborative relationships and business performance (Berg, Duncan & Friedman, 1982; Balakrishnan & Koza, 1993; Hagedoorn & Schakenraad, 1994).

The Discrete organisational perspective is subscribed to by prominent scholars and researchers such as Hamel, Doz & Prahalad (1989a), Lorange & Roos (1992), Limerick & Cunnington (1993), Jarillo (1990), Porter (1991) and D'Aveni (2001). This theory hypothesises that strategic alliances are essentially arrangements made between entities with the aim of maximising the competitive advantage available to the members of the alliance and are competitive in nature. Inspired by neo-classical economists, strategists that subscribe to this perspective rationalise that firms should remain independent and interact with other companies under market conditions. This perspective assumes that individuals and the organisations they form, as well as the internal and external collaborative relationships they engage in, are fundamentally motivated by aggressive self-interest.

Porter (1990) therefore cautions that no firm can depend on another independent firm for resources that are central to its competitive advantage. Hamel and Prahalad (1990) add that alliances are impermanent and dynamic mechanisms, evolving around competency leadership causing shifts in power within the coalition. These authors argue that "companies that were partners in the early stages of market evolution frequently become competitors in the final stages of market evolution" (Hamel & Prahalad, 1994: 208). D'Aveni (1994) argues that alliances are competitive and temporary in nature and cites the example of the alliances of Intel and Microsoft with IBM to illustrate that "as soon as the co-operative agreement stood in the way of developing the next advantage for each company, they each turned around and captured all the value that their former partner once produced" (1994:334).

This gives rise to the question: 'if alliances are competitive and temporary in nature, that is fraught with dangers, how can co-operation between alliance partners be encouraged'? According to the 'discrete' organisational perspective, a dynamic standoff must be achieved between the partners. The balance of power is achieved through balanced-deep overlaps in each other's core markets or technologies, which are used as an instrument of threat to solidify the alliance. However, the balance of power is a precarious one at best: if one of the partners gains or loses power through a sudden decline in demand in one of the firm's cores markets or the mismanagement of resources, the more powerful partner may become aggressive resulting in destructive rivalry between the alliance partners (D'Aveni, 2001).

2.5 Summary

Theories and propositions from a number of researchers delineate the scope of the study so far. The review of the literature suggests that there is no clearly agreed upon meta-theory or integrating perspective which considers and can explain all the current approaches. While there is considerable overlap between perspectives, there are significant differences in emphasis.

Two streams of research in organisational economics proved to be particularly relevant to the field of strategic management. The first, 'Transaction Cost Economics' (Williamson, 1975: 1985) provided a theoretical rationale for the functioning of strategic alliances and joint ventures describing them as hybrid structures somewhere between markets and hierarchies (Hennart, 1988; Kogut, 1988a; Williamson, 1991). The second stream' Agency theory (Fama 1980; Jensen and Meckling, 1976) has been used to explain why the interest of shareholders and managers may diverge (Eisenhardt, 1989a) and has been applied to a range of strategy topics including

Innovation, Corporate Governance and Diversification (Furrer Thomas & Goussevskaia, 2008).

Management scholars (Ramos-Rodriguez & Ruiz-Navarro, 2004; Wright, Filatotchev, Hoskisson, & Peng, 2005) argue that agency theory and transaction cost economics have consistently been applied to explain executive and firm behavior. Transaction Cost Economics (Williamson, 1975, 1985) for example, has been applied to provide 1) the strategic rationale for adopting multidivisional structures in pursuit of superior performance; 2) to hypothesise that alliances and joint ventures are hybrid structures (Hennart, 1988; Kogut, 1988a; Williamson, 1991) somewhere between markets and hierarchies and 3) the rationale for choice of international market entry (see Hennart & Park, 1983).

Agency theory (Fama, 1980; Jensen & Meckling, 1976) has been applied in the strategy literature to explain why the interest of shareholders and managers can diverge (Eisenhardt, 1998a) and applied to topics such as innovation, corporate governance and diversification (Furrer Thomas & Goussevskaia, 2008). However the two perspectives that have dominated among the theories in the field of strategy over the past 25 years are industrial organization economics and the resource-based view of the firm.

Nevertheless, Economic, Game and Organisational theory have provided researchers with theoretical platform for exploring and rationalising strategic alliance relationships. Alliances and joint ventures are depicted by some researchers (see Child & Faulkner, 1998; Inkpen, 2001; Gulati, Nohria & Zaheer, 2000; Rice, 2004) as forms of collaborative relationships that are dynamic, complex, multidimensional and adapting forms of organising. The growth of strategic alliances has popularised the relational perspective for analysing dyad routines and processes, an important unit of analysis for understanding competitive advantage (Dyer & Singh, 1998).

Hamel and Prahalad suggest that "competition for the future is competition for opportunity share rather than market share" (cited in de Witt & Meyer, 1998: 627). De Wit and Meyer (1998) suggest that at the centre of each major theoretical perspective on strategy is the quandary of how to deal with a particular strategic issue and its underlying tension. The underlying theoretical lens used in analysis of a strategic issue will influence the information collected and analysed, the description of the problem and the solution prepared. The solutions proposed by each lens therefore are likely to be different. Unlike scientific experiments, there is no one way to apply different solutions to the same strategic situations to see the results, so in strategy one can never be sure that the best solution has been arrived at. As different approaches are tried, tested and integrated or discarded, better understanding and consistent solutions to 'standard' strategic issues are found and applied.

This perspective of strategy is also shared by Rumelt, Schendel and Teece (1994) who note that the origins of strategy are based in its practice and codification, and suggest that its advancement as a discipline increasingly depends upon building theory that helps explain and predict organisational success and failure. Whittington (2004) proposes that strategy as a discipline is in a state of crises due to the influence exercised by the positivism of industrial economics that pervade strategy research and publications. De Wit and Meyer (1998) however argue whether a rigorous scientific, evolutionary, normative or positivist approach is adapted to theory development; all strategy theories make assumptions explicitly or implicitly about the nature of strategic tensions.

This review has identified the shift that has occurred in the strategy literature over the past three decades away from its scientific approach that reduced strategy to its various components to an approach that integrates different academic influences on the field strategic management. This will require the adoption of new innovative research approaches to capture the new dynamism in the field of strategic management (Furrer, Thomas & Goussevskaia, 2008). Given these dynamics on the evolution of strategy research, adopting a static view of strategy may be deemed to be inappropriate (see also Bowman, Singh and Thomas, 2002).

Finally Heracleos' (1998) proposition seems particularly appropriate at this time: the tools that one uses at each stage of the strategic management process are not important in themselves but as the means of encouraging the creative and analytical mind set. There ideally needs to be a dialectical thought process of being able to diverge and then converge, being creative and then seeing the real-world implications, and being synthetic but also analytical.

In Part Two of this chapter's literature review, strategic paradoxes and their underlying strategic tensions are examined in order to explore what occurs once an alliance has been formed and how the parents manage the alliance. The question 'what governance mechanisms make it possible for the alliance partners to pool their resources and activities to their mutual benefit?' is also discussed.

2.6 Literature Review: Alliance Theory

> *A theory empowers organisational actors when it spurs their imagination, points out new opportunities and ends, unveils new paths and new means to ends, increases their freedom of action and their will to act. (Pasquale Gagliardi 1996: 567)*

2.6.1 Introduction

The aim of the second part of this chapter is to provide the theoretical and empirical background to the study of the governance of strategic tensions during the coevolution of strategic alliances. The focus is the alliance literature and the examination of various perspectives and views amongst researchers related to the performance and the effectiveness of collaboration as a strategy. Section 2.5.1 lists a number of alliance definitions, presents a brief overview of various theoretical perspectives on collaboration, alliance instability and then examines theories of why firms may choose an alliance strategy. In Section 2.6 the ambiguity of alliance performance and success are reviewed; in Section 2.7 the competitive paradigm of alliancing and strategic intent is investigated; and then the value creation process is reviewed in Section 2.8. The governance process, structure and alliance design are discussed in the context of its complexity in Section 2.9; collaborative risk is briefly examined in section 2.10; and an applied perspective is presented in Section 2.11. Part 2 closes with a summary, conclusion and future direction of the research.

2.6.2 Conceptualising Alliances

Osborn and Baughn (1990) define alliances as being built on a foundation of dualities. This definition reflects the complexity of strategic alliances and provides some insights into why they pose such a managerial paradox in the current business environment. The following is a brief sample illustrating the broad scope and divergence of the descriptors used in the literature conceptualising alliances:

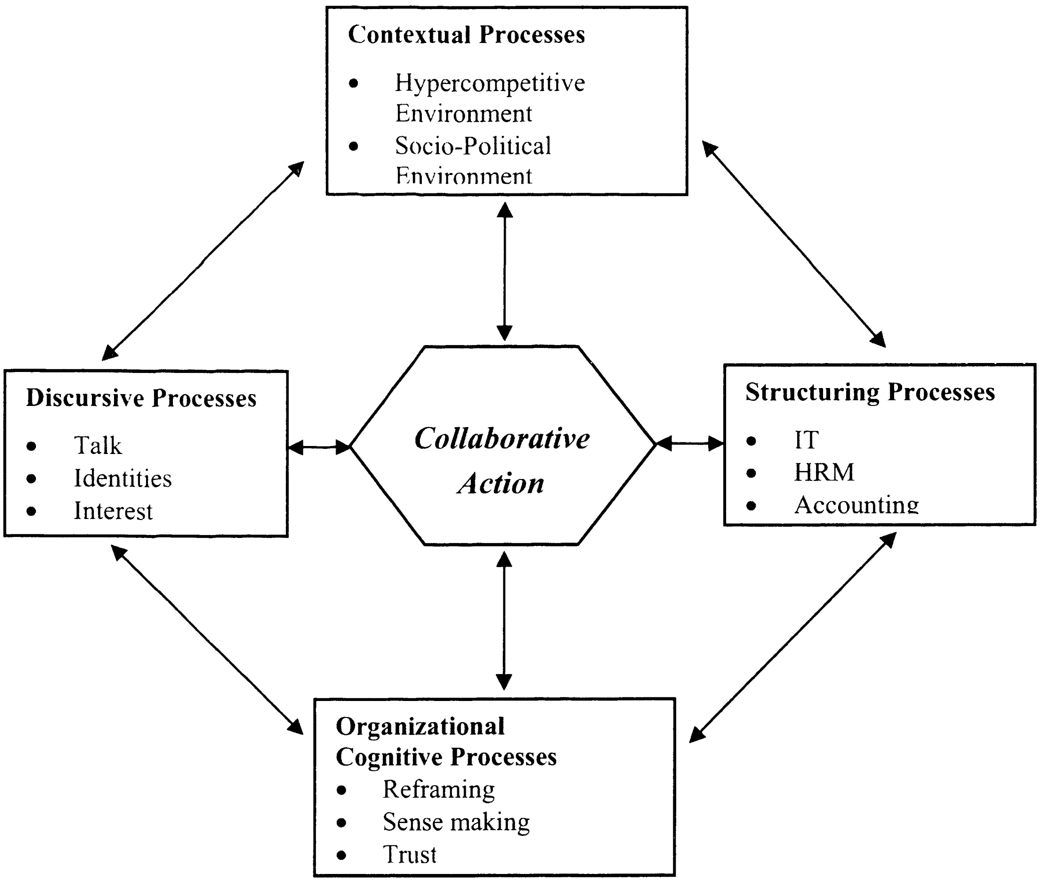
- several firms cooperate but industry output is not reduced (Kogut, 1988b);
- can exist between firms in different industries and can be perceived as aimed at creating and enhancing the competitive positions of the firms involved in a very competitive environment (McGee, Thomas & Wilson, 2005: 394);
- are co-operative agreements between firms that go beyond normal company-to-company dealings but fall short of merger or full joint venture partnership with formal ownership ties (Thompson, Gamble & Strickland, 2004: 131);
- are collaborative partnerships where two or more companies join forces to achieve mutually beneficial strategic outcomes (Thompson, Gamble & Strickland, 2004: 131);
- "voluntary agreements between firms involving exchanging, sharing, or co developing of products, technologies, or services" (Gulati 1998b cited in Peng 2006: 255);
- co-operative arrangement between two or more organisations that form part of, is consistent with their overall strategy, and contributes to the achievement of their major goals and objectives (Howarth, Gillen & Bailey, 1995: 2);
- is commonly defined as any voluntarily initiated cooperative agreement between firms that involve exchange, sharing, or co-development, and it can include contributions by partners of capital, technology, or firm-specific asset (Harrigan, 1986; Parkhe 1993c; Gulati, 1995a);
- two or more entities unite to pursue a set of important agreed upon goals while in some way remaining independent subsequent to the formation of the alliance, the partners share both the benefits of the alliance and control over the performance of assigned tasks during the life of the alliances (and the one that makes them so difficult to manage), the partners contribute on a continuing basis in one or more key strategies (Mockler, 1999: 2);
- interpartner cooperative arrangements aimed at pursuing mutual strategic objectives (Das & Teng, 2003a: 287);

- are temporary mechanisms and long lasting relationships, cooperative and competitive weapons, strategically determined and emergent, have intended purposes yet emergent benefits may be more important, each is unique but often share similar properties (Osborn & Baughn, 1990: 274).

2.6.3 Contextualising the Collaborative Process

To rationalise the broad scope of alliance definitions, it is useful to gain further insights into the complexities associated with an alliance strategy and contextualise the collaborative process itself. The Collaborative Action Framework (Rura-Polley & Palmer, 1997) is conceptualised as a diamond (see Figure 2.3) and depicts the interdependence of the collaborative process. The model conceptualises the contextual complexity that is inherent in the design of an alliance strategy.

Figure 2.3 The Collaborative Action Model



Source: Rura-Polley, T. and Palmer, I (1997), Developing the collaboration paradigm: towards a new model 'UTS research paper presented at 'Moving to a new era of collaboration: a symposium', Management Theory and Practice: Moving to a New Era – Conference Proceedings ANZAM '97, Melbourne, Monash University, Melbourne, p 116.

The framework contextualizes the structuring, organizational, and discursive processes that shape the conditions in which the collaboration occurs. Contextual processes refer to the dynamics of the environment, while structuring refers to the practices used to co-ordinate and control collaborative action. Organizational cognition refers to the modes of rationality or logics of action that structure alliance member's perspectives on collaboration, while discursive processes refer to the linguistic and other frames used to construct collaboration.

Cool and Rees (2005) suggest that alliances are notoriously difficult to manage. These authors propose a structuring process that defines the role of alliances in its strategy, identifies appropriate partners, structure the right relationship and manage that relationship over time. The Cool and Roos, (2005) model is contextualized around six key steps:

1) Align the alliance strategy (assess needs; define the alliance strategy; determine the optimal deal structure)
2) Conduct a partner search (screen on the basis of financial and strategic fit; select on the basis of alliance experience and cultural fit)
3) Negotiate the deal (enter with a strategic plan in place; define governance and the exit strategy; close the deal or stop negotiating)
4) Manage the alliance (design the alliance organization; monitor on the basis of business criteria)
5) Evaluate performance (identify gaps between goals and results; continue, relaunch or exit; learn from experience
6) Adopt a portfolio approach (establish an alliance office; define alliance segments, continuously reshape the portfolio)"

The role of the parenting firm's strategic agendas and the resolution of partner conflicts/tensions are not specifically addressed in the Collaborative Action Framework or in the Structures Alliance Process Six Step Model. Bamford and Ernst (2002) propose that many underperforming alliances are embroiled "in governance conflicts between their parents" and "corporate parents routinely fail to intervene to correct alliance performance or problems or address their exposure to risk" (2002: 34).

It can be argued that the design of the strategic architecture of any governance system in a dyadic alliance should address with absolute clarity how the collaboration fits into the each partner company's overall strategy. It should also identify the expected benefits for the company and its partners, the effects on any other strategic stakeholders, and the options that management expects the alliance to create in the future.

2.6.4 Alliances as a Research Topic

The purpose of this section of the paper is to present an overview of scholarly activity and recent theoretical developments. Collaboration and alliances are a popular topic area for investigating. A review of the economic, management, marketing and strategy literature confirms that there has been an explosion in alliance research over the past ten years. This scholarly interest is evidenced in a large body of work on alliances and special editions on interfirm collaboration published in the contemporary academic literature. For example, during the past ten years over thirty six articles have been published in the Strategic Management Journal and at least twenty six articles have appeared in the Academy of Management Executive.

Historically the majority of literature on alliances has been influenced by three research perspectives: 'Economic-based', 'Corporate Strategy', and 'Interorganisational' (Osborn & Hagedoorn 1997). The focus of the Economic-based perspective on alliances is access to resources, international business perspectives and transaction costs. In the Corporate Strategy perspective, early work focused on the role of senior management in establishing and controlling alliances but more recent research in this paradigm has shifted focus to business unit strategy and how an individual organisation may achieve competitive success. The Interorganisational research perspective explores collective patterns of survival, growth and sustainability (Minshall, 2005).

The level of research activities on the topic of collaboration and alliances can best be described as frenetic. Reuer's observation that "alliance research has become a cottage industry of sorts" (2004: 2) is shared by Caves who adds that "research on alliances hardly needs pump priming" (1998: 16). The popularity of alliances as a research topic evidently has led to the presentation of many theoretical lenses in the literature. Accordingly, the literature on strategic alliances has become "large and fragmented during the last decade" (Reuer & Miller, 1997: 434). Gray, (2000) concurs and adds that despite the recent abundance of empirical work there is little agreement among scholars about an 'overarching theoretical framework that explains the dynamics of collaboration.

The study of alliances can be found in the literature under multiple rubrics. For example, in her survey of the collaboration literature Gray (2000) identified nine broad theoretical perspectives:

- Resources dependency theory
- Other political perspectives (Trust and Power)
- Corporate social performance and institutional economics
- Strategic management and social ecology
- Knowledge Management
- Microeconomics (eg Transaction cost economics)
- Institutional and negotiated order theories
- Network Analysis
- Social Capital

This scholar observed that a gradual shift in focus by scholars investigating the collaboration paradigm particularly occurred from the mid 1990s, including:

- The adoption of a more critical perspective (Gray & Yan, 1997; Himmelman 1995; Hardie and Philips, 1998) urging a greater emphasis on the importance of power in collaborative relationships
- Linking institutional theory and collaboration (Powell 1990; Osborn & Hagedoorn 1997; Phillips 1994)

- The tension between economic and behavioural approaches to collaboration which renewed interest among researchers to focus on trust and learning (Das & Teng 2001; de Rond 2003)
- Determinants of post formation changes in alliances governance and the influence the parent firm exert on collaborative dynamics and performance (Reuer, Zollo & Singh 2002; Hermens 2001)

A more critical approach to collaboration is evidenced by the increasing number of studies investigating why so many collaborative ventures end prematurely (Das & Teng, 1998). D'Aveni proposes that alliances are inherently unstable suggesting that "co-operation inherently involves compromise and restrictions, so it always results in a restless, dissatisfied, or ambitious party" (2001: 14). This scholar adds that co-operation does not eliminate competition but changes its form and nature, ie co-operation elicits new forms of competition and competition elicits new forms of co-operation (D'Aveni, 2001).

2.6.5 Categorising Alliance Research

Coleman (1988) proposes that scholars define social capital as resources embedded in social structures and relationships. Specifically, social capital is contextualised by Hitt & Ireland as "the relationships between strategic leaders and those whom they lead as well as relationships across all of an organisation's work units (2002: 5). Zeng and Chen (2003) contrasted some of the dominant theories in alliance research on four aspects, key ideas, analytical unit, research methodology and disciplinary foundations (see Table 2.12).

Table 2.12. Comparisons of Major Theoretical Approaches to Alliances

Comparison Categories	**Transaction Cost Economics**	**Organisational/Learning Resource Dependence**	**Strategic Management**	**Social Dilemma**
Major contributions	Williamson (1985) Hennart (1988)	Pfeffer & Salancik (1978, Hamel (1991)	Killing (1982) Kogut (1988a) Harrigan (1988)	No explicit application to alliance yet
Key Ideas	Choosing the right governance mode to minimise transaction costs	Developing capabilities, reducing risk and dependence	Enhancing market power and competitive advantage	Inducing cooperation among self-interest-pursuing partners
Analytical unit	Dyad	Focal firm	Focal firm	multipartner
Methodology	Large sample study	Case, large sample study	Case, Large sample study	Modeling, experiment, case, large sample study
Disciplinary foundation	Economics	Sociology/OB	Strategy (economics and sociology)	Social psychology

Source: Zeng and Chen (2003) table 2 'Achieving cooperation in multiparty alliances: a social dilemma approach to partnership management' *Academy of Management Review,* 28(4): 600.

Adler and Kwon (2002) are critical of existing studies suggesting that they have either focused on firm internal or firm external social capital. These authors propose that both type of social capital play a role in alliance performance. Suseno and Ratten (2007) in their study examined both categories of social capital focusing on the relationship between alliance trust, social capital and knowledge development.

Zeng and Chen 2003 suggest that the social dilemma approach to solving problems in alliances has considerable merits however they conclude that "much more work, nevertheless is warranted before we fully understand the dynamics of partner cooperation in alliances (2003: 601)

The framework of process theories for classifying research on strategic alliances by Van de Ven and Poole (1995), and de Rond's (2003) recent review of this typology, make a strong argument to suggest that there are four ideal types for categorising alliance research: 'Life Cycle', 'Teleology', 'Evolution' and 'Dialectics'. de Rond's (2003) review provides a useful analysis of each approach and is summarised below.

de Rond argued that the first three categories (Life Cycle, Teleology, and Evolution), while well explored in the literature, may present certain limitations to the researcher. Lifecycle approaches (see d'Aunno & Zuckerman 1987; Achrol, Scheer & Stern 1990; Forrest & Martin 1992; Kanter 1994) assume that "effective alliances move smoothly from one phase to the next as a function of rational planning and executing by those in charge" (2003: 6).

Teleological approaches seek to overcome these limitations recognising that unplanned events, unexpected results, and conflicting interpretations and interests may occur (see Ring & Van de Ven, 1994; Doz, 1996). This approach however assumes that effective alliance performance rests with "enlightened managers that constantly monitor events, adapt alliance design and governance, drive them to higher levels of efficiency, or terminate those when rational calculations require it" (2003: 8).

Evolutionary approaches shift their focus on the environment assuming that this is the principal cause of change and "retaining only those entities that best fit its evolving nature (2003: 8). According to de Rond, this approach, unlike Life cycle and Teleological models, does not aim to produce managerial prescriptions. It is presumed however that the diffusion of alliances across sectors will act as an agency for learning that will lead to better and more efficient ways of collaborating. Nevertheless the underlying assumption here is that one should "avoid swimming against the evolutionary current" (2003: 9).

The Dialectic perspective, suggests de Rond (2003), is an approach that is influenced by the social philosophies of Hegel and Marx (1949). This is because it argues that dialectic forces, by competing for scarce resources and managerial attention, instigate a new way of structuring and organising (Benson, 1975).

Studies of strategic alliances as evolutionary processes are limited (Ring & Van de Ven 1992 and Larson 1992) and it is argued that most researchers focus on patterns of alliance formation (Porter & Fuller, 1986; Haklish, 1986; Hergert & Morris, 1988;

Pisano, Russo & Teece, 1988; Tyebjee, 1988; Doz, 1996) or relate alliance outcomes to partners' initial characteristics (Burgers, Hill & Kim, 1993; Hagedoorn & Schakenraad, 1994; Hamel, 1991). Relatively few efforts have focused on the impact of ownership and governance of strategic tensions by the partners on the performance and co-evolution of an alliance.

2.6.6 Theoretical Perspectives of Alliance Instability

> *"Alliance instability is defined here as any major changes or the termination of the interorganisational collaborative partnership that is unplanned from the point of view of either partner." (Inkpen & Beamish, 1997b, p175).*

This section of the chapter examines the various theories and paradigms in the context of alliance instability. It is argued here that theories addressing unplanned changes and alliance terminations do not adequately explain why the deliberate chosen strategy of collaboration often generates organisational instability and dissatisfaction among the collaborating parties (Das & Teng, 1999b).

Transaction Cost theory

'Transaction Cost theory' (Williamson, 1975:1985) suggests alliance instability is attributable to the opportunistic behaviour of collaborating partners. This perspective argues that investments in specific assets will result in more efficient operations by lowering production costs (Parkhe, 1993a). Florin (1997) however suggests that these gains are governed by the trade off between efficiency gains in the operations and the risks in the exchange process. This author proposes that the more investment which is made in specific assets by a company, the more there will be a loss of flexibility and risk of being exploited by the opportunistic behaviour of actors in the exchange process. This leads Columbo (2001) to propose equity forms are relatively more suitable where the technological capabilities of the partners are complex. This argument is contradicted by Dyer's (1996) empirical study investigating transaction costs in alliance relationships between car manufacturers and their suppliers. The study concluded that there can simultaneously be efficiency gains in transactions and lower productions costs as a result of the increased investments in specific assets. Dyer (1996) proposes that brand equity can act as a deterrent. For example, the 'One World' airlines alliance comprises firms with global brand names (eg British Airways and QANTAS) and the importance of their reputation in the market discourages opportunistic behaviour.

Game Theory

In 'Game theory' (Axelrod, 1984), alliances are considered as games where individual partners may benefit greater from cheating than co-operating (Heide & Miner, 1992; Parkhe 1993b). Recent work on Game theory presents another perspective arguing that alliances can be stable and collaborative structures given there are prospects for long-term benefits, particularly where there is repeated interaction and good communication between the parties (Florin, 1997).

Significant research on Game theory suggests that repeated interaction and communication between rivals may result in co-operation (Axelrod 1984). Specifically; the study by Brandenburger & Nalebuff (1996) suggests that repeated games 'co-opetition' combine competition and co-operation for a successful outcome. Empirical evidence demonstrates that there is a strong relationship between the level of co-operation and common and future benefits (Heide & Miner 1992; Parkhe 1993b). However, as will be demonstrated in the AWAS and KNVP alliance discussed in Chapter 5, alliance partners with no historical involvement also succeed.

Bargaining Power theory

It is argued in 'Bargaining Power theory' that alliance relationships cannot be effectively managed by the reliance on legal documents (Bacharach & Lawler, 1981). In examining the association between dependence and power in buyer-supplier vertical relationships, Provan and Gassenheimer (1994) note that while power in a relationship may exist, it is not necessarily used. The result of their study supports the theory that dependence and a supplier's willingness to use pressure or coercive power are positively related (Provan & Gassenheimer, 1994). It is argued that as partners' interdependencies change during the course of the relationship, their bargaining power shifts leading to pressures to renegotiate their agreement (Blodgett 1991; Yan

& Gray 1994). Arguably, a partner can bring pressure to bear to renegotiate an agreement but, nevertheless, alliance agreements are legally binding and there are statutory laws governing unquestionable conduct and anti-competitive behaviour. The impact of such laws will be clearly demonstrated in the AWAS case in Chapter 5.

Agency theory

'Agency theory' (Jensen & Meckling, 1976) draws attention to the observation that managerial decisions often serve the interest of managers (Geringer & Woodcock, 1995; Reuer & Miller, 1997) and reasons that such managerial self-interest largely explains alliance instability. It will be highlighted in the cases presented in Chapter 5 that such behaviour is prone to occur in any organisation. Further, when one side attempts to internalise the alliance, the other partner will reciprocate and an equilibrium (see Pacific Dunlop and Presmit, AWAS and KNVPT cases in Chapter 5).

Resource theory

Resource theory focus on the relationship between firm resources and firm performance (see also section 2.4.1) This body of theory embraces various perspectives and approaches including the Resource Based View of the firm (Wernerfelt, 1984); the Dynamic Capabilities perspective (Stuart & Podolny, 1996) and the Knowledge Based approach, (Grant 1996). The resource based view of the firm assumes that resources and capabilities are both heterogeneously distributed among firms and have different levels of mobility. RBV scholars argue that the exploitation of valuable, rare resources and capabilities contribute to a firm's competitive advantage and thus contributes to performance (see for example Barney, 1991; Eisenhardt & Martin, 2000; Newbert 2008).

The Resource-based perspective of alliances is one of efficiency, competitiveness and building on core competencies required for the future by obtaining necessary resources that rest outside the firm. In essence, a competitive relationship exists between partners who borrow and exploit capabilities from each other. Essential to this resource-based input and output model is that there must be a broad agreement between the partners in terms of resource commitment and strategic position. This is because if the gaps grow during the alliance operational phase, then the strategic alliance is certain to break up (Lorange & Roos 1991).

Resource-Dependency theory

This theory aims to explain organizational and interorganizational behavior in the context of the critical resources that organizations must have in order to survive and function (see Pfeffer and Salancik 1978, 2003; Chen 1996). This perspective assumes that organisations are comprised of internal and external coalitions that are formed to influence and control behaviour (Pfeffer, 1981). This environment is thought to contain scarce and valued resources essential to a firm's survival. Organizations are understood to work toward two related objectives: acquiring control over resources that minimize their dependence on other organizations and control over resources that maximize the dependence of organisations on themselves (Medcof, 2001). A growing body of research has concluded that interdependence between alliance members promotes cooperation (eg see Dyer 1997) generates synergies (eg Kumar & Seth, 1998) encourages reciprocity (eg Jones, Hesterly, & Borgatti, 1997) and improves commitment.

Other studies seem to suggest that resource interdependence (see Chung, Singh, & Lee, 2000; Gulati 1999), strategic links (eg Robins, Tallman, & Fladmoe-Lindquest, 2002) equity hostage (eg Mowery, Oxley, & Silverman, 1996), structural embeddedness (eg Steensma & Corly, 2000) and relational embeddedness (eg Lorenzoni & Lipparini, 1999) may be impediments' to alliance evolution (Luo 2008). Resource Dependency theory attributes predatory behaviour to alliance instability, in that once a partner has acquired an essential resource from the partnership the partner will exit the alliance (Pfeffer & Salancik, 1978; Pfeffer & Nowak, 1976; Provan & Skinner, 1989).

- **The Relational View**

The relational view (Dyer & Singh, 1998) focuses on interfirm relationships as they evolve over time and compliments the resource base view. This perspective argues (Gulati, 1998) "critical resources may span firm boundaries and that firms earn not only Ricardiain rents and quasi rents but also relational rents which are co- generated with alliance partners" (Lavie 641:2006). Relying on social exchange theory (Blau, 1994), scholars who support this perspective subscribe to the view that creating and building sound and ongoing interfirm relationship, (eg, trust and effective communication) promotes positively to alliance performance. Scholars who subscribe to the relational perspective may be criticised for having too much faith in human nature, ignoring issues such as opportunistic behaviour in the pursuit of private benefits by an alliance partner.

Lavie (2006; 2007) research builds on the relational view, offering an alternative perspective how partners may appropriate value from its alliance portfolio and how different sorts of rents can be accumulated in alliances. This scholar's research suggests that the nature of relationships may matter more than the nature of resources. Whilst Lavie's body of work is interesting and insightful, the primary focus of his research is multi partner alliances (MPA) and network relationships. This presents limitations to the generalizability of these findings. Ha Hoang and Rothaermel (2005) research findings concluded that firms who were engaged in multiple alliance relationships found that it raised the complexity of the managerial task considerably especially where these relationships involved in depth knowledge exchange. These scholars support the view that the task and scope of managing MPA is unique and does not scale. Ha Hoang and Rothaermel (2005) argue that unlike dyadic relationships managing MPA involves building bridges between multiple partners and between those partners and the focal alliancing firms themselves.

- **Knowledge Management theory**

Porter and Fuller (1986) suggest that alliances involving access to knowledge or ability are more likely to dissolve as the party gaining access acquires its own internal skills through the coalition. Many alliances are between competitors and the intangible gains are often more important than the financial ones (Doz & Hamel, 1998). Coalitions designed to gain benefits of scale or learning in performing an activity have a more enduring purpose. From a dyadic perspective, each strategic alliance becomes a race to learn more than the partner (Hamel, 1996a). The process of knowledge transfer in strategic alliances is impacted by both knowledge specific variables, such as tacitness and complexity, and partner specific variables including prior experience, cultural distance and organisational distance (Simonin, 1999a). The importance of relation specific assets as a source of competitive advantage is confirmed in a study by Kotabe, Martin and Domoto (2002). The researchers concluded that an effective knowledge transfer mechanism is necessary so that alliance partners can share knowledge for joint advantage to develop, and that higher-level technology transfers work best in long established relationships. Arino and de la Torre (1998) view learning as an evolutionary process that requires constant adjustments to be made between the collaborative partners to correct inequalities in efficiency and equity. Kanter (1994) suggests that common values and philosophies are important in alliances to ensure a sense of direction and compatibility.

- **Strategic Management theory**

Porter (1990) suggests that no firm can depend on another independent firm for resources that are central to its competitive advantage. Porter (1980, 1985, & 2008) adds that each organisation is atomistic, collaboration is tactical, and that strategically, each individual firm tries to retain its independence. This perspective assumes that the individuals and the organisations they form, as well as inter and intra organisational collaborative relationships they engage in, are fundamentally motivated by aggressive self-interest and competition is the natural state of affairs (Lorange & Roos, 1992; Limerick & Cunnington, 1993; Jarillo, 1995; Porter, 1986).

It is argued here that alliance instability is the result of unrealistic expectations of goals and the divergence of strategic objectives and intent (Glaister & Buckley, 1996; Hatfield & Pearce, 1994). This reasoning seems fragile – it appears to be unrealistic to assert that alliances are motivated by unrealistic expectation. It is argued in the literature (Gomes-Casseres, 1994; Weidenbaum & Hughes, 1996) that companies can develop and align their strategies jointly to the advantage of all the partnering firms, and that enterprises that collaborate closely are more successful than businesses that operate independently (Culpan, 1993b; Teece, 1977; Hagedoorn, 1993). Sharma (1998) similarly argues that "success in strategic alliances is achieved more by interacting with the alliance partner than by the initial strategic compatibility between partners" (1998: 524). It will be seen that this proposition is supported by the AWAS-News Corp alliance discussed later.

- **Hypercompetitive and Strategic Supremacy theories**

The 'Hypercompetitive theory' (D'Aveni, 1994) and the 'Strategic Supremacy perspective' (D'Aveni 2001) grew out of the Industrial Economic perspective and moves away from assumptions of collaborative equilibrium and assumes that alliances are inherently unstable. These theories argue that co-operation through alliances usually leads to more intense levels of competition. D'Aveni embraces the notion that an alliance can be created by formal means, such as joint venture agreement, informally and/or tacitly. Tacit collaboration may occur naturally, accidentally or proactively and serves individual purposes, with success depending on a mixture of discipline and diplomacy. Implicitly, the partners agree on how resources will be transferred among themselves and tacitly agree among themselves to the borders of each partner's sphere and the limits of each player to gain dominance within the competitive space. This perspectives suggests that collaborative 'bonds' are formed through common targets, the analogy 'the enemy of my enemy is my friend' is deemed to be an apt description (D'Aveni, 2001:13).

- **Transitional Theory**

'Transitional Theory' is described by Callahan & Mackenzie as "an intermediate organisational form, which falls between the extremes of the integrated firm and an arm's length market interaction" (1999: 366). Transitional theory argues that an alliance is inherently unstable due to a tendency to evolve into other organisational forms (Franko 1971; Kogut 1989). However it does not provide a theoretical framework that integrates the evolutionary forces (Das & Teng 1999a). Similarly, Hennart (1993) argues that it has been demonstrated both theoretically and in practice that alliances exhibit some of the best aspects of both market and hierarchy.

2.6.7 Rationalising Alliance Instability

As stated previously, the rationale of alliances being an optimal strategy varies from being efficient solutions to minimise transaction costs (eg, Hennart 1988, 1993) to real options for flexibility (eg Kogut, 1991) to contributing to future growth (eg More & McGrath, 1999; Stuart, 2000). However, studies by a number of researchers for example Bleeke and Ernst, (1991), Gomes-Casseres, (1987) and Yamawaki, (1997)) suggest that alliances are less stable and successful than formal organisations. This critical perspective is supported by a number of studies (Kogut 1988b; Blodgett 1992; Park & Russo 1996; Park & Ungson 2001) which suggest that alliances are unstable organisational structures and frequently end prematurely. Research has also found evidence that there is a high correlation between alliance instability and the destruction of shareholder value (eg Das & Teng, 1999a; Gomes-Casseres, 1987).

There is no common agreed upon definition for alliance instability. Yan and Yen (1999) proposes that most definitions are either based on outcomes (including terminations, dissolution, sale to a third party or partner, or change in equity), or process (change in joint venture governance, control structure or governance). There is however consensus among researchers that organisational instability is associated with poor performance (Franko, 1971). A review of the relevant literature suggests that alliance instability and dissatisfaction with their outcomes can be attributed to any number of reasons (see Table 2.13). These can include incompatible strategic decision making processes (Kale, P. Singh, H, & Perlmutter, H. 2000; Korsgaard, Schweiger & Sapienza, 1995), incompatible governance structures (Williamson, 1985; Hennart, 1988), a lack of strategic fit in terms of complementary resources and lack of organisational fit in terms of compatible cultures (Harrigan 1985), lack of trust (Arino & De la Torre, 1998), inability to manage conflict (Doz & Shuen 1998), lack of adaptable inter-organisational exchange processes (Zajac & Olsen, 1993) and the impact of sudden major environmental shocks (Mitchell & Singh, 1996).

Table 2.13 Strategic Alliance Outcomes and Instability

Study	Alliance Type	Time Period	Empirical Particulars	Performance	Instability
Beamish 1985	Joint ventures (JVs)	prior to 1984	66 JVs	61% unsatisfactory	45% unstable*
Bleeke and Ernst 1991	Cross-border alliances	up to 1990	49 alliances vs. 28 acquisitions	51% success rate for alliances 57% success rate for acquisitions (success: both partners achieved their objectives and both recovered their financial costs of	—

Study	Alliance Type	Time Period	Empirical Particulars	Performance	Instability
				capital)	
Economist 1995	Strategic alliances	around 1995	citing Boston Consulting Group studies	fewer than 40% of regional and 30% of international alliances are successful	—
Franko 1971	Joint ventures	1961-1967	1100 JVs	—	28.5% unstable**
Gomes-Casseres 1987	Joint ventures	1900-1975	2378 JVs vs. 3555 wholly-owned subsidiaries	—	30.6% of JVs unstable*** 15.7% of wholly-owned subsidiaries unstable
Harrigan 1988	Strategic alliances	1975-1986	895 strategic alliances	45.3% mutually assessed to be successful	42% lasted more than 4 years

Study	Alliance Type	Time Period	Empirical Particulars	Performance	Instability
Hennart Kim & Zeng 1998b	Japanese joint ventures	1980-1991	323 Japanese manufacturing plants in U.S.	—	JVs more likely to exit than wholly-owned subsidiaries
Kent 1991	Joint ventures	1954-1973	563 JVs vs. 479 non-JVs in the petroleum industry	Performance of JVs significantly lower than non-JVs (better performance defined as lower bids)	—
Killing 1983	Joint ventures		36 JVs	—	30% unstable*
1988a	Joint ventures	prior to 1988	149 JVs	—	5 1.7% unstable*
Li 1995	Joint ventures	1974-1988	267 foreign entries in U.S. (Including JVs)	—	JVs more likely to exit than wholly-owned subsidiaries
Park and Russo 1996	Joint ventures	1979-1988	204 JVs	27.5% failure rate (Failure defined as dissolution and third party acquisitions)	—

Study	Alliance Type	Time Period	Empirical Particulars	Performance	Instability
Park and Ungson 1997	US-Japanese joint ventures	1979-1988	186 JVs	—	43% dissolution rate (liquidation or sale to a third party)
Pennings et al. 1994	Dutch joint ventures	1966-1988	462 expansion projects (including JVs)	—	JVs more likely to exit than wholly-owned subsidiaries
Stucley 1983	Joint ventures	1955 – 1979	60 JVs in the aluminum industry	—	42% unstable*
Yamawaki 1997	Japanese joint venture	1980 -1990	371 subsidiaries (including JVs)	—	JVs more likely to exit than wholly-owned subsidiaries

*Includes liquidations, acquisitions, and major reorganisations (see Beamish 1985, p. 14 and Kogut, p. 328). ** Includes changing ownership shares crossing the 50% or 95% lines, selling the stake in the venture, or liquidating the venture (see Franko 1971, pp. 17-18). *** Includes liquidations and acquisitions. (see Das and Teng, 1999a) including incompatible strategic decision making processes (Kale, P. Singh, H, & Perlmutter, H. 2000; Korsgaard, Schweiger & , 1995), incompatible governance structures (Williamson 1985; Hennart, 1988), a lack of strategic fit in terms of complementary resources and lack of organisational fit in terms of compatible cultures (Harrigan 1985), lack of trust (Arino & De la Torre, 1998), inability to manage conflict (Doz & Shuen 1998), lack of adaptable inter-organisational exchange processes (Zajac & Olsen, 1993) and the impact of sudden major environmental shocks (Mitchell & Singh, 1996).

Gill and Butler add that:

> *Factors contributing to alliance stability include institutional environment, the initial bargaining power and resource contribution/mix of partners and pre alliance relationship. Factors associated with instability, unexpected contingencies, undesirable alliance performance, an obsolescing bargain power and interpartner learning, conflict in shared management, cross cultural differences, control/ownership structure, parent characteristics and changes in the external environment (2003: 544).*

de Rond (2003) speculates that alliances operating in more predictable environments are easier to manage and this in turn results in a collaborative relationship where the various antecedent strategic tensions are closer to equilibrium, and the alliance is more stable as an organisational structure. These alliances are more likely to be perceived by the collaborating partners as being beneficial to their private and common goals.

In terms of alliance instablility, the journal article *Hybrid Arrangements as Strategic Alliances: Theoretical Issues and Organisational Combinations* by Borys & Jemison (1989) is particularly insightful for a number of reasons. The authors suggest that without sufficient stability mechanisms such as norms, common practices or contracts, hybrid organisations may experience difficulty managing the uncertainty inherent in a contemporary global business environment. They also hypothesise that alliance stability is not only affected by the type of organisational structure but also by the scope of the value creation process.

Research by Grant & Baden-Fuller (2004) links the strategic intent of the alliance with organisational stability (see Table 2.14).

Table 2.14 Contrasting the predictions of knowledge-accessing and knowledge acquisition theories of interfirm alliances

	Knowledge accessing approach	**Knowledge acquisition approach**
Development of the alliance partners' knowledge bases	Alliances increase knowledge specialization Partners' knowledge bases remain differentiated	Alliances cause broadening of each firms' knowledge base Partners' knowledge base converge over time
Stability of alliances	If successful, alliances become increasingly stable over time	As each partner absorbs knowledge from the other, alliances become less stable
Longevity of alliances	Can be long-term	Life span limited to the time it takes to acquire partner's knowledge
Numbers of alliances	A firm can engage in multiple alliances simultaneously without sharply declining	Limited absorptive capacity implies a limit to the number of alliances a firm can pursue

	Knowledge accessing approach	Knowledge acquisition approach
	marginal benefit	simultaneously
Impact of uncertainty over future links between knowledge inputs and product outputs	Increases the value of alliances substantially	No substantial increase in the value of alliances

Source: Robert M. Grant and Charles Baden-Fuller 2004, '*A Knowledge Accessing Theory of Strategic Alliances*, Table 1, p79.

These researchers suggest that where the strategic intent of alliances is knowledge accessing, these ventures tend to be more stable over time and the contribution of the alliance increases substantially during that period. Conversely, where the strategic intent is knowledge acquisition, the knowledge bases of the partners converge leading to instability and no substantial increase in value of the alliance over the long-term

In a joint venture alliance for example, boundary definition problems (tensions) tend to be greater than in other types of collaborative agreements. This in turn may lead to the introduction of contractual arrangements to promote stability. However, this measure will restrict breadth of purpose of the alliance and eventually may lead to increase tensions in the value creation process. It is worth noting Contractor's & Ra (2002c) observation that alliance research can be criticised for an over reliance on quick studies that draw on secondary data sources. The field needs more micro level studies that track longitudinal motivations, behaviour and mindsets of alliance managers.

2.6.8 The Collaborative Paradox

> *Is a singular theory able to explain the complexities associated with alliances? (de Rond 2003: 2).*

In this section the influence a strategic alliance strategy has on the organisational practices of companies is reviewed. As highlighted in Section 2.3.1, the trend of collaborative value creation is a global phenomenon. In studies published by the

OECD in 2001, it was reported that strategic alliances are the main driving force for industrial and financial growth and restructuring at a global scale (OECD, 2001). In a subsequent OECD report, it was noted that many companies indicated that a quarter or more of all their revenues were derived from alliances (Cotis, 2004). These findings have created a great deal of interest among management and strategy scholars and researchers concerned with the implications that the growth of alliances will have on organisations. Drucker, for example, proposes that the greatest change in corporate structure and in the way business is being conducted is the growth of alliances (see Reuer, 2004). This perspective is also shared by Noteboom (1999) who adds that the rise of strategic alliances between firms signals a significant shift in the way business is being conducted in the organisational practices of companies.

The growth in adopting collaborative strategies is not a recent phenomenon. In 1986, Harrigan predicted that the future would bring more, not fewer strategic alliances. Doz & Hamel (1998) in their study on the advantages associated with alliances established that alliances allow a company to keep more options open, hedge against uncertain industry futures, define new industry standards and control the competitive arena.

Some years earlier Hamel, Doz and Prahalad (1989a) appeared to be more conservative in their assessment of alliance strategies in their HBR article 'Collaborate with your competitors and win'. These authors suggested that the Achilles heel of an alliance strategy is the creation of organisational and inter-firm constraints on the management of the collaborating businesses. D'Aveni shares this critical perspective when he argues that "in a volatile global business environment subscribing to long-term commitments such as an alliance can be too restrictive or inflexible, often resulting in a competitive configuration that is ineffective and irrelevant" (2001: 202). Kogut (1989) proposes that a collaborative process in one environment can help a business to survive however at the same time may prevent the firm from adapting to new environments.

Investigating the influence that alliances exercise on individual partnering firm's corporate strategy, structure and performance has become a topical issue for both researchers and scholars (Goerzen & Beamish, 2005). The importance of this emerging area of research is commented upon by a number of scholars and researchers (eg Dyer & Singh, 1998; Gulati, Nohria & Zaheer, 2000; Koka & Prescott, 2002). Gulati, Khanna and Nohria (1994), propose that studying the structure and system of alliance relationships a firm is embedded in may lead to a better understanding of an individual firm's behaviour and performance. The Stuart, Hoang and Hybels (1999) study suggests that the impact of interorganizational relations is driven more by who the company is associated with rather than the volume of its relationship. These authors conclude that young technology companies should seek to form alliances with prominent firms. For the most part however this study ignores the strategic intent of the alliance partners and the partnering organization.

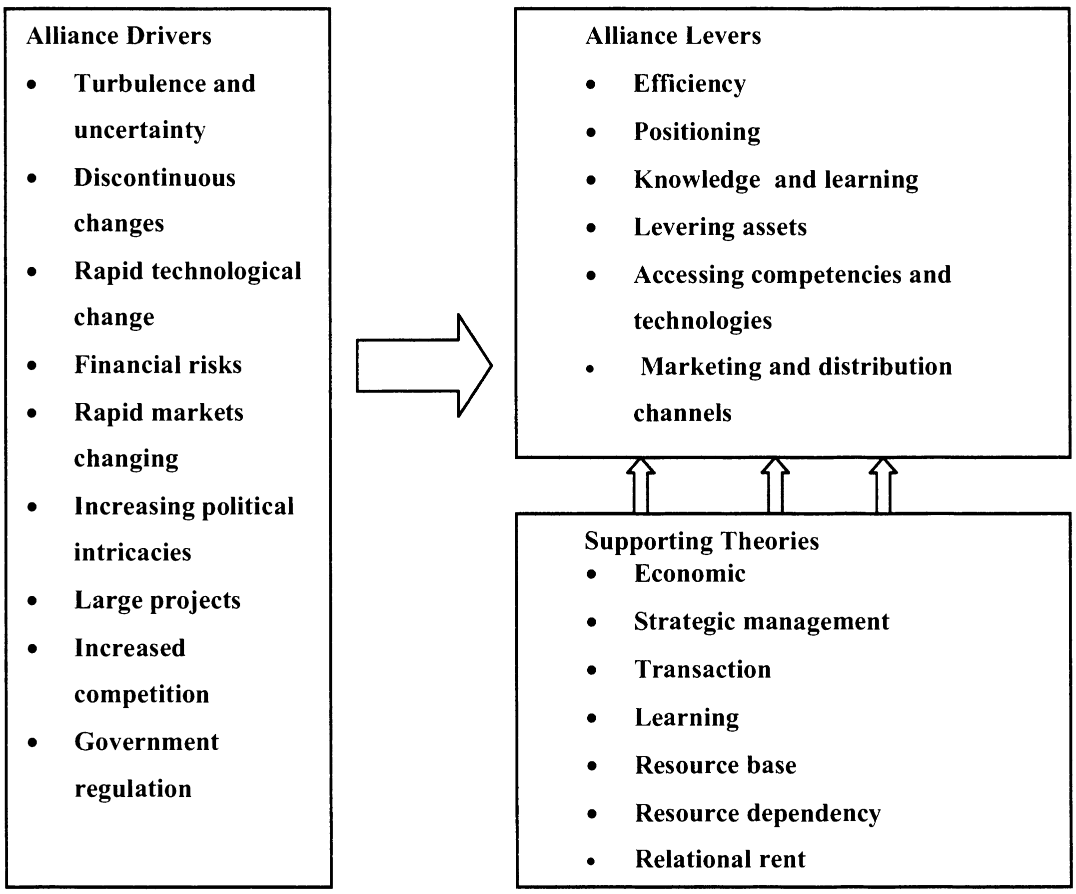
Alliances are complex strategies and interfirm differences (knowledge, skills, technologies, core competencies, resources etc) form the underlying strategic motivations for entering into such structures (Contractor & Lorange, 2002b). While interfirm differences are essential to the formation and maintenance of an alliance, these differences are also the source of strategic tensions in the alliance and between the partners. It is the erosion or convergence of these differences that destabilises the alliance relationship.

Paradoxically, the convergence in partner characteristics through iterative cycles of learning can also benefit an alliance relationship. Barriers do exist including obstacles to learning and knowledge sharing such as differences in past experience (Cohen & Levinthal, 1990; Hargadon & Sutton, 1997), flexibility (Inkpen, 1998a), organisational rules and policies (Simonin, 1999b) culture (Levinson & Asahi 1996; Cyert & Goodman, 1997), and professional and social norms (Lam 1997; Simonin, 1999a). Further, differences in partner characteristics can negatively impact the longevity and effectiveness of collaboration (eg, Adler & Graham 1989; Parkhe, 1998). Harrigan observes that despite these complexities managers realise that the benefits provided by alliances strategies make them well worth the extra effort of learning how to manage them effectively (Harrigan 1988 cited in Dhanaraj & Beamish 2003).

2.6.9 Theorising Why Firms Enter Strategic Alliances

Alliance numbers have grown by more than 20 percent a year over the past two decades, and the way they are used has also changed dramatically. Cross-border and technology agreements of the 1980s and the early 1990s have given rise to a much broader range of alliances for example – outsourcing agreements, consolidation ventures, start-ups, channel partnerships, and other co-branding and co-marketing deals. Lorange and Roos (1991) cite four reasons for alliance formation: defence, catching up, remaining and restructuring. Murray and Mahon (1993) expand on this theme by proposing ten environmental factors which might influence a company to enter an alliance: turbulence and uncertainty, discontinuous change, rapid technological change, financial risks, rapidly changing markets, increasing political intricacies, large projects, greater competition and government regulation (see Figure 2.4).

Figure 2.4 Alliance Formation – Drivers, Levers and Supporting Theories



Source: Adapted from Jeffrey Reuer (2004), '*Strategic Alliances: Theory and Evidence*' p33.

Eisenhardt and Schoonhoven (1996) propose that firms are more likely to form alliances in times of strategic vulnerability because they either are in highly competitive industries or when their objective is to pioneer technical strategies. The suggestion by Brown and Eisenhardt (1998) suggest that forming alliances with leading edge firms can provide a window of opportunity into the future is representative of the perspective shared by a number of researchers.

Another common observation amongst researchers is the scope for resourcefulness and flexibility that alliances offer as a strategy. Prahalad and Ramaswamy (2004) assert that strategic alliances can offer managers the opportunity for speedier managerial reactions and higher levels of efficiency in resource allocation. Another suggestion is that alliances offer increased organisational boundary flexibility, which is an option for a subsequent acquisition or divestiture (see Kogut 1991; Chi 2000; Miller & Folta 2002). Das and Teng surmise that "alliances can help firms achieve what they are not capable of achieving on their own" (2000: 13).

The Resource-based perspective supports the theory that firms may enter strategic alliances to access resources and capabilities from their alliance partner (see eg Das & Teng, 1999b; Gomes-Casseres, 1996; Hagedoorn, 1993; Hamel, 1991; Hennart, 1991; Kogut, 1988a; Porter, 1987). For example, the study by Nohria & Garcia-Pont (1991) concluded that firms form alliances to leverage complementary assets owned by different organisations or to share costs and risks particularly in capital and/or development intensive projects. Harrigan (1988) and Shan (1990) add that firms may choose an alliance strategy to secure market resources including customers, new technologies and capital.

Prahalad and Hamel (1989b) integrates the resource and knowledge perspective of alliances when they propose that a motivation to form an alliance can be embedded in the intent to conserve resources, obtain information, lower research costs, and share risks while pursuing expertise through interorganisational relationships. Whilst Resource dependency theory offers some interesting insights as to why firms engage in collaboration, its limitations are that there are other structural solutions rather than forming alliances or joint ventures to access key resources.

The rationale presented by Kogut (1988b) as to why firms enter into strategic alliances or joint ventures is particularly interesting. This perspective is embedded in three theories:

> Transaction cost theory – Kogut argues that the hybrid structures of alliances and joint ventures represent a blend of market and hierarchies, a compromise solution to the dangers of opportunistic behaviour on the one hand and high administration costs associated with full ownership on the other hand;
>
> Strategy theory – Kogut suggests that firms form joint ventures in order to improve their competitive position; and
>
> Learning theory – promoting the view that joint venture can be used to access another firm's knowledge and learning experience (Kogut 1988 in Reuer 2004: 53).

The Strategic Learning perspective is supported by the findings from various empirical studies. For example Hamel's 1991 study suggests that alliances are frequently initiated by the need for specialised knowledge and technological capabilities; while Hagedoorn's (1993) survey of 4192 strategic partnerships concluded that there is substantial support for the hypothesis that high-tech industries tend to form research alliances and low-tech industries tend towards market-oriented alliances. Hagedoorn's study elaborated on his earlier findings that firms enter alliance agreements to acquire know-how and learn new skills that reside within other organisations, particularly high-tech firms. Related studies by Hagedoorn and Schakenraad (1994) added to these insights by their observation that: the incidence of information technology firms' participating in alliances was higher than process industries; and that American firms tend not to be involved in alliances as frequently as Japanese and European counterparts.

There is substantial evidence presented in the literature that alliances can act as a conduit for the acquisition of distinctive capabilities through interorganisational learning (see Kogut 1988b: Hamel, 1991; Parkhe, 1991; Teece, Pisano, & Shuen 1997; Powell, Koput & Smith-Doer, 1996; Inkpen & Dinur, 1998b; Khanna, Gulati, & Nohria, 1998; Gulati & Singh 1998b; Nagarajan & Mitchell, 1998; Dussauge, Garette, & Mitchell, 2000).

Another plausible reason offered for the growth in alliance formation is relational rents, which are defined "as a supernormal profit jointly generated in an exchange relationship". Dyer and Singh (1998) argue that these 'high rents' are only available to firms engaged in collaborative relations ships. The rationale offered in support of this theory is that arms lengths market relationships are not rare, can be easily imitated and therefore cannot generate relational rents. Alliances generate above normal profit based on a relationship between collaborating firms that cannot be imitated by a firm by itself and require alliance partners to combine, exchange or invest in "idiosyncratic assets, knowledge, and resources/capabilities, and or they employ effective governance mechanisms that lower transaction costs or permit the realisation of rents through the synergistic combination of assets, knowledge or capabilities". A more detailed discussion on internal governance and the tensions between the value creation (common benefits) and appropriation mechanisms (private benefits) processes will be presented in section 2.10.

2.7 The Ambiguity of Alliance Performance and Success

> *Strategic alliance success is dependent on compatibility of the strategic directions of the parent organisations, and on the mental models or mindsets of the key managers involved". (Howarth, Gillin and Bailey, 1995: 57).*

The discussion in the preceding section on alliance formation sheds little light on why some firms are able to succeed in alliances and others are not. The effect of alliances on the partnering firms' performance is an important emerging phenomenon in the literature. Even though a significant amount of research attention has focused on alliances, the performance of these collaborative structures is controversial and remains open to a great deal of debate.

2.7.1 Alliance Success

Alliance performance and success is one of the most under-explored areas in alliance research (Das & Teng, 2003a). The literature offers little information as to why some firms are able to successfully formulate and implement an alliance strategy and others are not. A survey of the strategy literature provides some common discernable factors present in those alliances that are defined as being successful. These 'success factors' are considered below:

- **Strategic Objectives**

Hamel, Doz & Prahalad (1989a) suggest that successful alliances are those in which partners enter with clear strategic objectives and argue that the most successful alliance partners are those who regard alliances as an opportunity to learn and expand their capabilities.

- **Attributes**

The empirical study undertaken by Stuart (2000) highlights that the benefit gained from an alliance is in part determined by the attributes of the collaborating firms. This research concluded that technology alliances with large and innovative partners improved innovation and growth rates. Paradoxically collaborations with small and technologically unsophisticated partners did not impact performance (see also Hagedoorn & Schakenraad, 1994).

- **Purpose**

Research undertaken by Das, Sen and Sengupta (2003b) into technological and marketing alliances concluded that technological alliances are potentially more successful and beneficial to the partners than marketing alliances, particularly in creating intellectual capital. These authors suggest that the cumulative abnormal returns for firms participating in technology alliances are significantly larger than those participating in marketing alliances. Similar results are reported by Koh and Venkataraman (1991) and Chan, Kensinger, Keown, and Martin (1997).

- **Capabilities**

Chen's (1996) study found supporting evidence for the hypothesis that firms with strong capability are able to increase alliance activity, either to reduce the effects of declining markets or to capture growth markets. Firms with weak capabilities have limited ability to adjust their collaborative activities in changing environments.

- **Alliance Experience**

A number of researchers (Fiol & Lyles 1985; Child & Yan 1999; Anand & Khanna 2000) suggest that one of the most important determinants of alliance success is prior and/or on-going alliance experience. Dyer, Kale and Singh (2001) cite companies like Eli Lilly and Toyota as examples of firms that have developed abilities to manage alliances and regard these as core competencies. Simonin (1997) adds that greater alliance experience is linked to firms' abilities to effectively select alliance partners, manage alliance conflicts etc. Gulati (1999) adds that firms are more likely to form new alliances when they have more alliance experience.

Anand & Khanna (2000) argue that firms with greater prior alliance experience generate significantly higher stock market returns from alliances. Similar findings are reported by Kale, Dyer & Singh (2002) who found that firms with greater alliance experience achieved greater abnormal stock market gains. The study also found that,

> *Firms who had a separate, dedicated alliance unit reported that 63 percent of their alliances are successful whereas firms without an alliance unit achieve much lower stock market gains (average of 0.18%) and only a 50 percent long-term success rate. (2001:1).*

In the case of acquisition, previous alliance experience can also contribute to long-run success. According to Haleblian and Finkelstein (1999), long-run performance is less negative when acquirers and targets have previously engaged in alliances. Recent research has demonstrated that experience with previous strategic alliances is an important determinant for futures success in new alliances (Sampson, 2005). The surprising findings in the Sampson study were that the benefits of past experience depreciate rapidly over time.

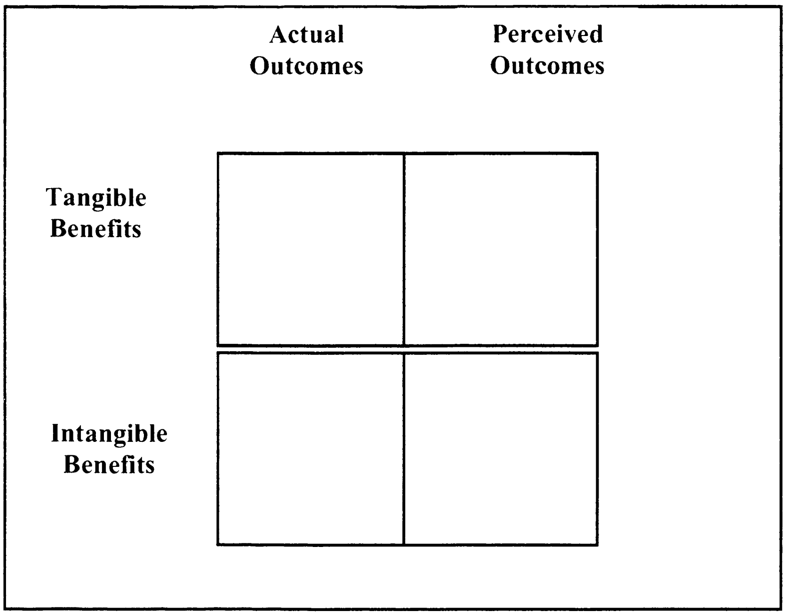
- **Centralised Alliance Management**

A number of scholars (Harbison & Pekar, 1998; Mitchell, 2000; Reuer & Koza, 2000) propose that having a centralised co-ordination mechanism that captures shares and disseminates alliance management knowledge that is associated with prior experience is required for collaborative success. Dyer and Singh add that "some of a firm's critical resources may reside outside of its boundaries and may be embedded in interfirm routines" (1998:11). These authors support the view that long-term alliance relationships will deter opportunism and promote the theory that a high volume of exchange transactions between the collaborating partners requires elaborate governance mechanisms.

- **Social Structure**

An alternative perspective is offered by Gulati (1993) who suggests that not only are total assets, asset growth rate, leverage ratio, quick ratio, and strategic group membership relevant to the success of strategic alliances, but also the social (network) structure in which a firm is embedded. Research by Goerzen & Beamish (2005) found that firms with a broader diverse network are hard to manage and result in lower economic performance than those with a less diverse alliance network. It is worth noting the observation by de Rond (2003) that gains from alliances can be tangible or perceptual (see Figure 2.5). These contributions are usually measured against two criteria: "the accomplishment and perceived success of the actual collaborative relationship and the contribution of the alliance to the individual partnering firm" (de Rond 2003: 52)

Figure 2.5 Measuring Alliance Performance



Source: de Rond 2003, 'Strategic Alliances as Social Facts' p52.

2.7.2 The Elusiveness of Success and Longevity

A popular measure for alliance performance is the survival-termination dichotomy (de Rond & Bouchikhi, 2004; Geringer & Hebert, 1989, 1991; Park & Russo, 1996). Porter (1987) suggests that the survival of a collaborative venture is an indicator of success. In some studies of alliances (see Parkhe 1991; Barkema, Shenkar, Vermeulin & Bell 1997) longevity and survival correlate with subjective performance measures. This is contextualised by Porter's (1987) argument that a decision to terminate a collaborative venture reflects the venture's lack of viability. Hamel and Prahalad (1994) suggest that if an alliance partner requires acquiring a fully developed competency rather than a specific skill from its partner a long-term relationship may be necessary. Nevertheless, one can argue that survival is a different construct to instability (Reid, Bussiere & Greenaway, 2001). Alliances survive, suggests de Rond (2003), because they are perceived to be making progress towards, rather than achieving, the objectives that prompted their original formation. This measure is often criticised for its ambiguity since it does not measure performance directly and does not distinguish between alliance performance and alliance instability (Inkpen & Beamish, 1997b).

The literature uses the analogy of comparing alliances to marriages (Ohmae, 1989). The analogy seems a somewhat simplistic interpretation of these collaborative relationships since most alliances are formed when they are mutually beneficial and are frequently dissolved at will. This leads Doz and Hamel to propose "What the alliance contributes over time to the competitiveness of each of its partners is a more important measure of its success than longevity of the alliance proper" (1998: 23). This argument is supported by Kogut (1988b) who argues that were a venture is formed to facilitate knowledge transfer, and that termination can indicate successful achievement of the collaborating partners goals.

The various philosophical arguments presented by various authors and researchers signals an important shift in strategic thinking, a shift away from control and ownership of resources to a greater focus on accessing and leveraging resources through strategic partnerships. The goal of partnering firms is not to own the resources but to influence how resources are accessed, leveraged and allocated.

2.7.3 Theorising Performance

Perhaps not surprisingly, given the ambiguity surrounding alliances, there is also a lively debate among researchers on the effectiveness of collaborative strategies. Strategic alliance agreements, for example, can confer quick benefits on the partners however nearly half of all alliances do not meet the goals or expectations of one or both partners. The focus of the resultant debate is whether and when alliances create the greatest amount of value. Advocates of alliance strategies argue that they should be used broadly to gain access to the assets and capabilities of other companies without assuming the costs of an acquisition premium. The alternative perspective counters that it is dangerous to relinquish full control of important ventures and relegates alliances to the corporate margins.

It is argued by a number of scholars that an effective alliance relationship, integrating resources, knowledge, timing and strategy can be a valuable and difficult to imitate source of competitive advantage (eg, Lorange & Roos, 1992; Limerick & Cunnington, 1993; Jarillo 1995; Mariti & Smiley, 1983; Harrigan, 1985; Contractor & Lorange, 1988b; Hagedoorn, 1993; Glaister & Buckley, 1996). Specifically, Hoang and Rothaermel argue that managing an alliance relationship is a distinctive competence which "can find its expression in superior alliance performance and can thus contribute to a firm's competitive advantage" (2005: 343). Those researchers that agree that collaborative relationships can provide sources for competitive advantage, reason that they are difficult for competing firms to replicate

The competitive advantage of alliances, from a value adding perspective, can be defined as reducing the added value of competitors. The purpose of competitive advantage in alliances is to pre-empt competitors from forming similar partnerships or from entering the industry. An alliance can be offensive in nature to attack a competitor and its partners or defensive to respond to an attack from competitors (Lei, 1993).

A number of examples relating to increased performance exist: higher sales can result from greater collaborative interfirm learning (Hamel 1991; Inkpen 1998a); greater market power from sharing resources, particularly in areas of marketing and distribution; exploring new markets and developing new approaches and technologies (Khanna, Gulati & Nohria 1998); and successful R&D collaboration. Code sharing in the airline industry is one such example where adding new resources can lead to the offer of a broader portfolio of destinations.

These intra-industry alliances can add value by realising higher unit prices for partnering firms. The coalition combined market share may lead to higher market power and bargaining power. Combining the partners' operations may lead to an increase in reputation that is greater differentiation due to their combined strengths (Burton 1995).

In developing a rationale for superior performance in alliances, strategy scholars have offered three perspectives, (these three approaches are summarised in Table 2.15):

Table 2.15 Comparing the Industry Structure, Resource-Based, and Relational Views of Competitive Advantage

Dimensions	Industry Structure View	Resource-Based View	Relational View
Unit of analysis	Industry	Firm	Pair or network of firms
Primary sources of supernormal profit returns	Relative bargaining power Collusion	Scarce physical resources (eg land, raw material inputs) Human resources/know-how (eg process technology) Financial resources Intangible resources (eg. reputation)	Relation specific investments Interfirm knowledge sharing routines Complementary resource endowments Effective governance
Mechanisms that preserve profits	Industry barriers to entry Government regulations Production economies/sunk costs	Firm-level barriers to imitation Resource scarcity/property rights Causal ambiguity Time compression diseconomies Asset stock interconnectedness	Dyadic/network barriers to imitation Causal ambiguity Time compression diseconomies Interorganisational asset stock interconnectedness Partner scarcity Resource indivisibility Institutional environments
Ownership/control of rent-generating process/resources	Collective (with competitors)	Individual firm	Collective (with trading partners)

Source: Jeffrey H Dyer & Harbir Singh. 'The Relational View: Cooperative Strategy and Sources of Interorganizational Competitive Advantage' in Reuer 2004 *Strategic Alliances, theory and evidence:* p.370.

2.7.4 Measuring Performance

Research findings have drawn attention to the advantages that are associated with interdependence between alliance members, for example it promotes cooperation (Dyer, 1997; Shan, Walker, & Kogut, 1994), improves commitment (Harrigan & Newman, 1990; Park & Ungson, 1997) produces synergies (Kumar & Seth, 1998; Saxton, 1997) promotes reciprocity (Jones, Hesterly, & Borgatti, 1997; Provan & Skinner, 1989). However, measuring actual alliance success remains a controversial topic of debate among researchers. Researchers use various divergent measurements to evaluate alliance performance. Some examples of the measurements applied are: perceived satisfaction (Mjoen & Tallman, 1997; Parkhe, 1993a); profitability and sales growth (Mohr & Spekman, 1994); and revenues and costs (Contractor & Ra 2002b). A concern arises that these empirical studies do not contrast the data between perceived and actual performance in the context of achieving the alliance objectives and or strategic intent. Further, the studies do not provide any insight into the priority or relative importance to the partners of performance outcomes in terms of tangible and intangible outcomes/ benefits and how these relate to strategic tensions and alliance stability.

The measure of outcomes associated with alliance performance applied by these authors is mutually assessed to be successful and alliance stability seems only to be considered in the Yan and Gray study (1994). Another area of ambiguity concerns the loci of the measurement. This is relected in Table 2.16 which lists recent empirical studies, outlines the measures of alliance performance used, and reports the findings from these investigations.

Table 2.16 Selected empirical studies on alliance performance

Study	Conceptual framework or perspective	Measuring of alliance performance	Locus of performance *a	Major empirical findings
Aulakh, Kotabe, and Sahay (1997)	Relational attributes	Partner firms' assessment of sales growth and market share of the alliance	Alliance	Relational norms and social control are positively related to alliance performance
Beamish (1987)	Partner attributes	Mutual agreement regarding satisfaction between the partners	Partners	Contributions of long-term importance are critical for satisfactory performance
Doz (1996)	Alliance conditions, learning and evolution	Partners' assessment of value creation, cooperative behaviour, and adjustment capabilities	Alliance	Initial conditions affect learning, which is responsible for alliance performance
Dussauge and Garrette (1995)	Eclectic	Industry expert opinions on technical quality, commercial success and financial results	Alliance	Semi structured alliances performed better than unstructured alliances
Fryxell, Dooley, and Vryza (2002)	Trust and control	Partners' perceptions of ROE, technology, etc. of the joint venture	Partners	With trust, social control improves alliance Performance
Harrigan (1988)	Partner asymmetries •	Venture survival, duration, and firms 'assessment	Alliance	Alliances between similar partners last longer. Alliances are more successful when partners and ventures are horizontally related

Study	Conceptual framework or perspective	Measuring of alliance performance	Locus of performance *a	Major empirical findings
Inkpen and Currall (1997a)	Trust	Partners' perceptions of ROI, market share, etc. of the joint venture	Alliance	Trust in partner firms is positively related to alliance performance
Luo (1997)	Partner attributes	ROI, sale, export, and operational risk of the joint venture	Alliance	Strategic traits and organisational traits of partn firms strongly affect allianc performance
Mjoen and Tallman (1997)	Control	Partner firms' assessment	Alliance and Partners	Overall control is positively related to alliance performa
Mohr and Spekman (1994)	Alliance attributes, communication, and conflict resolution	Satisfaction and dyadic sales	Alliance and Partners	Coordination, commitment, trust, communication qualit and so on are alliance performance predictors
Parkhe (1993c)	Alliance structure Game theory	Perceived fulfilment of strategic needs and indirect indicators	Partners	Alliance performance is positively related to shadow the future effect and non-recoverable investments, an negatively related to percei opportunistic behaviour
Yan and Gray (1994)	Bargaining power and control	Perceived achievement of each partner's objectives	Partners	Management control media the relationship between bargaining power and allian performance
Zaheer, McEvily, and Perrone (1998)	Trust	Perceived partner firm goal achievement	Partners	Interorganisational trust is positively related to alliance performance

*a whether the locus of performance is the alliance itself (eg, JV profitability or partners' satisfaction about the alliance's profitability) or the implications for the partners (i.e., achieving partners' objectives).

Source: Das and Teng (2003a). Internal tensions in strategic alliances, *Scandinavian Journal of Management* vol 19 (3): 282.

Alliance partners may have compatible, similar or conflicting objectives and motives in an alliance. This raises the question: should measuring alliance performance be confined to the alliance itself or should it extend beyond the alliance's boundary? It is contentious whether the foci of measuring alliance performance should be the contribution of the alliance to the partner organisations in terms of achieving individual partnering firm's objectives (see Parkhe, 1993c; Yan & Gray, 1994; Zaheer, McEvily & Perrone 1998) and/or partner firms' satisfaction with the alliance (Mjoen & Tallman 1997).

In measuring alliance performances partners may not mutually agree on performance criteria. One partner may evaluate performance against outcome criteria as actual and tangible whereas the other partner's criteria may be embedded in perceived and intangible outcomes eg progresses in acquiring knowledge. Measuring performance, Beamish (1987) and Harrigan (1988) suggest, is to use mutual satisfaction between the partners. Similarly, Das, and Teng (2003a) define alliance performance as the degree to which both partners' firms achieve their strategic objectives in an alliance. In this context, a longitudinal study of an alliance relationship examining the trajectory of the alliance from formation to outcome may provide valuable insights into alliance performance and outcomes.

Parkhe's (1993c) builds on transaction theory and brings together four variables as possible explanations for alliance outcomes: motives for alliance formation; partner selection and characteristics (see Hitt, Dacin, Levitas, & Borza 2000); control and conflict (see Mjoen & Tallman, 1997); and stability and performance (see Beamish, 1985, Das & Teng, 2000b).

Büchel (2003) however offers another insight based on her research that "the initial quality of the relationship and investment in the relationship were significantly correlated with joint venture performance" and that "initial employee involvement, formal conflict resolution mechanisms, extensive information exchange and equity were also positively correlated with performance" (2003:92) are generally consistent with my own research study findings. Bercovitz, Jap and Nickerson (2006) stress the importance of strategic fit theorizing that the level of strategic fit is a key determinant of performance.

2.7.5 Models of Successful Co-operation

Royer (2000) developed a framework that facilitates thinking about competitive (horizontal) alliances and designing such relationships. The model is based on contemporary research in the areas of political science and strategic management. The hypothesis is embedded in the theoretical constructs of Game theory, Transaction Cost Economics, Resource Dependency theory, Equity theory, Social Psychological Management theory and integrates various elements of contingency and strategic fit approaches. Elements of this model (see Table 2.17) that constitute success factors of co-operative agreements are symbioses, symmetry, homology, entropy and institutionalization, while individual elements can be found in other theoretical and empirical studies. The Royer (2000) study is the first to integrate all of these elements into a model that serves to analyse the co-operation between firms.

Table 2.17 Elements of the model of a successful competitive collaboration

Conditions of ...	..... is fulfilled if	Has also been found out in theoretical and empirical studies by
Symbioses	Cooperating companies have a strong interdependent relationship.	Bleeke/Ernst 1993; Buckley/Casson 1998; Edwards/Samimi 1997; Handy 1995; Henzler 1992; Höfer 1997; Killing 1983; Mathews 1995; Mody 1993 Reijnders /Douma/Verhallen 1997; Wörner 1992
Symmetry	Profits, costs, shares and decision rights are equally distributed to partners.	Alster 1986; Backhaus 1987; Bleicher / Hermann 1991; Bleeke/Ernst 1995; Bronder 1993; Buchanon 1992; Buckley/Casson 1998; Cook/Emerson 1978; Raffée /Eisele 1993; Elg/Johansson 1997; Hätscher 1992; Hamel 1991; Lane/Beamish 1990; Borwein/Lewis 1991; Licoln 1982; Murray/Siehl 1989; Porter/Fuller 1986
Homology	A structural, strategic and organisational fit is given	Backhaus 1987; Backhaus/Piltz 1996; Bleicher/Hermann 199); Bronder/Pritzl 1992; Doz 1988b; Eisele 1995; Raffée/Eisele 1993; Gahl 1991; Gugler/Pasquier 1987; Hakanson 1982; Harrigan 1988; Holtbrügge 1992; Kern 1990; Killing 1988; Koch 1987; /Hennan 1986; Reinecke 1989; Schaan 1988; Seyfried 1989; Turnbull/ Valla 1986
Entropy	Multi-channel communication occurs on many levels, is formal and informal, and uses compatible information systems.	Arvind 1989; Bohnet 1997; Bronder 1993; Dawes/McTavish/Shaklee 1977; Edwards/Samimi 1997; Klein 1996; Borein/Lewis 1991; Schaan 1988; Thelen 1993
Institutionalization	A joint company is established; the partnership incorporates common production and administration buildings and plants, common planning and bonus systems.	Bleicher/Hermann 1991; Buckley/Casson 1988; Garcia-Canal 1996; Hamel / Doz / Prahalad 1989; Leder 1990; Ring/van de Ven 1994; Selznick 1957; Shull/Delbeck / Cummings 1970

Source: Royer S. 2000, 'Elements of the model of a successful competitive collaboration' cited in Working Paper No 47 Australian Centre in Strategic Management and the School of Management Joint Working Paper Series Queensland University of Technology Faculty of Business *Horizontal Collaboration Between Competitors: Evidence from the Automobile Industry* p13.

The developed model of successful horizontal co-operation is empirically and theoretically supported and provides a useful framework to analyse and design such forms of co-operation. The strength of the model is that it integrates a number of elements and interdependencies between them. The model however offers limitations in as far as it does not consider vertical alliance relationships.

2.7 Alliances and the Strategic Paradigm

Exploring firms' performance is a central theme in the strategy literature. This section of the literature review examines the concept of strategic intent in the context of alliance performance. Hamel, Doz and Prahalad define strategic intent as an:

> *active management process that focuses on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocation (1989: 134).*

Liedtka (1998) adds that strategic intent is the focus that allows individuals within an organisation to marshal and leverage their energy, to focus attention, to resist distraction, and to concentrate for as long as it takes to achieve a goal.

2.7.6 Outcomes, Strategic Intent and Resource Allocation

Research on alliance outcomes has largely ignored the relationship with strategic intent. This is so despite Doz's (1996) longitudinal study of alliances which found that initial structural conditions and subsequent evolutionary processes influence alliance outcomes (see Noorderhaven, 2005). Snow, Miles & Coleman (1992) suggest if the strategic intent of an alliance is predominantly knowledge and/or resource exchange or acquisition, the managerial focus is to achieve convergence in systems and strategies. On the other hand, if the strategic intent of an alliance is predominantly knowledge and/or resource specialisation, the strategic focus is to ensure that the partners are complementary.

Therefore, it can be argued that strategic intent has significant structural implications for alliances. There can be a tension between alliance structural conditions and evolutionary processes, for example, inter-firm differences – knowledge, skills, technologies, core competencies, resources etc – that form the underlying strategic motivations for entering into and maintaining an alliance. These same factors can paradoxically have a negative impact on the longevity and effectiveness of collaboration (Adler & Graham, 1989; Parkhe, 1993b).

Doz (1988b) argues that the strategic interests of each company and scope of the alliance are potential areas of conflict and suggests that understanding one's own and the alliance partner's strategic intent is important in planning and managing an alliance. Lorange and Roos suggest that a "strategic alliance must be structured so that it is the strategic intent of both parties that it will actually succeed" (1991: 27). These researchers argue that strategic alliances differentiate themselves from other forms of collaborative structures by their strategic intent, namely creating, defending, maintaining and or enhancing, competitive advantage

Gulati, Khanna and Nohria (1994) however argue that differences regarding strategic direction can be mitigated by flexibility. These researchers hypothesise that a willingness to make sacrifices on the part of one company will increase the likelihood that the partner company will also be willing to make sacrifices. They suggest these "sequential, irreversible commitments" (1994: 61) will likely lead to a successful alliance. In contrast, Parkhe (1991) suggests that problems associated with corporate culture can be mitigated by ongoing learning and adaptation within an alliance, including developing an intermediate corporate culture that recognises the priorities of each partner, while differences in national context will be mitigated by the urgency to establish a presence in an increasingly global marketplace.

2.7.7 Strategic Intent and Spheres of Influence

To gain further insight into the rationale of an alliance strategy, this section explores some of the underlying strategic logics. D'Aveni (2001) adopts a broad strategic perspective of strategic intent. Using the analogy and context of history and the Roman Empire, D'Aveni (2001) suggests that management must look beyond conventional wisdom of traditional portfolios, to spheres of influence for building growth and wealth and power as "focusing primarily on core competencies and synergies can be dangerously short-sighted" (2001: 17).

The ability to create a sphere of influence around a firm's core market by staking out different interests around the core, such as vital interests, buffer zones and forward positions can help a firm to evade competitors' pressure on the firm's core geographic and products markets suggests (D'Aveni, 2001).

An alliance may be formed with a potential competitor due to the strategic intent of reducing rivalry or denying the resources of a partner to a competitor. For example, the Airbus Industries alliance demonstrated the application of a coalition strategy to enlarge the sphere of influence by attacking the entrenched position of an industry incumbent, Boeing (Hamel 2000a).

D'Aveni (2001) argues that the strategic intent of a collaborative agreement should be one that maximises the firm's sphere of influence and suggests that competitive alliances can take three forms; a concert of power, polarised blocs, or a collective security arrangement (see Table 2.18).

Table 2.18 Competitive Alliances – Concert of Power and Polarised Blocs

Type of	Strategic Purpose	Example
Concert of Power	Partners compete with each other but cooperate to either dampen or absorb the disruptors	GM, Ford and DaimlerChrysler have formed an alliance to promote auto battery innovation. All three car makers get access to the benefits of a major disruptive technology in batteries. By pooling their resources to keep developing cutting-edge battery technology no one else can enter the marketplace by investing heavily in battery technology, or transferring from another industry.
Polarised Blocs	Partners continue to compete with each other but they strongly encourage disrupters to align with one of the alliance partners.	Coke and Pepsi have used polarised blocs with suppliers, bottlers, consultants, and advertising agencies. By polarising the main players into an alliance with either Pepsi or Coke, they have managed to contain Cadbury Schweppes's expansion into their core markets.

Source: Adapted from D'Aveni 2001. '*Strategic Supremacy: how industry leaders create growth, wealth, and power through spheres of influence*'. p. 170.

Silverman and Baum (2002) suggest that a firm's alliance strategy enables it to withstand competition and, by default, impose stronger competition on others. A similar perspective is offered by a number of researchers who propose that firms that engage in alliances are better positioned to deny rivals access to resources of the future (Amburgey, Dacin, & Singh, 1996; Walker, Kogut, & Shan, 1997). This perspective suggests that alliance partners' strategic role can be defined as either a surrogate attacker that preserves or adds competitive strength, or as a critical supporter by providing critical resources.

Alliances can be formed as competitive cooperatives in order to counter disruptive strategies and maintain the status quo. The Silverman and Baum (2002) study of the Canadian biotechnology industry between 1991 and 1996 found that as the number of alliances formed by its rivals increased so did the competitive intensity the firm experienced. The flow-on effects being that a firm benefits from the alliances of rival firms with which it collaborates. These researchers propose an alternative line of argument suggesting that alliances assist all competitors as the efficiencies gained will increase the availability of resources overall. However it is acknowledged here that the alliance partners will benefit more than their competitors. (Silverman & Baum, 2002)

2.7.8 Divergence of Strategic Intent

The paradoxical nature of the strategy literature seems ever present and is illustrated in Ohmae's (1989) argument that different strategic intents among strategic partners are healthy. The strategic intents of alliance partners may differ but must be sufficiently compatible to leave room for co-operation (Lorange & Roos, 1992). This perspective fails to consider that collaborative arrangements can produce both positive and also negative outcomes for the various stakeholders involved. For example, managers can form "bad alliances" with "good strategic intent" but can also form alliances with "bad strategic intent" (Hoskisson, Wan & Hansen, 1998). On the one hand, alliances are formed by managers as a strategy to hedge against future technological and market developments (Kogut, 1991). On the other hand, managers may choose to adopt an alliance strategy in order to reduce their personal risk and or to promote their personal interests. This action may result in loss to the firm's shareholders as a consequence of inadequate governance oversight (Hoskisson, Wan & Hansen 1998). The resultant loss of firm value may also include loss of technologies or markets to partners with hidden strategic intent (Hitt, Taylor, & Park, 1995).

Das, Teng and Sengupta (2003) argue that shareholders of firms who have entered into different types of alliances enjoy varying levels of benefits. Their study proposes that when it is anticipated that intellectual capital will be created by the collaborating partners in an alliance, a more effective form of governance to protect the property rights of the larger stronger partner is a joint venture arrangement, and the smaller weaker partner should opt for a flexible non-equity arrangement. This paradox illustrates the importance of deliberating an appropriate governance arrangement when entering into a collaborative agreement in order to mitigate potential agency conflicts (Hoskisson, Wan & Hansen 1998; Das, Seng and Sengupta 2003). The governance structure of strategic alliances is discussed in Section 2.9.

D'Aveni proposes that:

> *the essence of an alliance is creating a strategic influence, without using the force of deep pockets, monopoly power or illegal collusion, constructing a strategy that captures the hearts and minds of core customers by using different combinations and patterns and co-operation (2001: 219).*

Not all scholars share D'Aveni's idealistic enthusiasm for alliances. A number of authors have expressed their scepticism as to the benefits of alliances to business, the economy and society in general. Reuer, for example, cites Adam Smith's view that alliances have a "potential for conspiracy by people of the same trade against the public" (Smith 1999 cited in Reuer, 2004: 2). This perspective is shared by Lundan and Hagedoorn who argue that, "Alliances as modalities for international expansion has potentially anti-competitive implications" (2001:12). Similarly, Porter suggests "that an alliance based strategy will only "promote a company's mediocrity not its international leadership" (1990: 91).

These concerns are not supported by D'Aveni (1994), who suggests that alliances are not anti-competitive and adds that co-operation involves compromise and restrictions which results in a restless, dissatisfied, or ambitious partner. The author theorises that when one group of competitors forms an alliance to compete more effectively, another group will inevitably form its own alliance which will lead to more intense levels of competition: "If the current competitors in a market are agreeing to cooperate, there will almost always be an outsider to ready to contest the market" (D'Aveni, 1994: 335).

There is some anecdotal support for D'Aveni's theory. For example, Toyota and Nissan responded to the Big Three's automobile manufacturer's consortium to promote auto battery innovation and formed an alliance. Another example is SEMATECH, an alliance of fourteen US semiconductor manufacturers, formed in response to the success of several Japanese consortiums competing in the global marketplace (Browning, Beyer & Judy 1995).

2.8 Value Creation Process

This section examines how alliance relationships create value for the collaborating firm. The definition for what value creation in alliances constitutes varies greatly amongst researchers (see Lambe, Spekman, 1997). One possible explanation for the lack of an agreed definition for value creation is that establishing reliable and comparable before and after measurements is problematic particularly in dyadic alliances where the boundaries of partner organisations change (Geringer & Hebert, 1991). Another obvious difficulty is the manner in which alliance partners perceive and define 'alliance value adding,' as the same outcome may be seen different by each partner (Doz, 1988b).

Whilst Florin's (1997) suggestion that a reliable measurement of alliance performance is transaction value (that is, to measure its components transaction costs, operating costs and innovation), it may prove to be unwieldy and difficult to measure. Some other common measurements are: return on shareholders' funds (Anand and Khanna, 2000; Hsu- Huei Huang, and Min-Lee Chan 2005), and total revenue (Porter 1985). Both these measures are ex post measures and inform whether value was created but does little to disclose how the value was created. Disaggregating Porter's definition of value creation can provide insight as to how an alliance can add value: "added value is the selling price less the cost of purchased raw materials" (1985: 39). Based on this analysis, it can be argued that a useful explanation of measuring alliance performance is if the alliance allows a firm to either increase unit sales and or increase the price of a unit the customer is willing to pay and or lowers the average unit cost.

2.8.1 Collaborative Complexities and Value Creation

Relationships in alliance ventures are inherently complex, ambiguous, and at their core, embroiled in tensions and reinforcing cycles (see Lewis 2000). The main focus of this section is to extend current theory by examining converging and diverging forces/ tensions and their impact on alliance outcomes.

There are a number of studies presented in the alliance literature that suggest that alliances can be an important vehicle for value creation for the stakeholders (see Doz & Hamel, 1998; Chan, Kensinger, Keown, & Martin 1997; Anand & Khanna 2000). Empirical studies that have focused on alliances and value creation include:

- Das, Teng and Sengupta (2003) – concluded that there is empirical evidence to suggest that strategic alliances do create value for shareholders through the creation of intellectual capital.
- Lundan and Hagedoorn (2001) – concluded that strategic alliances are a cost effective strategy for sharing scarce resources.
- Stuart (2000) – the empirical study of the semiconductor industry found support for the proposition that strategic alliances can improve business performance
- Powell , Koput, and Smith-Doerr (1996) – the study of biotechnology firms concluded that firms that employed an alliance strategy experienced increased growth rates
- Mitchell and Singh (1996) Baum and Oliver (1991) – concluded that alliances can improve organisational survival rates and
- Hagedoorn and Schakenraad (1994) – support the notion that alliances can foster improvements in innovation rates
- McConnell and Nantell (1985) – this research study found that increase in share prices of parent companies coincided with the announcement of an alliance venture

Most of these studies however are relatively small scale, (see Hagedoorn and Schakenraad, 1994; Powell, Koput and Smith-Doerr, 1996; and Mitchell and Singh, 1996). Further, none of the studies propose that the relationship had been advantageous for both collaborating partners.

2.8.2 Converging and Diverging Forces

Competitive advantage is a central theme in strategy theory, and strategic alliances as a potential source for creating competitive advantage continues to be a popular topic of research interest. A number of scholars, including Lei, Slocum and Pitts (1997); Hagedoorn (1995); Hagedoorn and Schakenraad (1992); Harrigan (1998); Baum and Calabrese (2000); Hennart (1988); and Kogut (1988a), suggest that for many firms strategic alliances can be an invaluable resource for generating their company's competitive advantage.

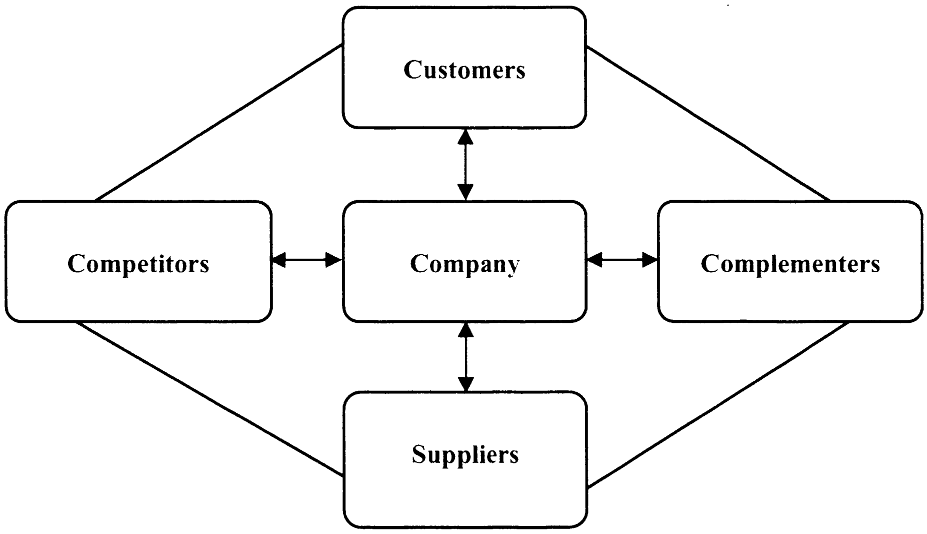
In reflecting on how firms can create superior value, Doz and Hamel (1998) propose that alliances allow a company to keep more options open when used strategically and constitute a way to hedge against uncertain industry futures. These authors suggest that used strategically, alliances can facilitate the control of the competitive landscape and argue that competition to maximise share of future profits will require companies to combine a range of skills effectively. The skills include the ability to: build and manage coalitions; build core competencies central to a unique value proposition in emerging customer opportunity areas; develop rapid learning skills; and integrate global share of mind with a global distribution capacity.

Similarly, Dyer and Singh (1998) concluded from their studies that firms can develop collaborative relationships that result in a competitive advantage that is sustainable and difficult to imitate. Spekman and Sawhney (1990) describe a strategic alliance as an innovative strategy that can be implemented by a firm to protect itself from uncertainty, whilst maintaining a degree of self determination. The study by Borys and Jemison (1989) concluded that interorganisational partnerships are a competitive necessity even for the largest firms. Hamel and Prahalad comment on the effectiveness of alliances as a strategy and suggest that accessing the global marketplace for innovative technology by forming alliances can arguably be "an efficient strategy for the acquisition and leveraging resources needed to gain control of the next generation of competencies" (1994: 5). Further, Gill and Butler state that "Cross-cultural alliances and the global reach that the collaborative structures can offer would appear to be the strategic answer to companies' international ambitions" (2003: 543). de Rond (2003) supports this perspective and adds that alliances have proliferated as one of the most attractive competitive options in the contemporary domestic and international business arenas.

2.8.3 The Dynamics of Value Creation

Most firms operate in a network comprising of customers, suppliers, complementers and competitors (Brandenburger & Nalebuff, 1996). It can be argued that a firm can form alliances with any of these four entities (see Figure 2.6).

Figure 2.6 Value creation network in alliances



Source: Brandenburger and Nalebuff 1996, 'Co-opetition (ko-ope-tishen) 1 a revolutionary mindset that combines competition and cooperation 2 the game theory strategy that's changing the game of business' p16.

There are two distinct but related ways of creating value in alliances (Burton 1995), collaborative advantage (increasing partners' added value) and competitive advantage (reducing one's competitors' added value). Glaister and Buckley (1996) suggest that both competitive and collaborative motives may exist in alliances. For example, interfirm learning can be related to both collaborative and competitive advantage (Hamel 1991; Inkpen and Beamish 1997b). Collaborative advantage exists when inter-partner learning is aimed at achieving common benefits (Khanna, Gulati, Nohria, 1998). Competitive learning on the other hand is aimed at achieving private benefits and obtaining know-how in an alliance that allows the firm itself to better compete in the marketplace (Zander and Kogut, 1995).

It can be hypothesised that the interaction of value creation between firms in an alliance, and the inherent strategic tensions between the collaborators, may differ as a result of the types of relationships between the partners (Lei 1993). These relationships are either horizontal that is an alliance with one's competitors or a vertical alliance with suppliers or customers. Value creation in alliances therefore is not limited to increasing value through collaborative advantage between the firm and its partners firms but also to value adding through competitive advantage that is collaboration between competitors and their partners (Burton, 1995). Partnering firms obtain either or both collaborative and competitive advantage through alliances (see Table 2.19).

A greater focus could be placed upon forming one type of relationship than another by a firm. The relationship chosen depends on the competitive environment and the characteristics of the alliance and the partners. Competitive advantage is more critical in market or mature industries while collaborative advantages are more important in technology driven or in the introduction and growth stage of industries (Das and Teng, 2003a).

Table 2.19 Collaborative and competitive advantage through alliances

Type of advantage	Value Creation	Buyer-Supplier Alliance	Alliances with Complementers	Alliances with Competitors
Collaborative Advantage	Unit Sales	Enter new market Product development Help buyer survive	Product bundling and co-marketing	Enhance market powe Joint R&D Interfirm learning
	Price	Enhance differentiation Improve quality Customer customisation	Co-marketing	Higher bargaining po against buyers Reputation effects
	Costs	Inventory Management Co-specialisation	Economies of scope	Economies of scale Power against supplie
Competitive Advantage	Unit Sales	Vertical relationships that exclude rivals Entry barrier	Pre-empt similar alliances	Pre-empt similar allia
	Price	Affect competitors image	Affect competitors image	Joint bidding to lowe competitors' profit
	Costs	Intensify scarcity of supplies and distribution channels	Increase competitors R&D marketing cost	Win industry standar battles Intensify scarcity of supplies

Source: Glaister, K and Buckley P. Strategic Motives for international alliances, Journal of Management Studies, May 96, Vol. 33(3): 308.

According to Glaister and Buckley (1996), alliance value creation can take place as

2.8.4 Collaborative Advantage of Buyer Supplier Alliances

Buyer-supplier alliances are vertical relationships that can provide firms with better control of input quality and availability, lower costs and greater market power. The value added by the alliance can be measured by the increase in the firm's unit sales resulting from the ability to enter into new markets, as well as the development and introduction of new products and models. In addition, buyer-suppler alliances can have the objective of lowering unit cost of the collaborating firms. For example, in the automotive industry Toyota uses just in time systems, technologies, specialised facilities and programs that are capable of continuously lowering unit cost (Dyer, 1996). The value added can also manifest in the ability to increase unit price as the collaborating firms enhance differentiation, improve quality and develop buyer customisation. The relationship moves from one that is characterised by buyer power and bargaining position to a relationship based on co-operation (Langfield-Smith and Greenwood, 1988).

Alliances with buyers and suppliers can also reduce the unit sales of competitors by creating a relational barrier and acting as an entry barrier against potential competitors. For example, the strategic alliance of Australian tyre manufacturers and their preferred dealers negatively affects the prospects of other potential suppliers and serves as an entry barrier against Asian tyre manufacturers (Hermens, 1997). A prestigious buyer-supplier alliance can affect unit price by influencing buyers to pay less for competitors' product or services. The alliance between Intel and computer manufacturers presents an image of leading edge high quality technology, which commands a higher price in the marketplace. Such business-to-business alliances change the distribution of bargaining power within many industries. Conversely, where an alliance strategy is adopted as an industry standard practice, like outsourcing, it accelerates convergence within the industry.

2.8.5 Collaborative Advantage with Complementors

Complementers are entities that are in related industries and enhance the perceived value of the firm's products to customers eg Intel and Microsoft. Alliances with complementers can add value to the focal firm by making the product or service more accessible and or attractive (Lorenzoni & Baden-Fuller, 1995) eg for car retailers, complementers are petrol stations, insurance companies, and tyre companies. Forming a coalition with complementers can add value to the focal firm in unit sales to the focal firm, by generating new business opportunities (Bucklin & Sengupta, 1993) and/or expanding the reputation of the focal firms products or services, particularly in the case where the complementers enjoy high brand and quality reputation (Stuart, 2000). For example, product bundling; computer software and hardware; airlines with travel agencies. Alliances with complementers may also add value to the unit price, enabling the focal firm to charge higher prices for their products and services due to an improved customer value proposition,, improved accessibility, increased service and/or a better reputation. Value adding by lowering unit cost may also occur as a result of product bundling with complementers leading to greater economies of scope and/or efficiency from related activities. For example, Microsoft preinstalled software saving packaging and distribution costs.

2.8.6 Collaborative Advantage with Competitors

It is generally believed that intra-industry alliances, albeit common in value adding terms, represent a no win situation for either partner (Harari, 1995). Commentators have suggested that intra-industry alliances tend to become learning races (Hamel, 1991) which in turn leads to convergence of competencies and resource redundancy, increased rivalry and overlap between the collaborating firms (Mowery, 1998). Co-operation can often be usurped by the spirit of competition, particularly in alliances between competitors, resulting in alliance failure (Park and Russo, 1996).

On the other hand, competitors often have access to, or can provide, resources that are rare and valuable in an industry (Thompson & Strickland, 2003). This necessitates intra- industry alliances despite their inherent difficulties (Hamel Doz & Prahalad, 1989a). A study by Duysters and Hagedoorn (1995) found that alliance activity between direct competitors, or those in the same strategic group at the same level as vertical alliances, can add value when they increase unit sales of the partnering firms.

Arguably alliances are difficult to manage but there are studies reported in the literature that suggest that some firms are far more successful at value creation (common benefits) or appropriating value (private benefits) from them than others. For example, the study by Kale and Singh (2007) suggests that some firms can be presumed to have alliance capability and that "the alliance learning process acts as one of the main mechanisms through which the alliance function leads to success" (2007: 996).

2.9 The Alliance Governance Process

The aim of this section of the chapter is to gain insights from the literature on how collaborating partners manage the competing dynamics present in an alliance strategy. As business models increase in complexity the forms of governing become more important (Sharma 1998).

Governance generally refers to the processes by which organisations are directed, controlled and held to account. The task of governance is one of aligning, synchronizing, and integrating the various structures, systems, processes, practices, and plans by which the organisation is directed, controlled and managed (Contractor & Ra, 2002b). This involves the collective and individual roles and responsibilities of the board, individual directors, senior executives, managers and staff to deliver transparent, measurable, and accountable corporate performance; and sustainable value-capital enhancement for the organisation's shareholders and stakeholders.

Forms of governance however become more significant as business models increase in complexity particular alliances. The governance of strategic alliances describes how an alliance is managed, how it is organised and regulated by agreements and processes, and how the partner controls and influences its evolution and performance over time. A number of scholars (Yoshino & Ranan, 1995; Parkhe, 1993a; Das & Teng, 1996) suggest that governance is a critical element in alliance performance and has proven to be a fertile area for study over the past decade.

The growing popularity of adopting MPA are evident in fast changing technology and capital intensive industries especially in operating environments where there is a need for common technological platforms and or products and services are component parts of a system to operate successfully together. The aim of the collaborators in this type of organisational structures is to share resources and costs to develop new products and standards and also to create new markets (Lavie, Lechner & Singh, 2008).

MPA are typically managed by boards however this type of governance often limits the strategic options that may be available to an individual alliance partner particularly minority partners "by enforcing common rules of governance and operations" (Lavie, Lechner and Singh, 2008: 1). Majority partner(s) or those firms that have invested the most in an MPA generally tend to seek control the governance process by setting the rules of engagement and seeking to constrain their partners' strategic agenda and flexibility particularly in areas such product development and marketing investments. Frequently rules set by senior alliance partner(s) can lead to competition and emergent tensions as each partner tries to maximise its benefits while minimising its investment in the MPA. The Lavie, Lechner and Singh study suggests that there is "heterogeneity in the distribution of common and private benefits in a multiparty alliance" (2007: 594). These researchers also confirmed the findings of an earlier study by Lieberman and Montgomery, 1988 that the benefits an individual alliance partners accrues from the MPA was contingent on partners' timing of entry and the nature of a partners internal and external involvement. It is argued that in a MPA environment, a partner's success and early entry are positively correlated with the development, and introduction and marketing of alliance related products. Early entrants can also exert greater influence on alliance evolution. This will enable the early entrant to align the alliance strategy with their own corporate strategy. On the other hand, De Ridder and Rusinowski (2008) in their study on the different formation paths of MPA conclude that under certain conditions it can be a disadvantage to be a first mover in a MPA strategy. These scholars propose that if an alliance partner's ideal positions are acceptable by all members of the alliance joining later is a better strategy (2008: 469).

2.9.1 Strategic Governance, Structures and Systems

Researchers have made significant contributions to the understanding of inter-organisational governance structures developing various theoretical perspectives including: Transaction Cost Economics, (Mowery, Oxley & Silverman, 1996; Pisano, 1994); Game theory (Parkhe, 1993b); Risk Perception (Das & Teng, 1996, Das and Teng 2001); Agency theory (Rowley 2000) and the Resource based view of the firm (Das and Teng 2000a). Alliances structures incorporate: joint ventures (separately incorporated entities jointly owned by partners), minority equity alliances (acquisition of equity shares by either one partner firm), or contractual alliances such as supply chain partnerships, joint production, joint bidding, code sharing etc (Teng & Das 2008a, 1998; Gulati & Singh 1998b; Yoshino & Rangan 1995).

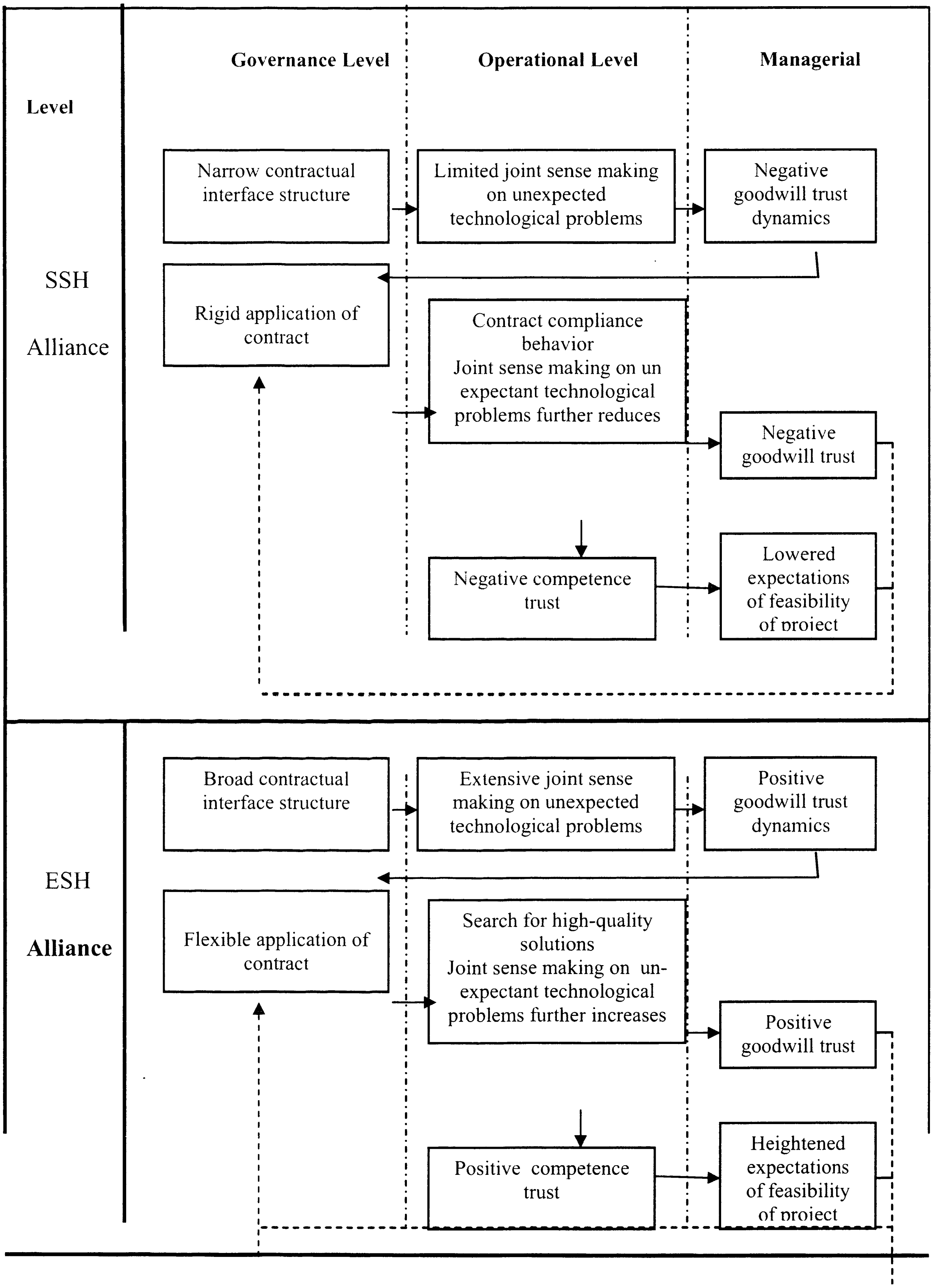
Recent research by Teng and Das (2008a) suggests that several key factors influence the choice of governance structures and the amount of equity invested, including: alliance objectives, previous management experience and partners demographics. Hennart and Larimo (1998a) and Pisano (1989) investigated the relationship between the amount of capital (equity) invested by partners and choice of alliance structure. Equity arrangements align the interest of alliance partners (Gulati, 1995b) or can serve as a mutual hostage for partners (Kogut, 1998b). In more complex types of alliances, joint ventures are the preferred mode of organising. Here a separate trading entity is created, and partners are closely linked with each other. In minority equity alliances partner firms carry out their cooperative activities separately. Finally contractual alliances are operated on a mutual agreement for the partners to work together and unlike joint ventures lack integrated processes and centralised control Das and Teng (2008a). These researchers propose that there is a link between the strategic intent of the collaboration; alliance management experience and nationality of partners are key determinants of the sum of equity invested.

Sampson (2004a) study of 232 R&D alliances found support for the transaction cost hypothesis that firms are more likely select an equity joint venture as partner knowledge bases diverge and knowledge transfer becomes more difficult. When such knowledge bases are very different, however, firms are less likely to choose an equity joint venture over more contractual forms of alliance organization. A governing structure that is designed to organise and control transactions between alliance partners invariably influences their conduct (Harrigan 1988; Heide 1994; Heide & Minor 1992; Osborn and Baughn 1990; Parkhe 1993b; Ring and Van de Van 1992; Schillaci 1987; Sheth and Parvartiar 1992; Williamson and Ouchi 1981). Ohmae (1989) argues that contemporary alliances are often governed by traditional western concerns about equity in, and control over, the venture which can often run counter to the characteristics that describe a successful alliance. The thrust of Ohmae's (1989) argument is that the control mechanisms applied by the sponsoring organisations over their collaborative ventures can restrict activities or curb the actions of an alliance and thereby retard the potential for success. Ohmae concludes that a focus on short-term gain and return on investment may endanger an alliance and often results in missing business opportunities.

Studies investigating how the process of governance may influence the evolution and performance of strategic alliances (Doz and Hamel, 1998) have generated two different theoretical perspectives on what constitutions of an effective and efficient alliance governance system (Madhok, 1995a; Powell, 1998). One perspective "focuses on the structural design of single transactions" (Faems, Janssens, Madhok, & Van Looy, 2008:1053) and here the case for adopting legally binding writtenagreements are argued (Lyons & Mehta, 1997). The other perspective focuses on the actual process of ongoing interfirm relationships and argues that trust is an essential element in the governance process of alliance relationship. In this particular context trust is defined as "a psychological state compromising the intention or behavior of another" (Rousseau, Sitkin, Burt, & Camerer, 1998: 335).

The 2008 study by Faems, Janssens, Madhok, & Van Looy, attempts to integrate these two diverse perspectives. These researchers examined how the design and application of contracts are related to relational processes such as trust. The study findings suggests that goodwill dynamics at the managerial level increased the probability of flexible contract application; ipso facto negative trust dynamics at the managerial level increased the probability of ridged contract application (see figure 2.11).

Figure 2.11 Multilevel Process Models of Dynamics of Collaboration



Source Faems, D., Janssens, M., Madhok, A., & Van Looy, B. (2008). Toward an integrated perspective on alliance governance: Connecting contract design, trust dynamics, and contract Application, *Academy of Management Journal* 51(6): p1068.

However positive goodwill trust dynamics did not reduce the importance of contract as governance mechanisms rather it allows for a shift from rigid to more flexible modes of contract application (Faems et al, 2008). These researchers argue that structural and relational aspects are intractably linked and mutually influence each other. Their conclusions are in sharp contrast to the finding of earlier studies (Das & Teng, 1998; Dyer & Singh, 1998; Larson, 1992) that suggest that positive trust dynamics in an alliance relationship deemphasise the importance of the contract and norms of fairness, honesty, and reciprocity take on a powerful role in governing the alliances.

Sampson (2004b) examined the cost of misaligned governance in the context of R&D alliances. Two costs of were evaluated: excessive contracting costs and excessive bureaucracy. This researcher concluded that alliance governance selected according to transaction cost arguments improves collaborative benefits substantially over governance not so selected. Interestingly, governance alignments imposing excessive bureaucracy reduce collaborative benefits more than imposing excessive contracting costs do.

2.9.2 The Internal Governance of Strategic Resources

Any discussion on value creation also requires including an examination of the governance of resources in an organisation. Alliance resources and value creation opportunities are influenced by the external environment (for example, economic conditions and industry structure) and the internal environment (for example, the strategic intent, strategic objectives and strategic fit of the partnering firms). Few studies to date however have focused on the internal governance of resources between alliance partners' corporate centres and/or their respective functional and business groups.

In this thesis, particular interest is on whether a state of equilibrium among the countervailing forces that simultaneously push an alliance together and pull it apart impacts the value creation process and appropriation mechanisms and subsequent evolution of an alliance. Prahalad and Ramaswamy (2004) suggest that this question needs to address the relationship between the partners' corporate centres and the senior managers responsible for the alliance strategy.

Makino, Chan, Isobe and Beamish (2007) observed that approximately 90 percent of international joint ventures are terminated unintentionally, largely due to unexpected changes in external conditions. These researchers argue that in order to minimise the chance of unintended terminations "managers should establish mechanisms that can adapt and respond to changes..." (2007: 1128). The dynamics of the global competitive landscape poses particular challenges to the internal governance (value creating processes) of strategic alliances. Contractor and Lorange suggest that "managers must learn the arts of competing and cooperating as equally valid aspects of corporate strategy" (in Reuer, 2004:19). Prahalad and Oosterveld add that "in a rapidly changing competitive environment, profitability demands a new strategy and a new approach to internal governance" (2001: 261).

A number of scholars (eg Das & Teng 2001; Prahalad & Ramaswamy 2004) have argued that the quality and the effectiveness of the internal governance process can influence internal strategic tensions, alliance stability, co-creation of value and ultimately the trajectory of the alliance. In the traditional theory of corporate governance, the firm is the basic unit of analysis whereas in strategic alliances the partnering firms simultaneously co-create and extract value from the alliance. The roles of the partnering firms in the alliance value creating process vary between passive, actively co-creating, proactively contributing, or competing for value.

Managing the internal governance process in alliances is particularly challenging given the complexity of these organisational structures. Coping with rapid change in a constantly evolving competitive environment is especially difficult. In an alliance, the strategic and operational boundaries are defined by the collaborative structure; whereas legal boundaries define the individual organisation. In an alliance, not only are the boundaries constantly evolving, the very nature and purpose of the collaboration process is paradoxical, ie transactions and co-creation experiences; maximisation of joint interest (common benefits) and self interest (private benefits).

Ha Hoang (2003) notes that even if the motivations and objectives of the partners are closely aligned this does not necessarily mean 'firms can partner to success either' (see Ha Hoang 2003). Lasserre (2007) adds that friction and conflict in alliances are almost inevitable.

A study by Beardsley, Manyika, and Roberts (2005) suggests that firms must manage the performance of their alliance partnerships closely. These scholars propose that it is not whether alliances are the right or wrong strategy, rather the alliance partners' business leaders and management teams must take a more disciplined approach to collaboration and ensure that alliance strategies are integrated into their corporate agenda's when formulating strategies (Beardsley, Manyika, and Roberts, 2005).

Anderson and Jap (2003; 2005) suggest that even close alliance relationships that appear to be stable are vulnerable to tensions that can destabilise the relationship. These researchers conclude that alliances that are too rigid or too flexible cannot be successful.

The design of an alliance is often described as somewhere between a market contract and a hierarchy under single management control (Lasserre 2003), where the amount of control each partner has over the governance of collaborative ventures is limited (Bleeke and Ernst, 1993).

Lorange and Roos (1991) illustrate the various strategic alliance options in terms of the degree of vertical integration with the parent firm. In Figure 2.7, the left side represents total integration of the activity within the wholly owned organisation, while the very right end of the continuum is market conditions where goods and services are exchanged freely.

Figure 2.7 Alliance integration model

Hierarchy	**Mergers and acquisitions**	**Joint ownership**	**Joint venture**	**Formal cooperative venture**	**Informal cooperative venture**	**Market**
←						→
Degree of vertical integration	Large					None

Source: Lorange and Roos 1991, 'Strategic Alliances Formulation, Implementation and Evolution', (p3).

Ghoshal (1995) suggests that one of the great strengths of markets is "efficiency in the execution of routine tasks" (1995:16). Market relationships are characterised by non specific asset investments, minimal information exchange, separable technological and functional systems within each firm with low levels of interdependency and low transaction costs and minimal investment in governance mechanisms. On the other hand Asanuma (1989) and Dyer (1996) favour a more integrative approach and argue when trading partners combine their resources in unique ways they may be able to realise an advantage over competing firms that have chosen not to or are unable to adopt a collaborative strategy.

Gulati and Singh do not agree and argue that "alliances as a whole are not situated between markets and hierarchies on a single scale" (1998b: 810). This observation is in alignment with the suggestion of Powell (1990) that hybrid forms such as alliances could be considered distinctive forms of governance in their own right. It also aligns with Powell's argument that hierarchical controls are more than a mechanism to control opportunisms; they also determine the organisational context that sets the rules of the game, providing the partners with both the ability to co-ordinate tasks and responsibilities that meet their individual needs for value creation and an opportunity to have confidence in the alliance arrangements.

In the dyadic alliance relationship, each partnering firm has distinct functional groups (eg, design, engineering, software and hardware and marketing sales) and each of these departments has their own distinct customs and practices. These disparate communities within and across the alliance need to be co-ordinated by various structuring processes that promote the value created to each partnering firm and stimulate growth. This in turn creates a dynamic tension: practice versus process. Management training focuses on the resolution of tensions but, in esessence, these countervailing forces are essential to innovation, creativity, value creating and optimising the growth of the firm and the alliance (see Brown and Duguid, 2002). Knowledge creation and value creation do not necessarily move at the same pace, nor are the terms synonymous. These countervailing forces should be nurtured and governed, as opposed to being resolved. In isolation some tensions may actually be harmful to an alliance but conjointly they stimulate innovation and in turn generate new knowledge vital for growth and value creation. Brown and Daguid (2002) comment that the best managed companies maintain growth without favouring either practice or process but managing both.

What is not clear is the relationship between internal governance, strategic tensions and value creation. Does optimising alliance performance suggest that governance processes must ensure a balance of strategic tensions or is every collaborative relationship unique and the governance process task to find a new balance between: co-operation and competition; short term and long-term; private and common benefits; flexibility and rigidity power and influence; and accountability? Does co-creating value significantly change the internal governance process?

2.9.3 Modes of Organising

Alliances of both a short-term or long-term nature can be organised into three broad categories: non-equity where business agreements are made in the absence of new firms being created or equity being exchanged; equity, in which no new entity is created and partners hold shares in each other's firms; and joint ventures, where two or more partners create a new entity together (Reid Bussiere and Greenway, 2001). Specifically:

- Non-equity alliances – a non-equity alliance type of governance mode provides more flexibility for the partners and is usually shorter term. Non-equity alliances are most frequently used when there is higher certainty, strategic flexibility is critical, and the need for strategic control is low. Examples are research and development agreements, marketing agreements, technology swaps and manufacturing agreements;
- Equity alliances – contractual agreements supplemented with one partner purchasing a portion of its partner's equity capital, or both partners having an equity position in each other. Importantly in this type of alliance no new separate entity is formed. Equity alliances are a mid range alliance between non-equity alliances and joint ventures. Equity arrangements are most frequently used in more uncertain

scenarios for establishing a moderate degree of strategic control while maintaining a moderate degree of strategic flexibility;

- Joint ventures – a new, separate entity is created by the combination of the resources of the two parent companies. Joint ventures are most frequently used to establish a high degree of commitment and control but since they decrease flexibility they are not often used for R&D based alliances.

It is worth noting however that Steensma, Marino, Weaver, and Dickson (2000) link the propensity for equity ties in alliances and joint ventures to national culture. These scholars argue for example that a transaction cost explanation for the use of equity ties is strongest for societies that value individualism. The role of equity ownership on the instability patterns of alliances remains also inconclusive. Killing (1983) suggests that majority control is the best option for maintaining stability. In contrast, Beamish, (1985) and Mjoen and Tallman (1997) argue that the more the ownership in an alliance is shared, the less is the instability; while Blodgett (1992) finds no significant role of ownership arrangements on international joint venture stability. On the other hand, the study by Gulati (1995a) suggests that alliances are more likely be equity based if they are among firms of different nations. A study by Dhanaraj and Beamish (2003) on international joint venture alliances is of particular interest as it finds evidence to support the hypothesis of Beamish (1985) and Mjoen and Tallman (1997). The investigation by Dhanaraj and Beamish (2003) focused on the effect of equity levels on international joint venture survival rates in a two party international alliance where one partner was international (Japanese) and the other local (American). This study concluded that as the equity levels of the international (Japanese) partner increased the dissolution rates dropped drastically.

A different perspective is offered by Bierly and Kessler (1998) in their research on strategic alliances in the pharmaceutical industry from 1988 to 1995. Results from the study suggested that the mode of governance is more strongly linked with the nature of the alliance rather than the characteristics of the partners. The main limitation with this study is that the unique structure of the industry means that the findings may not be generalised beyond the pharmaceutical/biotechnology industry (Brierly and

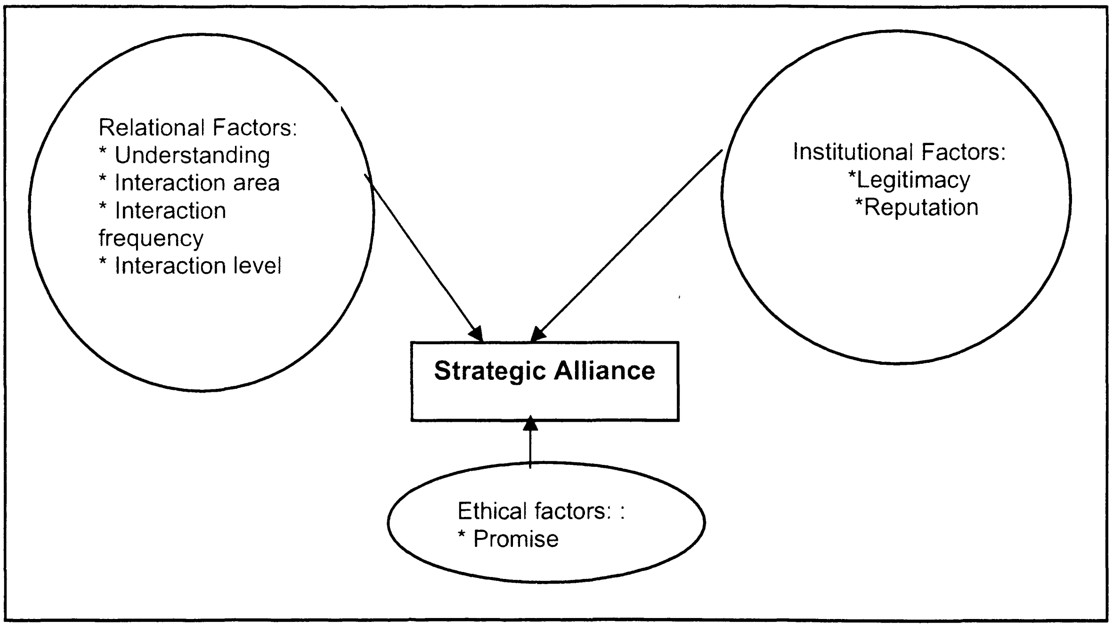
Chakrabarti, 1996a). The generalisability of studies beyond industry boundaries appears to be a legitimate concern, with research by Hagedoorn and Sadowski (1999) concluding "that strategic technology partnering is a category of its own" (1999:103). A study that is particularly interesting is Krishnan and Cunha's (2004) meta-analysis of 50 empirical studies investigating alliance performance which concluded that the sharing of control and the level of equity ownership have no impact on performance.

2.9.4 Governance and Risk

An important aspect in strategic alliances is their governance. As a mode of organising transactions, governance structures regulate the conduct of alliance partners (Harrigan 1988; Heide 1994; Heide and Minor 1992; Osborn and Baughn 1990; Parkhe 1993b; Ring and Ven de Van 1992; Schillaci 1987; Sheth and Parvatiar 1992; Williamson and Ouchi 1981). Both the nature of the alliance and the characteristics of the partnering companies will influence a firm's choice of what type of governance mode is appropriate.

The notion of governance in alliances is a broad concept that extends beyond the concept of control as traditional instruments of control are ineffective in alliances (Noteboom 1999). Sharma (1998) argues that the legal contract signed between the alliance partners is an insufficient form of governance. This is because legal structures are inherently inadequate for governing strategic alliances (Boyle, Dwyer, Robicheaux, and Simpson, 1992). An alliance governance mechanism must be able to address all aspects of inter firm relationship and given the dynamic nature of alliances "the law fails" (Sharma, 1998: 511). Three factors relational, institutional and ethical factors are important in governing alliances and provide the collaborative venture with stability (see Figure 2.8).

Figure 2.8 Factors governing strategic alliances



Source: Charma, D. 1998. 'A model for governance in international strategic alliances' *Journal of Business and Industrial Marketing*, vol 13 (6): 515.

Relational risks in alliances have two dimensions: the size of the loss due to unforeseen and/or uncontrollable circumstances by the partner, and the probability the loss will occur. The risk of becoming dependent on ones partner is a risk. The probability of losing a partner largely depends on incentives, the space available for the partner to behave opportunistically, and their trustworthiness. Size of loss is determined by the value of the partner relative to the next best alternative plus the cost of switching to an alternative (Noteboom, 1999).

Institutional and ethical risk, de Rond (2003) suggests that an alliance strategy can be advantageous in many aspects including the leveraging of resources and competencies of the partners however it can also be costly "in terms of legislating for, and monitoring, the self serving behaviour of agent" (2003:14). Alliance partners choose differing governance structures for the various collaborative ventures they enter into.

Transaction cost theory (Hennart, 1991; Pisano Russo and Teece, 1988) however proposes that the objective of a governance system is to minimise transaction cost. According to this perspective one of the key challenges is the propensity for alliance partners to seek advantages at the expense of the other partner (Coase, 1952;

Williamson, 1975, 1985). However Zajac and Olsen (1993) are critical of this perspective and suggest that the transaction cost literature focuses on structural aspects and neglects process. Similarly, Van de Ven and Walker (1984) add that excessive governance controls may leads to distrust and conflict. Jap and Anderson (2003) argue that bilateral idiosyncratic investments are a more powerful safeguard to enhance performance outcomes and extend the time span of an alliance relationship, than governance structures. Arguably, it will take a much higher level of opportunism to enter an alliance relationship for these safeguards not too have effect suggest Jap and Anderson (2003:1696). Strategic behaviour theory on the other hand suggests that firms enter alliances to maximise long-term competitive positions regardless of transaction costs (Kogut, 1988b). Indeed firms can lower costs relative to their competitors by entering into alliances even if the transaction cost is higher (Jarillo, 1988).

The choice of the architecture for governing alliance relationship reflects not only the complexity of coordinating activities but also contextualises the anticipated moral and behavioural uncertainties Gulati and Singh (1998b). Alliance governance systems can provide the foundation for establishing a sustainable, corporate and social responsible alliance culture (Arya and Salk, 2006)

The governance processes associated with an alliance strategy favours an approach that promotes actively identifying, interpreting and acting upon early signals from the alliance's internal and external environment to enable the collaborating partners to effectively anticipate and exploit opportunities well in advance, that is allow the firms to stay ahead of the game (Kenney, Hermens and Clarke, 2004). It is imperative to the

partners' confidence in the alliance that all actions by those involved with the alliance are enacted with integrity, openness, honesty and fairness and that these are demonstrable assets of the collaborative venture core culture (ethics).

Research into strategic alliances by Bamford and Ernst (2002) leads these authors to conclude that a more robust approach to alliance governance than most companies are accustomed to is required. They observe that such a strategy has potential for big payoffs, namely more value from individual alliances as well as a partner-of-choice reputation that generates a better deal flow and improves overall corporate performance. Bamford and Ernst (2002) suggest that senior management must devote as much attention to alliances as they would to wholly owned businesses of similar size.

The governance of interfirm relationships is embodied in both the structure and the processes (Lumineau and Frechet, 2006). In the design and governance of the collaborative venture, partners' interests must be taken into account. Collaborative ventures need an instrument to analyse and evaluate relations in order to govern the paradoxes of co-operation. Strategic alliances have "a 'life cycle' with stages of emergence, performance, adoption and decline" (Noteboom 1999: 135). The challenge is how the relationship between the alliance and its partners can be governed in its different stages.

2.9.5 Merger and Acquisition Risk

Can an alliance strategy lead to a hostile merger or acquisition? A number of researchers have investigated the implications of alliance formation and the increasing levels of merger and acquisition activity, including Dyer, J. H., P. Kale, and H. Singh (2004); Hagedoorn and Sadowski (1999); Lundan and Hagedoorn (2001); and Hagedoorn and Duysters (2002). Hagedoorn and Sadowski's (1999) study found no support for the hypothesis that a strategic alliance strategy is a 'front porch' for corporate growth by means of a merger or acquisition. These scholars suggest that alliances and mergers and acquisitions are not part of a rather smooth continuum but they are first of all different modes of governance where one mode certainly does not lead to another (Hagedoorn and Sadowski, 1999: 87).

However, as noted previously, strategic alliances do involve risk (Das and Teng 1998). For example, Lundan and Hagedoorn (2001) observed that mergers and acquisitions are concentrated in sectors where strategic alliances are widespread. Hagedoorn and Duysters (2002) suggest that increased control through a merger and acquisition may be useful if companies want to protect their interest in external relationships affecting their core business.

This does not imply that a merger or acquisition is the preferred outcome for collaborative ventures. Hamel and Prahalad (1994) suggest that forming an alliance is a more efficient way of acquiring new skills than acquisition as the acquirer in a merger or acquisition may have to pay for skills that it may already have or does not require. Furthermore, cultural integration and policy harmonisation can present a much larger difficulty in an acquisition than an alliance. Clarke and Hermens (2001) research findings concluded that alliances between firms in closely related fields of activity under certain conditions can lead to a merger or acquisition. These authors suggest that where firms are engaged in a dyadic relationship and a partner has specific alliances knowledge and experience, they are more likely to form an alliance. If partners however have specific knowledge of acquisitions there is a stronger likelihood of a subsequent acquisition.

2.9.6 Dimensional and Power Risk

Does a dyadic alliance between a large and small enterprise add complexity to the governance process? Research suggests that strategic alliances between a large and a small firm can create economic value (eg Williamson 1975, Arrow 1983, Powell 1990). There are a number of scholars that have voice reservations regarding the viability and prospects of such alliances (Doz 1988b; Kenny & Florida 1990), with some researchers suggesting that these collaborative relationships may even threaten the long-term survival of the smaller firm (Alvarez & Barney, 2001).

Doz (1988b) argues that most alliances between large and small firms are doomed due to potential convergence of purpose, consistency of position within the large firm and the interface between the alliance partners. (Baughn, Denekamp, Stevens & Osborn, 1997) similarly cautions that significant differences in firm size may translate into power differentials between partners that leave smaller firms striving to simultaneously keep their technology proprietary and the alliance going.

2.9.7 Managing Risks

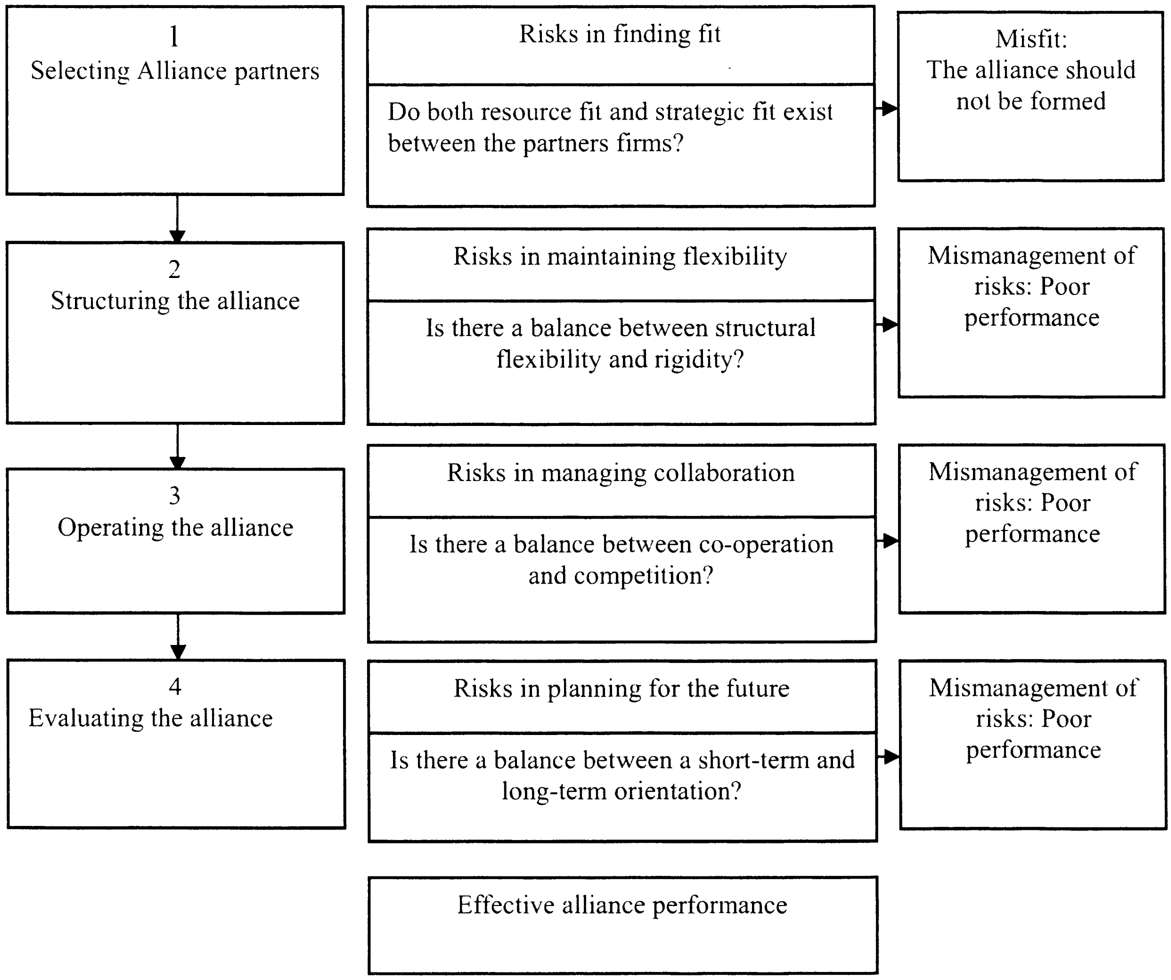
Alliance partners want to minimise the risks that are associated with these collaborative strategies (Dyer, Singh & Kale, 2004; Kale, Dyer, & Singh, 2001).

Alliance risk can be defined as having either relational or performance risks (Das & Teng, 2001). An example of relational risk is the opportunistic behaviour by a partner. This behaviour may undermine the stability and prospects of the alliance, which may result in unsolicited outcomes. Undesirable outcomes may include unplanned acquisition, loss of core competency, control and/or the unplanned termination of the alliance.

Relational contracting theory (Macneil 1978; 1980; 1981; 1987) and a number of empirical studies (Zaheer and Venkatraman, 1995; Heide, 1994) suggest that trust is essential in an alliance. However, as will be demonstrated in the AWAS and KNVP alliance (see Chapter 5) alliance partners with no historical involvement can also succeed. Strategic alliances rely on governance structures that go beyond legal contract (Ring and Van de Ven 1992, 1994). The governance mechanism must be able to address all aspects of the relationships and the dynamic nature of strategic alliances.

Das and Teng (1999a), building on Resource- based theory, propose a framework for managing risk in alliances that balances the competing demands of resource procurement and resource protection strategies. Das and Teng, (1999b) submit that managers can choose from four orientations to ensure alliance performance: control, flexibility, security and productivity. These authors propose four alliance stages; selecting alliance partners; structuring the alliance; operating the alliance; and evaluating effective alliance performance. Within each stage the risks are related to fit, flexibility, collaboration and planning for the future (see Figure 2.9).

Figure 2.9 Managing Risks and their Impact on Performance



Source: Das and Teng 1999a 'Managing risks in strategic alliances', *Academy of Management Executive,* vol 13(4): 57.

Das and Teng propose that "risks relate essentially to balancing the competing demands in each stage, flexibility versus rigidity; co-operation and competition and short-term versus long-term orientation" (1999a: 60).

The limitation of this perspective is that there are any numbers of structural solutions to secure access to key resources (Reuer, 1999). The aforementioned discussion however supports the observation that agency conflict can be more evident in the context of strategic alliances than in traditional corporate governance contexts. These disparate views on the benefits of collaborative agreements are evidenced in the reaction to announcements of the formation of strategic alliances by firms. Evidently they are not always welcomed by the market or their shareholders (eg Koh &

Venkatraman, 1991; Merchant and Schendel, 2000). One possible rationale for the adverse reaction is discussed in the next section.

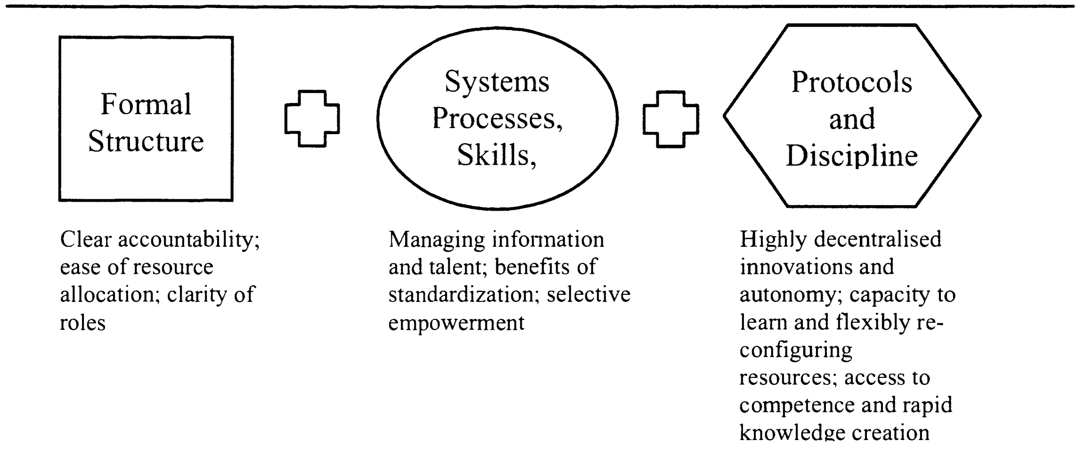
2.9.8 Framework of Governance

This section poses the question: 'what are the critical components of an alliance governance system'? As discussed previously, Sharma (1998) suggests that only part of the alliance governance task is performed by the legal contract signed between the alliance partners.

Sharma's study concluded that three other factors: relational, institutional and ethical factors are important in governing strategic alliances and that these factors provide a collaborative relationship with stability.

Prahalad and Ramaswamy (2004) add that structural mechanisms and business processes provide the backbone and stability to those traditional organisations, and management disciplines and protocols (see Figure 2.10). These authors propose that an effective governance process in contemporary organisations incorporates a judicious mixture of formal structure and business processes for managing information.

Figure 2.10 Emerging Framework for Governance



Source: Prahalad and Ramaswamy 2004, *The Future of Competition: Co-creating Unique Value with Customers*, p235

2.9.9 Structures and Processes

Does alliance structure influence the governance process? Gulati, Nohria and Zaheer (2000) suggest that studying the structure and process of an alliance relationship in which the partnering firms are embedded will lead to a better understanding of the individual firm's behaviour and performance. It appears that alliance strategy, structure and processes are yet another relatively neglected area of research focus (Noorderhaven, 2005). Structure influences the behaviour of alliance partners and consequently process.

While each alliance is unique, there will often be analytic similarities between them (Osborn & Hagedoorn, 1997), in terms of their complexities contextualised in a foundation of dualities that may be both: temporary mechanisms and long lasting relationships; co-operative and competitive weapons; strategically determined and emergent; or intended in their purposes and unanticipated in their benefits. Glaister and Buckley (1996) link the choice of alliance structure to the alliance strategic intent (purposes) and goals of the partnering firms. These authors introduce the notion of strategic alignment by suggesting that alliance purpose may limit the choice to the various structural options available to partners.

Nevertheless in the alliance 'value creation process' there appears to be a close relationship between alliance objectives, structure and performance. Das and Teng (1999b) expand upon this observation and suggest that if the strategic intent of an alliance is acquiring a patented technology then viable structures will include licensing, co-production, and joint ventures. On the other hand, if the purpose of the alliance is, for example to reduce R&D risk, the joint R&D with/without minority equity stake could be the choice.

These authors also hypothesise in regards to the process of collaboration. Here they suggest that process and alliance strategic intent is closely related to the external and internal competing forces. It is argued that long range objectives, such as entering foreign markets, requires the alliance partners to favour long-term orientation and high levels of co-operation. Das and Teng (1999b) however also draw attention to the proposition that certain potential problems are more specific to some structures than others and may give rise to differing paradoxes, tensions and contradictions.

Collaboration, suggests Oerlemans (1996), may not entirely be an act of free will and often can be the only viable strategy available particularly in the case of high tech alliances where innovative firms may not have all the necessary resources at their disposal. The strategic alliances objective here is to provide access to specialist knowledge outside the organisation and the collaborating parties with each other's complementary skills and assets producing innovative technological knowledge.

Ring and Van de Ven (1994) suggest that a balance between formal and informal processes enhances the survival of an alliance relationship. These authors argue that excessive legal structuring and control can cause conflict and may lead to the unplanned dissolution of an alliance. However extreme imbalances between informal interpersonal relationships and formal legal arrangements may also lead to conflicts in an alliance relationship.

Hamel (1991) cautions that, in strategic alliances, some partners can manage to be less transparent than others. For example, many alliances for example are between competitors and the intangible gains are often more important than the financial ones (Doz 1988b). The ability to learn in alliances requires a firm to have absorbative capabilities, ("to recognise the value of new, external information, assimilate it, and apply it to commercial ends" (Cohen & Levinthal, 1990:128) and a willingness of external sources to fully minimise protectiveness (Pisano, 1990). This transparency or permeability of the organisational membrane between partners (Doz, 1988b) can be achieved through active means, including the adoption of strict policies or the deployment of shielding mechanisms aimed at protecting key competencies (Inkpen & Beamish, 1997b). Shielding mechanisms are effective in walling off proprietors' technology through the partitioning of tasks and the physical separation of experts (Baughn, Denekamp, Stevens & Osborn 1997).

Hamel (1991) found however that alliance partners with high transparency and collaborative intent lost the race to learn because they were taken advantage of by more competitive partners. Doz and Shuen (1988a) suggest that the strategic interest of each company and the subsequent scope of the alliance are potential points of conflict.

Zammuto and Krakower (1991) established empirically that inflexible value systems are correlated with mechanistic structures and flexible value systems are correlated with organic structures. Similarly, Gudergan, Devinney and Ellis (2002) suggest that mechanistic structures in alliances hinder innovation and renewal, whereas organic structures are more conducive in these interorganisational settings. Empirical research has demonstrated that the processes of creativity and learning promote innovation in alliance settings (eg Gudergan, Devinney & Ellis, 2002) and, ultimately enhances performance of the partnering firms.

2.9.10 Trust and Control

Arrow (1983) argues that trust is perhaps the most efficient mechanism for governing economic transactions. A number of authors (Powell 1990; Ring & Van de Ven 1992; Gulati 1995a) extend this to control mechanisms with the suggestion that "when there is trust, firms no longer consider hierarchical controls to be necessary" (Gulati & Singh, 1998b: 788). There is however no broad consensus in the literature as to the meaning of trust (Gray & Yan, 1997).

A number of theorists who endorse the Transaction Cost perspective describe trust as the confidence that one's partner will not act opportunistically (Hill 1990; Weigelt & Camerer 1988; Lewicki & Bunker, 1995). In contrast other theorists (Nooteboom, 1999; Nooteboom, Berger & Noorderhaven, 1997) argue that trust is independent of opportunism and is therefore a substitute for contracts, monitoring or threats. These authors perceive trust occurring when one partner believes the other will cooperate without guarantees against defection. Gulati (1995b) and Oxley (1997) operationalised trust as an obligation for partners to behave loyally, while Balakrishnan and Koza (1993) suggested that entering alliances with partners you can trust can reduce selection problems.

Williamson (1985) however denies the existence of trust in business transactions arguing that alliances are subject to self-interested, opportunistic behaviours by the partner. He instead suggests that calculative behaviours and coercive mechanisms to curb opportunism, such as contracts, monitoring or threats, are required for co-operation to exist. Dodgson (1993) and Jarillo and Ricart (1987) disagree stressing the importance of developing high levels of trust between alliance partners for effective interfirm links. The authors reason that the knowledge being exchanged may not only be tacit but also specific knowledge or competence not easily replicated or purchased. and can be important elements of a firm's competence or competitiveness.

The study by Meyer, Alvarez, and Blasick, (1997) extends this argument suggesting that trust is associated with alliance success as it can discourage opportunistic behaviour by alliance partners. A similar view is reflected by Gulati (1998a) who suggests that trust will lower the transaction costs of an alliance. In his study of publicly announced alliances between 1970 and 1989 in the biopharmaceuticals, new materials, and automotive industries, Gulati hypothesises that a previous history of alliances will increase the likelihood that future alliances will be non-equity based.

Trusts in alliance relationships alone do not automatically guarantee success or benefits to the collaborating partners. Gulati, Khanna and Nohria (1994) argue that a willingness to make sacrifices on the part of one company will increase the likelihood that the partner company will be willing to make sacrifices. They suggest these "sequential, irreversible commitments" (1994: 61) will likely lead to a successful alliance. Based on a study of 143 interviews of managers in 17 firms, the authors suggest that unilateral commitments more than likely will lead to a successful alliance. This distinction is clearly articulated by Das and Teng (1998) as 'trust versus confidence'.

The argument of Das and Teng (1998) is that confidence in a partner's co-operation is conceptually different from trust. The distinction these authors draw on to distinguish between trust and confidence is expectations of motives versus perceptions of certainty about cooperative behaviour. This distinction seems particularly valid for strategic alliances: whereas it is difficult to identify if a potential alliance partner is going to behave opportunistically, collaborating partners need to have enough confidence in a potential partner to co-operate so that they are not "overwhelmed by the potential hazards in alliances" (Das & Teng, 1998: 491).

2.10 The Alliance Process Frameworks

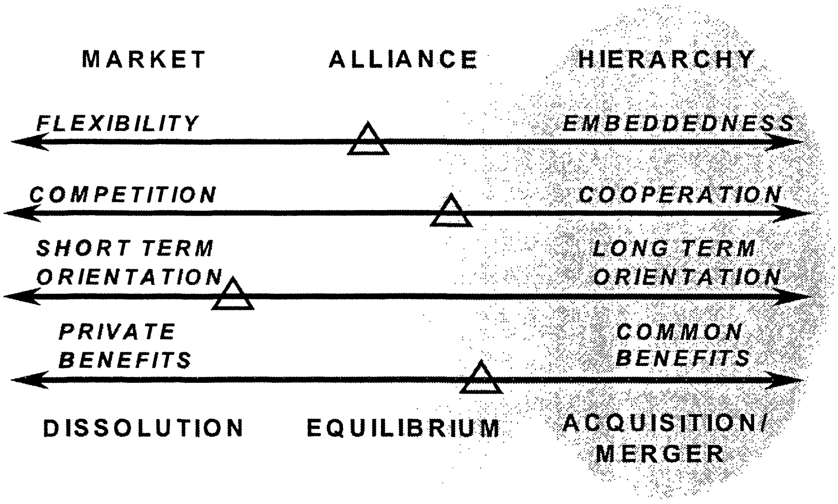
De Rond (2003) theorises that alliances are paradoxical complex social phenomena (see Chapter 1). What insights does the literature offer to the dilemma how collaborating partners manage competing forces in an alliance once it has been formed? A number of perspectives and frameworks are considered in this part of the chapter.

2.10.1 Internal Tension Framework

Various studies have framed alliances in contradictions and tensions. Miles and Snow (1992) suggest that one reason for collaborative failure is an imbalance in their relationship. Ring and Van de Ven (1994) use a framework based on equity and efficiency to chart the course of an alliance in its various evolutionary stages of its collaborative relationships.

Das and Teng (2000b) theorise that strategic alliances are dialectical systems and hypothesise that alliance success (performance) is determined by balancing multiple dialectic (conflicting) forces. These researchers argue that an alliance is only viable when neither market nor hierarchy structure dominate. When market and hierarchy forces are in equilibrium, and cost/benefit trade-offs are equal, one can propose that alliances will be more stable and effective. The internal tension model (Hermens, 2001) proposes what might happen when the balance between the different competing forces shifts toward the dominance of one or the other. The model suggests that a significant imbalance will result in alliance dissolution (organisational integration or segregation), and provides insights into the process through which balance may be restored, or deteriorate further (see Figure 2.11).

Figure 2.11 The Internal Tension Model



Source: Clarke and Hermens 2001, 'Corporate developments and strategic alliances in e-learning' in*Education + Training*, September, Volume 43 (4/5): 258.

The objective in a strategic alliance is usually to maintain the collaborative relationship within the original rules of engagement, and prevent unplanned alliance dissolution (Das and Teng 1999a). Factors influencing internal tensions and alliance stability include: availability of resources; differential bargaining power; type of alliance; alliance goals; stage of industry life cycle; and changing market conditions. To maintain the collaborative relationship, alliance partners should balance these dialectical forces. There are however several limitations present in this model. Liedtka (1998), for example, suggests that an appropriately constituted strategy-making framework should build in the possibility of institutionalizing a process that continually examines the tension between the creation of the alignment necessary to support efficiency and effectiveness and the disruption of alignment necessary to foster change and adaptability.

The tension framework however is not a process model and does not contextualise the alliance strategy to the internal or external environment, it does not illustrate the evolutionary process by which these forces may develop (see Das and Teng 1999a). The model also limits itself to the analysis of the six dominant internal competing forces.

Moreover, the process by which the various internal tensions develop or can be restored to equilibrium needs to be investigated, as do the interrelationships between external forces and internal forces. Another limitation is that the model does not take into account other influences that may moderate the relationship between tension and alliance imbalance, such as particular goals may generate more tensions between partners.

The tension model assumes that a significant imbalance in the competing forces results in alliance dissolution. de Rond (2003) however argues that recent interpretations of dialectic theory no longer assume the inevitable of new organisational forms as a result of the product of collision of tensions.

Das and Teng (1999a) present no empirical evidence that confirms their hypothesis. The process of governance through which an imbalance may be influenced to restore or deteriorate the stability of the alliance is not considered and the model does not explicitly examine the consequences from the evolution of competing forces in the alliance. Finally, the model fails to consider potentially relevant factors such as resources, bargaining power, and the influence of external factors (eg industry structure and changing market conditions).

Several researchers, including de Rond (2003) and Gill and Butler (2003), have pointed to some conceptual inadequacies or limitations in Das and Teng's study, including:

1) Assuming that the status quo is the preferred outcome – partners should balance the contradictory forces that may work to unsettle the status quo;

2) Limiting their analysis to three pairs of tensions – ignoring other important tensions such as vigilance and trust; control and autonomy; design and emergence; innovation and replication; exploration and exploitation;

3) Assuming that alliance partners will act rationally and consistently;

4) Limitation in the framework – failing to explain the origin and evolution of tensions.

Advocating a process approach to studying alliances, de Rond argues that alliance tensions are a natural phenomena and suggests that there are potentially additional sources of dialectic tensions beyond those suggested by Das and Teng. de Rond (2003) proposes that alliances can best be described as temporary structures suspended between dialectic tensions, and calls for a theory of variety (pluralist epistemology) approaches to explore how alliance tensions shape an alliance trajectory.

Das and Teng have acknowledged these criticisms and have suggested that these limitations, namely how tensions evolve in alliances and how tensions help shape an alliance direction, are future areas for investigation. Nevertheless de Rond's critical perspectives should be contextualized. Firstly his observations are shaped by insights gained from the research of alliances in the Bio-tech industry. However, as noted earlier, insights gained from case studies in one industry offer limitations to shaping theory, while the medical drug discovery process is extraordinarily difficult to manage and steeped in uncertainty and external circumstances (good fortune).

de Rond relies on the process approach to strategy (Mintzberg, 1987; Pettigrew, 1992; 1997) which does not focus in detail on the (micro) practices and routines of strategy formation (Chia, 2004; 3; Wilson & Jarzabkowski, 2004). Here, alliance outcomes are consequences of structure, process and practice, not just process alone (Hennart & Zeng, 2005).

2.10.2 Structural Choices and Internal Tensions

Das and Teng (2001) propose that an alliances' strategic intent and the ensuing constraints that may be presented by its structural arrangements can give rise to tensions. These scholars argue that various structural arrangements can predispose alliances towards specific internal tensions. Das and Teng (2001) propose seven structural choices that predispose the alliance to emphasising certain tensions rather than others (see Figure 2.12). When alliance partners relationships tend to be more competitive than co-operative they are classified as competitive alliances in Figure 2.12, cell 1 to 4. Cell 3 illustrates licensing and joint production alliances in which processes tend to be flexible and have a long-term orientation. The processes need to be flexible enough to be revised as needed even though the alliance processes have a long-term planning horizon.

By contrast alliance partners in Cells 2 and 4 are more rigid in their processes. Short-term joint RandD and joint horizontal marketing agreements would be structural examples and are illustrated in Cell 2. Here, the nature of the processes requires the partners to be closely involved and their activities highly specified (rigidity). The nature of the relationship is that the alliance partners here are competitive each striving to get ahead. Cell 4 in Figure 2.12 has more long-term arrangements such as joint ventures and minority equity alliances.

Figure 2.12 Alliance Structures and the Internal Tensions

	Short	**Term**	**Long**	**Term**
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	**Cell 1** *Arms length contracts** *not an alliance	**Cell 2** Joint Marketing Joint RandD	**Cell 3** Licensing Joint production	**Cell 4** Joint Venture Minority equity alliances
Cooperative	**Cell 5** Product Bundling Funded Research Shared Distribution	**Cell 6** Joint Bidding Joint RandD Joint Marketing	**Cell 7** Dealership Franchising| Licensing Joint Production Long-term Sources Open Architecture Alliance	**Cell 8** Joint Venture Minority equity alliances

Source : adapted from Das and Teng 2000b, Instabilities of Strategic Alliances: p54

These equity alliances, Das and Teng argue, are designed for the long-term and embed the partner firms in the alliance through equity measures. On the other hand, when alliance relationships are more co-operative they are classified as co-operative alliances as represented in Figure 2.12 Cell 5 to 8.

Cell 8 represents wholly owned subsidiaries, joint ventures and other equity based alliances that are co-operative, rigid, and long-term oriented. Here, alliance systems operate in a fairly co-operative manner as the parents interest are better aligned. Cell 6 however presents structural arrangements such as joint bidding, joint R&D and joint marketing because partners co-operate in a project specific manner. Here, processes are more short-term oriented and more rigid and cooperative than agreements such as licensing. Cell 7 is defined as co-operative, flexibility and long-term oriented. Agreements such as dealership, franchising, licensing, joint production, and long-term sourcing tend to exhibit these characteristics. These arrangements are much more flexible than equity based alliances and are not as competitive because the partners often are in a vertical supply chain relationship and compete in different markets. The rationale applied here is that structure influences the behaviour of alliance partners and hence alliance tensions.

The specifics of this influence have not received a great deal of research attention to date, the underlying question when examining alliance performance is whether structure or process matter more in explaining performance or success. There is a remarkable lack of empirical research on this issue. Contractor (2005) argues there are 'no good general indicators' that measure alliance performance or success. This author suggests that this is possibly due to the diversity of the alliance phenomena.

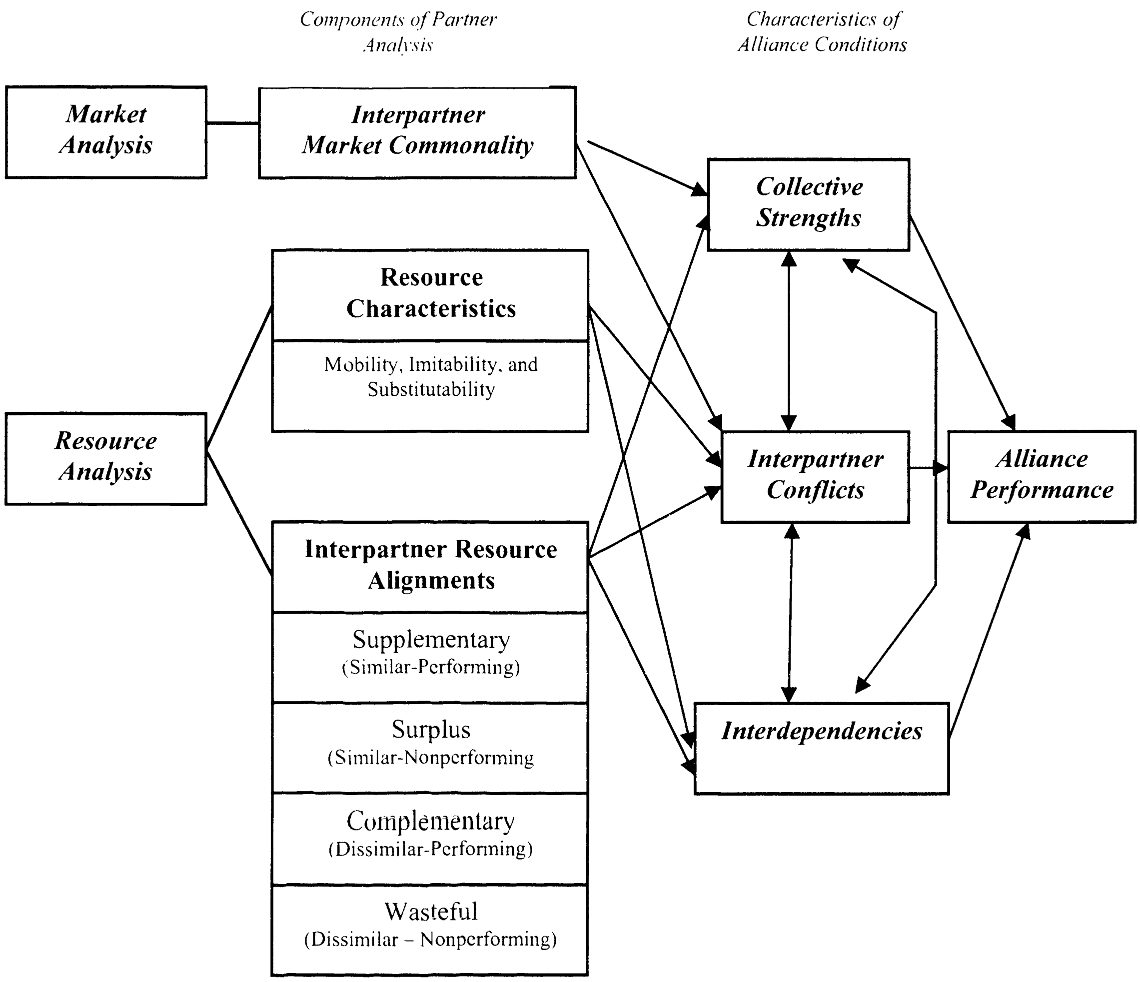
The literature refers to the word 'structure' to mean the legal form of relationship. A great deal of research on alliance structure to date contrasts equity and non equity modes.Yet, many alliance agreements are "a hybrid, or combination of fixed, revenue-related transfer price and profit sharing formulae" (Contractor, 2005: 124). One can therefore argue that interorganisational routines are also part of alliance structure (see Dyer, 1996). Interorganisational routines and exchange of information are often mandated in alliance agreements. These can include agreements on territorial limits; audit requirements; fixed fees, profits, licensing fees, royalties and franchising fees expressed as a percentage of revenue; and decision making rules and limitations on the opportunistic behaviour of partners.

2.10.3 Partner Analysis Framework

Das and Teng (2003a) offer an Integrated Process framework, one that evaluates prospective alliance performance through an analysis of the partner firms and the alliance conditions, drawing upon and integrating the two main approaches in the strategy literature—competitor analysis and the resource-based view of the firm. The framework integrates some of the major characteristics of alliance conditions, which include: market analysis; resource characteristics; interpartner resource alignments; key characteristics of alliance conditions; and determinative relationships with alliance performance.

Das and Teng hypothesise that satisfactory alliance performance is influenced by characteristics of alliance conditions – collective strengths, interpartner conflicts, and interdependencies. The ''partner analysis'' framework is conceptualised in Figure 2.13 and depicts the major relationships among the variables of partner analysis, alliance conditions, and alliance performance.

Figure 2.13 Framework of Partner Analysis, Alliance Conditions and Alliance Performance



Source: T.K. Das, B.-S. Teng 2003, 'Framework of partner analysis, alliance conditions and alliance performance', *Scandinavian Journal of Management,* vol 19: 281

The framework emphasises the significance of the initial alliance conditions and can provide the conceptual basis for future research into the degree to which the initial partner attributes and alliance conditions are determinants of alliance performance (Das & Teng, 2003a). This theoretical framework addresses three principal aspects of the alignment between the alliancing firms, namely their market commonality, resource characteristics, and resource alignments. These three components of partner analysis affect the alliance conditions, which are composed of collective strengths, interpartner conflicts, and interdependencies. Das and Teng suggest here that alliance condition variables are directly responsible for alliance performance.

The partner analysis framework integrates the three components with the three aspects of alliance conditions, and focuses on arguably the most important determinants of alliance performance. The objective of the model is a focused approach that should facilitate both theory building and provide practical guidance.

Das and Teng's partner framework however also presents some limitations to researchers as it focuses on internal factors between the partners rather than on environmental factors. It can be argued for example that the evolution and trajectory of a strategic alliance between firms is shaped by both the external (eg economic, industry, technology, competitors) and internal (resources, strategic agenda) environments and the relationships between the collaborating partners through direct and indirect ties.

The framework does not examine whether the initial partner attributes are determinants of alliance performance. The framework has also not been tested empirically for the validity of the mediating role of alliance conditions. The individual parent firms' strategic agenda's that influence the dynamics of an alliance and give rise to strategic tensions are also not considered in the model. It can be argued however that they are the key to understanding the transition from one alliance stage to another eg why do some alliances remain stable while others have to be reformulated or terminated soon after they are formulated.

The presence of tensions in alliances as contextualised by de Rond (2003), Hamel, Doz and Prahalad (1989), Das and Teng (2000b) and Lewis (2000) however does not intend to promote a perspective that disharmony equates to chaos. It does however draw attention to the complexity, diversity, volatility and uncertainty of alliance life and suggests that exploring paradoxes and strategic tensions can lead to a better understanding of alliances. Indeed a number of authors advocate building theory based on the resolution of tensions and conflict (Poole & Van de Ven, 1989; Quinn 1988; Das & Teng, 2000b).

This conceptual approach is also adopted by deWitt and Meyer, (1999) in their classic work *Strategy synthesis: resolving strategy paradoxes to create competitive advantage*, in which it is suggested that looking at tensions as paradoxes will discourage jumping to conclusions and "will promote creativity to find ways of benefiting from both sides of a tension at the same time" (1999:19).

Contractor and Lorange (1988b) share the same perspective when commenting on the complex nature of alliances. Here they suggest that alliances are characterised by many competing forces, the dynamics of which may easily jeopardise the equilibrium of alliances' inter-firm differences and are essential to the formation and maintenance of an alliance. The erosion or convergence of these differences destabilises the alliance relationship. Once again the strategic dilemma is illustrated by the previous cited paradoxes that an alliance must balance the need for commitment with the desire of partners to keep their options open. Similarly, marketplace rivalry between alliance partners is a frequent source of tension. Any form of rivalry between alliance partners complicates alliance management. The balance of power within the alliance can shift widely over time, particularly as the relative importance of the skills and experiences contributed by each partner varies.

Of particular relevance to this thesis' research focus is the conclusion arrived at by Büchel in her study that "the maintenance of joint ventures does not depend on the stability of the relationship, but the balancing of convergence and divergence" (2000:655). Büchel and Thuy (2001) add that particular attention should be paid to behavioral indicators (equity and working relationship) as "discrepancies in assessment based on efficiency and equity essentially determine the outcome of cooperative relationships" (2001:110).

This finding contextualises the dynamic and evolutionary nature of alliance relationship management and contributes to the perspective of viewing strategic tensions as strategy paradoxes (de Witt 1998).

2.11 Strategic Alliances – an Applied Perspective

In this final section of Chapter 2, internal strategic alliance tensions are contextualised in the contemporary applied environment. Williamson captures the notion of internal tensions when he argues that the term strategic alliance characterises an interorganisational relationship where the parties "maintain autonomy but are bilaterally dependent to a non trivial degree" (1991a: 271). It is in this context that alliances imply more than a hybrid strategy for organizing and globalizing business practices. Alliances create new opportunities, and challenges and demands hitherto unknown organisational competencies (Clegg, Hermens & Porras, 2002).

The review of the literature highlighted the importance of alliances as organisational strategies and recent research supports such findings. For example, an Economist Intelligence Unit report "Companies without borders: Collaborating to compete" (Thomas 2006), in which 197 executives took part, found that collaborating with external firms is now the norm for nearly all businesses and forms an increasingly important part of companies competitive advantage. It can be argued that as firms begin to rely increasingly on alliance partnerships for competitive success, more attention and investment will be required to ensure that these collaborations are successful.

This perspective is also shared by a number of authors. For example, Kanter (2002) suggests that as more and more organisations invest in collaborative agreements the stakes rise, and so must the understanding and sophistication of the firm's alliance management team. The research in the 2006 Economic Intelligence Unit report suggests that the skills of the personnel assigned to an alliance relationship are the single most critical factor for the successful management of the partnership. Developing such capabilities however has proven to be an illusive quest for many collaborators. The report concludes that one of the major barriers to successful collaboration with potential partners is the lack of common goals with alliance partners.

Gomes-Casseres (2006) adds that as alliance strategies are being increasingly embraced by firms the firm's boundaries become more transparent, and thus research must focus on both the internal and external processes of firms. An important root cause of underperforming alliances is an inattention to the governance processes and structures required to tend to the alliance relationship, direct resources in the proper direction and maximise its value. The aim of a governance process is to influence how the objectives of the firm are shaped, how risk is monitored and evaluated, and how performance is optimised (Clarke, 2005). There is however no common agreement how this process occurs in hybrid organisational forms such as alliances. Recognizing this as a dilemma it can be argued that there is an urgent need for further research that aims to explore how alliances are governed to create economic value.

2.11.1 Strategy, Alliances and Organizational Competencies

The link between strategy, alliances and organisational competencies is embedded in the observation by Bamford and Ernst (2002) that firms should not form alliances reactively, but should determine when alliances can be used to fill key gaps in technology and skills, to reduce the intensity of assets, or to exploit unique capabilities. The revolution of technology in global communication and transport has extended the business and social networks of management teams. Opportunities for collaboration and managing strategic alliancing occur in an environment that provides both opportunities and potential threats. According to Kim and Mauborgne (1999b), strategy will always involve both opportunity and risks. Thinking strategically requires the manager to identify new market space that is uncontested. Product attributes, service levels and business capabilities are crucial to long-term competitive success. These key factors are so critical to the customer that business can gain sustainable competitive advantage by focusing their energies on being distinctively better than their competitors at achieving them. Kim and Mauborgne (1999a) add that managers who only vaguely or incompletely perceive what factors are truly crucial to long-term competitive success are likely to fail. Collaborative partnerships can increase a firm's ability to leverage innovation, access new markets and technology, acquire scale economies and differentiation but also promote the diffusion of knowledge and competencies across firm's traditional boundaries.

Global industrial restructuring in the contemporary environment is characterised by an increase in cross border strategic alliances (Sakai, 2002). Firms are expanding their geographic reach through new sales and marketing alliances as a result of the integration of regional markets in Europe and North America. The number of strategic alliance deals arrived at in OECD countries between 1990 -1999 was 63482, of these European firms represented 33%, Asian Pacific 38%, North American firms 64% and Latin American firms 3%. Overall, 60.8% constituted cross-border deals and 39.2% domestic agreements (OECD, 2001). OECD studies have concluded that many firms find strategic alliances the most efficient mode of governance, particularly when accessing complementary resources (Lundan and Hagedoorn, 2001).

2.11.2 Alliances and Regional Trends

Traditionally, European and Asian managers have viewed cooperative strategies more favorably than their North American and Australian business counterparts (Lendrum 2003). In Australia, where many industry sectors are dominated by oligopolies, alliances between companies in the same national economy are often constrained by anti-trust and competition laws. Collaborative relationships between larger players run the risk of breaching the Trade Practices Act 1993 (Lendrum, 2003). Nevertheless the number of domestic or international alliances occurring in an economy are: (a) correlated with the size of the national economy – there are proportionally more international alliances in small economies than in larger ones; (b) factor driven – economies based on external trade relative to their size tend to seek alliance partners at an international level; and (c) influenced by the national competitive environment and the market structure of different sectors.

The number of new strategic alliances agreements in Australia has grown by 47% since 1994. By the year 2000, 661 new alliance agreements had been entered into, 461 or 74.7% of these were cross-border and 25.3% domestic alliances. Australia currently ranks fourth in the number of new strategic alliances deals signed by OECD countries. Australian Telecommunication companies were most active signing 101 new cross border alliances agreements between 1995 and 1999. Steel manufacturers signed 19 deals; Australian Airlines companies signed 16 new deals; in the Automotive sector 29; Banks 14, and Insurance firms signed 36 deals during 1990 and1999.

2.11.3 Small and Medium Sized Enterprises

One of the key roles in the modern changing world is that of small and medium enterprises, which are now the main source of new job opportunities (Wickham 2006). Between 1990 and 1999, small and medium businesses were involved in some 3800 international alliance deals, with the majority of these transactions (2100) occurring in the period 1995 to 2000 (Thompson Financial, 2002). Growth in the services industry for the same period (1300) outpaced manufacturing alliances (800), though the ratio of alliance deals was equal in 1990.

In Australia 600,000 of the 800,000 companies are small family businesses and many are engaged in, or have entered into, strategic alliances with larger businesses. Asymmetrically, agreements between large and small enterprises have higher growth rates than alliances between large firms (Gugler, 1992: 90). Challenges associated with managing strategic alliances between large and small and medium sized enterprises (SMEs) and the key variables that play a critical role in alliance performance is an under-researched area in the alliance literature. Gill and Butler (2003) suggest that there is a scarcity of research that investigates how collaborating partners manage competing forces in an alliance once it has been formed.

Schaper and Volery (2005) draw attention of the importance of the SME sector and argue that these forms of organising a business are a major economic force in the global economy. The scope and influence of SMEs on the global economy is considerable. There are about 45 million SMEs in the APEC region, representing 95% of all firms, employing 80% of the workforce and contributing up to 60% of the GDP of APEC economies. This is also the case in the Asian economies where SMEs make significant contributions, for example accounting for between 40% and 60% of exports in China, Taiwan and Korea and 20% in Thailand, Malaysia, Singapore and Vietnam.

In a mature economy like the United States of America the role of SMEs is particularly vital suggests Zimmer and Scarborough (2002). For example SMEs contribute 95% of non farm business and employ 50 % of the national workforce. Sustainable growth and development of SME's is largely contingent on an environment that fosters entrepreneurship, competition and innovation. Policies that improve linkages between SMEs and large firms encourage the establishment and development of innovation clusters and fosters entrepreneurship and national competitiveness. Casson and Wadeson in their paper developed a formal model that demonstrated "that constraints on the supply of entrepreneurship reduces economic performance" 2007:239)

2.12 Summary

This study of the alliance literature examined the theoretical contributions and models that inform an understanding of the dynamics and processes of coevolution that shape the alliance development process. These include:

- Paradox framework (de Wit & Meyer, 1998; Lewis 2000, Clegg, Cunha & Cunha, 2002)
- Co-operative strategy and sources of interorganisational competitive advantage (Dyer & Singh, 1998)
- Dialectic theory of strategic alliances (Das & Teng, 2000b; de Rond, 2003)
- Dynamic process model of co-operation, (Das and Teng, 2002b; Gill & Butler, 2003)
- Governance modes of co-operation (Gulati & Singh, 1998b; Sharma, 1998, Eisenhardt & Galunic, 2000; Villalonga & McGahan, 2005).

However the examination of the various relevant theoretical perspectives does not provide a comprehensive explanation for the phenomena of simultaneous growth of alliances and their reported high failure rates. Each theory focused on limited aspects of a strategic alliance and as a consequence there is no general framework that explains why strategic alliances are inordinately unstable. This observation is supported by a number of writers who have also suggested that a theoretical perspective is needed to address alliances stability; their transitional form and why these collaborative structures are steeped in management issues (see Koot 1988; Niederkofler 1991; Das & Teng 2002b).

Investigating the influence that alliances exercise on individual partnering firm's corporate strategy, structure and performance has become a topical issue for both researchers and scholars (Goerzen & Beamish, 2005). Gulati, Nohria and Zaheer (2000) suggest that studying the structure and system of alliance relationships a firm is embedded in may lead to a better understanding of an individual firm's behaviour and performance. Current theories explaining alliances as an unstable organisational form are unable to rationalise both the incidence and dissolution of alliance instabilities or whether such collaboration enhances long-term sustainable individual strategic capabilities (Kanter, 1994; Das & Teng, 2002).

There is also little consensus among researchers on the evolutionary dynamics of alliances and what constitutes their performance or what its measures are. Das and Teng (2000b) suggest that there is no general framework that adequately explains a number of collaborative paradoxes and propose that alliance outcomes can be linked to imbalances in dialectical forces. Das and Teng (2002) have called for " future research to focus on the differing planning horizons of partner firms and explore how these may affect the co-evolutionary dynamics of alliances and the requisite alliance conditions for effectiveness in the different development stages" (2002: 743).

The ambiguity surrounding the topic of alliances is not solely confined to the literature. Strategic alliances are central to firm strategy. Although alliances have become a popular organisational form for accessing resources, they frequently fail to live up to expectations. It appears that alliances are difficult to manage and it can be suggested that managers have only a superficial understanding of what drives the economic and competitive consequences of strategic alliances. As managers are becoming more dependent on business partners, a more systematic understanding of alliance performance is required. There is a lack of knowledge particularly for the reason and the processes of change in these collaborative structures.

Given the divergent views expressed in the literature, what are the implications for the strategist? Dialectic theory would suggest that alliances, whether they are formed implicitly or explicitly, formally or informally, enable firms to use different combinations and patterns of competitive and cooperative relationships to achieve their own unique goals. Hamel (2000b) suggests that both competitive and collaborative motives may exist in alliances. For example, interfirm learning can be related to both collaborative and competitive advantage (Hamel, 1991; Inkpen and Beamish, 1997b). Co-operation however involves compromise and restrictions which often results in a restless, dissatisfied, or ambitious partner (D'Aveni, 1995). Mockler 1999 proposes that tensions are most severe when the ratio of private benefits (the opportunity for a firm to apply skills acquired in the course of the alliance to operations and business opportunities outside the scope of the alliance) exceeds common benefits (the magnitude of the opportunities within the scope of the alliance) These competitive tensions lead firms to deviate from behavioural patterns which are optimal for the alliance as a whole.

The behaviour of each collaborating partner is influenced by the anticipated payoff of the alliance to its partners. As the payoffs during various stages of the alliance development cycle change, the incentives and motivation to continue to allocate optimum resources will alter and impact the alliance collaborative dynamics. Accordingly, an appreciation of alliance tensions facilitates the design of organisational and strategic processes for more stable outcomes (Das and Teng, 1999b). de Rond (2003) argues that alliances in a stable environment tend to experience dialectic tensions to a lesser degree but tensions are nevertheless embedded in any collaborative venture. When market and hierarchy forces are in equilibrium, and cost/benefit trade-offs are equal, one can propose that alliances may be more stable and effective.

It can be argued that the managerial processes associated with an alliance strategy favours an approach that promotes actively scanning, identifying, interpreting and acting upon early signals from the alliance internal and external environment. This enabler assists managers to effectively anticipate and exploit opportunities well in advance, that is allow the partnering firms to stay ahead of the game.

In today's business context, strategic alliances pose a managerial paradox. On one hand alliances have become crucial avenues to valuable strategic resources, learning and competitive advantage. Alliances provide firms with an opportunity to leverage their strengths with the help of partners (Inkpen & Crosson, 1995). On the other hand stories of failed strategic alliances abound. de Rond observes that "strategic alliances have continued to proliferate in the face of high failure rates" (2003:173). Larson, Brousseau and Driver suggest that reports of alliances that satisfy all of their partners over long time periods are scarce and add that "strategic alliances seem to be more advantageous in theory than practice" (2003: 9).

Not surprisingly, many managers perceive collaboration as a high-risk strategy (Kale, Dyer and Singh, 2001). Koot (1988) and Niederkofler (1991) called for a theoretical perspective to clarify the roots of problems in terms of strategic alliances being only a transitional form and steeped in quandaries. The focus of a significant amount of research over the past decade has been on the development of concepts, models and tools to guide alliance formation or selection of partners.

Collaboration and competition are intrinsic to strategic alliances and a number of the key challenges that confront senior managers responsible for the governance of strategic alliances stem from how to share the benefits between the collaborating partners and/or managing the conflicting priorities of their parent companies. Achieving long-term stakeholder value is a delicate balancing act in dyadic alliances.

Doz (1988b) proposes that the strategic interest of each company and the subsequent scope of the alliance are critically important to its value creation process. The complex interactions through these collaborative strategies require managers and individuals to deal with ambiguity and to exercise high levels of judgment that requires them to draw on deep experience (tacit knowledge). Many alliance ventures fail or fall short of expectations because of divided loyalties, gridlock, weak performance management, mistrust, and stagnation.

Van de Ven (1992) proposes that in any type of alliance structure, there are dialectic forces or values that contradict, collide and struggle with each other for domination and control. Dialectic tensions, suggests de Rond (2003), are a normal organisational phenomenon and a reality of alliance life. Kogut (1989) describes strategic alliances as dialectic systems whose stability is determined by balancing multiple conflicting forces. Hamel, Doz and Prahalad (1989a) propose that lack of harmony in alliances is relatively unimportant and that conflict is a natural state in alliances. Limited attention has been paid by researchers to date as to how internal strategic tensions evolve and influence organisational stability. Various theoretical perspectives do not adequately address the simultaneous existence of a number of tensions and contradictions in strategic alliances. The understanding of the process dynamics in alliances remains limited (Das & Teng, 1999a).

This review of the alliance literature has found support for the theory that alliance performance is influenced by multiple conflicting forces of firms and markets. Alliance outcomes can be linked to imbalances in the macro and micro processes responsible for alliance tensions. However it must be said that much of the practice driven literature (eg, Cools & Roos, 2005; 2006) provides an anecdotal and an additive perspective rather than providing an instrumental understanding of the tensions and contradictions among alliance actors. This literature assumes that hegemonic conditions prevail that alliance managers are able to move beyond their individual corporate interest and manage in the interest for the whole alliance. There is a need to acknowledge among alliance actors the various tensions enacting upon a collaborative relationship.

2.13 The Research

2.13.1 Future Research Direction

Osborn and Hagedoorn (1997) suggest that a productive area for further research is to address the paradox that alliances are collaborative frameworks for actions between self interested corporations and action takers. The question is: 'what type of balance between competing forces within this duality will yield specific types of performance'? This area of research is also identified by Das and Teng who suggest that "our understanding of alliance instability and failure can be significantly improved by examining the internal tensions to which they are subject" (in de Rond 'Strategic alliances as social facts, business, biotechnology and intellectual history' 2003:31)

A number of authors have drawn attention to this area of research (Gulati, Khanna, & Nohria, 1994; Doz, 1996; Khanna, Gulati & Nohria, 1998), suggesting that this area should be the topic of future investigations. Specifically Das and Teng, (2000b) suggest that there is a lack of longitudinal studies that focus on the micro dynamics of an alliance and how competing forces affect the stability, trajectory and outcomes of the collaboration.

The review of the literature in this chapter identified a number of related research problems:

- How do the individual parents' firms' strategic agendas influence the dynamics of alliance tensions?
- What are the implications for alliance performance and evolution?

- What happens when the balance between the different competing forces shifts toward the dominance of one force or the other?
- Does organisational size influence process? Can an alliance involving a SME and a large corporate meet the common objectives of the partners?
- Does structure influence process? Does achieving equilibrium among the tensions optimise the individual firm level performance in a dyadic alliance?
- Does an industry environment influence the complexity of managing alliance processes?
- Does an alliance with a bad strategic fit alter the collaborative process/ dynamics of the strategic tensions and trajectory?
- Do different alliance goals influence the relationship between tensions and contribution?
- Does strategic intent influence alliance structure, process and performance?
- Does a focus on common benefits by alliance partners moderate alliance tensions and alliance performance?

2.13.2 Research Aim

Despite the plethora of academic publications over the past decade that focus on alliance design, regulation and performance, only relatively few studies exist on the dynamics, evolution and management of alliances (Gill & Butler, 2003; Das & Teng, 2000b; de Rond, 2003; Arino & De la Torre, 1998; Doz 1996; Koza & Lewin, 1998; Parkhe, 1993a; Ring & Ven de Ven, 1994; Shenkar & Yan, 2002). Gill and Butler specifically note that "there are significant limitations in the existing literature" (2003: 543). Theories explaining alliances as an unstable organisational form are unable to rationalise both the incidence and dissolution of alliance instabilities (Das & Teng, 2000b).

There is considerable ambiguity in alliance frameworks and an overall lack of agreement on the various theoretical issues (see Goerzen, 2007; Gulati, 1998a; Osborn & Hagedoorn 1997). This lack of agreement has been commented upon recently by a number of researchers (Koza & Lewin, 1998; McKelvey, 1997; Das & Teng, 2000b; Gill & Butler, 2003; de Rond, 2003). Dialectic theory is a framework that is particularly suitable to inform this study contextualised as the theory to investigate the collision of dialectic forces specifically the tension between the private and common benefits of the collaborating partners, and how these interactions provide a new collaborative order.

In response to the call by these researchers for further investigations and the 'knowledge gaps identified' by the review of the strategy and alliance literature, the research will focus on the governance of internal alliance tensions and alliance evolution. The study research questions:

1) Do strategic alliance tensions influence alliance performance?

2) Is the purpose of the alliance governance processes to ensure a balance of strategic tensions in order to optimise alliance performance or is every collaborative relationship unique and the goal of the governance process to find a new balance between: the stratergic tensions (co-operation and competition; short term and long-term; private and common benefits; flexibility and rigidity; power and influency?

3) Is a partner's satisfaction with the contribution (performance) in an strategic alliances achieved by interacting with the alliance partner or by the initial strategic compatibility between partners

For the purposes of this research study the focus is on co-operative and competitive alliances. These ventures are conceptualised, as dialectical systems that comprise a mix of contradictory forces of firm-characteristics – embeddedness, co-operation and long-term orientation – and market-characteristics – flexibility, competition and short-term orientation'. It is hypothesised here that managing the process of alliance value creation is determined by balancing conflicting forces enacting on a firm internal and a firms external environment.

Chapter 3 Building the Theoretical Framework

Practices embody theories, and theorizing is a form of practice. The modernist distinction (and opposition) between the two domains of thought and action would have us to appraise the qualities of theory within its own domain: however, in real life theory and practice are so strictly intertwined, it seems sensible to define as 'powerful' those theories which empower for action. (Eisenhardt, 1989:548).

3.0 Chapter Overview

The aim of this chapter is to present a theoretical framework that contextualises this study's research design. This conceptual framework integrates a number of theoretical perspectives and studies. Specifically the purpose of the framework is to map out alliance evolutionary processes and how strategic tensions may influence its performance. It is argued that researchers should use a framework or heuristic to guide an investigation through the maze, complexities and contradictions that constitutes the theory and practice of strategy (McKiernan & Carter, 2004).

3.0.1 *Chapter Structure*

The chapter is presented in three parts. Part One presents the background and rationale for the research direction, through an examination of both the four main dialectic tensions that influence alliance conditions and the alliance development process. The theoretical constructs and the structure of the research model that guides this study are then reviewed. Next the 'Process Model' of alliance systems is presented. The framework contextualises internal and external environments as key factors that shape alliance conditions.

Part Two considers the alliance value creation process in the context of alliance structures and internal tensions. The governance processes through which the alliance partners seek to influence the value creation process and the internal strategic tensions in pursuit of their strategic objectives are contextualised. Alliance tensions are then linked to strategic issues in the 'Strategic Impact Model'.

Part Three restates the research questions, presents various related research problems, and summarises a number of research propositions previously contextualised in the research model.

3.0.2 *Contextualising the Research*

The focal point of this study is strategic tensions between organisations engaged in a dyadic alliance relationship and the influence the partnering firms' corporate strategies may bring to bear on the governance of the alliance venture and subsequent performance of these partnerships. Daz and Teng (2000) suggest that there is a lack of longitudinal studies that focus on the micro dynamics of an alliance ie how competing forces affect the stability, trajectory and outcomes of the collaboration.

The objectives of this chapter of the dissertation are two fold:

4) to build a theory of internal tensions in the value created and appropriated in an alliance; and

5) to provide a framework for methodically relying on case study data rather than impose a preconceived theoretical framework (Glaser and Straus, 1967) to contribute insights and understanding of partner satisfaction with the value created by the alliance.

The framework however does incorporate some prior theory, and so is a blend of induction and deduction. This thesis endeavours to gain additional insights on the effectiveness of alliance institutions in co-creating value (see also Powell 1990; Scott 1995; Prahalad & Ramaswamy 2004). Rumelt, Schendel and Teece (1994) propose that the creation of new insights or knowledge about interorganisational co-operation, and more generally the advancement of strategy as an academic discipline, will increasingly depend upon building theory that helps explain and predict organisational success and failure.

3.0.3 *Research Perspectives*

Quinn and Cameron (1988) suggest that "advances in management and organisational theory will require ways to address paradoxes inherent in human beings and their social organisations" (1988: 562). The research presented in this thesis adopts a tension based perspective in its endeavour to explore internal governance dynamics in dyadic alliances in which decision making occurs where no one firm has complete authority. It is argued in this chapter that in a dyadic alliance between 'self interested' firms, every business decision made has an element of uncertainty associated with it and carries risks including the possibility that it may impact the balance of the competing forces and destabilise the collaborative structure. The survey of the literature presented in the previous chapter confirms that the institutionalisation and evolutionary dynamics of interorganisational alliances' governance occur in an environment of risk and uncertainty. A number of scholars propose that research in the area of strategy should be contextualised within frameworks which may then become the dimensions of building blocks along which other research may be evaluated, compared and contrasted (Freeman and Lorange 1985). Ansoff (1987) and McKiernan and Carter (2004) add that conceptual frameworks should be used by researchers as a guide for identifying new research questions and serve as a heuristic.

Chakravarthy and Doz (1992) suggest that the process of research design cannot proceed without a clear conception of the theories that are expected to guide the study. Gimeno, Chen and Bae (2006) adds that "from the outset, a central focus of strategic management research and practice has been the development of concepts, models and tools to guide effective resource allocation" (2006: 1).

3.1 Research Issues and Challenges

The review of the literature in Chapter 2 suggested key elements and concepts that the design of the research framework for this study will draw on. These include:

- Co-operative strategy and sources of interorganisational competitive advantage (Dyer and Singh, 1998)
- Dialectic theory of strategic alliances (Daz & Teng, 2000; de Rond 2003)

- Dynamic process model of co-operation (Daz & Teng, 2002; Gill & Butler, 2003)
- Paradox framework (de Wit & Meyer, 1998; Lewis, 2000; Clegg, Cunha & Cunha, 2002)
- Governance modes of co-operation (Gulati & Singh, 1998b; Eisenhardt & Galunic, 2000;

Few would debate the notion that the study of strategic alliances is a particularly challenging task. The complexity that confronts the researcher investigating the alliance phenomenon can be attributed to the scope of these structures, the wide range of strategic motivations that promote alliance formation and the array of roles played by alliance partners (Contractor, 2005; Goerzen & Beamish, 2005; Gulati & Singh, 1998b; Osborn & Hagedoorn, 1997).

3.1.1 *Rationale for the Research Design*

The diverse and changing constituents of alliance performance confronts researchers with what is arguably akin to a black box of the processes for the governance of these collaborative structures. In an alliance, suggests de Rond (2003), the process of deinstitutionalised divergent forces rises and convergent forces decline. Alliances are constantly contested by divergent actors who perceive that they may benefit from alternative structures or the absence of a collaborative structure. Under certain conditions, which may or may not coincide with exogenous change, dissatisfied or opportunistic actors may exploit the institutional and collaborative paradoxes and tensions present and seek to transform the alliance (Reuer, 2004). At various stages of the evolution of an alliance either convergent or divergent forces may dominate and predispose the direction of the alliance evolution. The divergent forces can either become the basis for destruction of the alliance or the basis for new integrating forces for the reconstitution of the alliance.

3.1.2 *Designing the Framework*

Designing a theoretical framework for this study's investigation of how the alliance governance mechanisms may influence the dynamics of internal tensions and alliance performance required the adoption of a pluralist epistemology, given the complex, heterogeneous and paradoxical nature of alliances. The theoretical framework is guided by strategy and alliance theory in general and draws on and integrates various fragmented theoretical views and empirical observations based on dialectics, institutional theory and resource theory. The rationale for this approach is imparted from Poole and Van de Ven (1989) who suggest that tensions, oppositions, and contradictions offer an opportunity for theory building, arguably one that has remained relatively neglected. Noteboom (1999) adds that organisations need an instrument to analyse and assess an alliance relationship in order to deal with the paradoxes of co-operation. The purpose of such a framework is to arrive at an evaluation and diagnosis of the relationship status between the alliance partners and to propose actions to improve or redesign it. Alliance partners need to evaluate their relative position to the opportunities and threats that evolve during an interorganisational dyadic collaborative relationship. The causal relations between the factors can be used so that scenarios can be developed that factor in possible reactions from the partner to the proposed courses of actions to be taken (Noteboom 1999).

One of a number of challenges confronted when designing the theoretical framework for this study was to understand in depth the dynamics of the evolution and trajectory of an alliance. The provision of powerful insights into the dynamics of collaboration does not rest solely within the domain of the paradox. Indeed on reflection, adhering solely to this paradigm initially presented limitations to the researcher. It is here where social, and game theory provided additional insights into the complexities of the constructs of competing forces (tensions) at work in strategic alliances.

3.1.3 *Institutional Setting*

A number of theories and perspectives have been used to explain alliance instability including relational contractor theory (Macneil, 1978), transaction cost economics (Williamson, 1975: 1994), institutional theory (Alexander, 1995), game theory (Parkhe 1993c). The explanations offered for alliance instability by various theories and perspectives have been explored in this chapter and found to have deficiencies and gaps (see Das & Teng 2000b). This is not to suggest that the insights offered by the various scholars adopting differing theoretical lenses are mutually exclusive, for example Alexander (1995), Parkhe (1993a), DiMaggio (1992) and Daz & Teng (2001) share a similar perspective; alliances are based on a tentative equilibrium of reciprocal opposing forces that can quite readily shift if one force gains strength. Alexander (1995) suggests that history (eg alliance experience) can affect present and future institutional development through the continuing flow on effects of initial conditions; the sequences, accumulation, synchronisation, and co-development of conflicting forces; and the interaction through mediation and mutual adaptation of internal conflicting forces.

The review of alliance studies and research frameworks reported in Chapter Two identified the frameworks of Daz and Teng (2001) as useful intellectual scaffolds for the development of a theoretical model. The framework aim is to guide the researcher in the quest for a greater understanding of the countervailing forces that simultaneously push an alliance together and pull it apart, and how value creation and appropriation mechanisms impact upon the evolution and outcomes of an alliance.

3.1.4 *Pilot Study – Interviews with Alliance Managers*

The purpose of the exploratory pilot study was to answer the question: 'What are the origins of dominant internal competing forces (tensions) that influence alliance performance'? Drawing on the notion of internal tensions (Daz & Teng, 2001), the qualitative study was designed to examine this question from the perspective of senior alliance manager, Chief Executive Officers (CEOs), or General Managers (GMs). The next step (see Chapter 5) was to find out how the governance (influencing/manipulating) of internal tensions by senior managers influenced alliance performance (partners satisfaction with the contribution of the alliance to their organisation). This required the design of an iterative process of ongoing case study based research (see Chapter 4) to more fully understand the phenomenon.

Adopting a grounded theory approach, the sample for the exploratory pilot study was drawn from firms whose executives were, or had been, engaged in alliance management at a senior level and that were likely to have knowledge of strategy in the supply chain. The primary data sources for the theoretical framework was composed of interviews and reports obtained from twenty-seven executives in eight alliancing firms across a number of supply chains. These interviewees were at a senior management level; possessed knowledge of joint ventures and had firsthand experience of alliance partner relations. The unit of analysis for this study was the respondent's perspective of a specific alliance partner relationship and the contribution the alliance venture made to their firm.

Table 3.1 Profile of Interviewees

Focal Alliance Firm	Industry	Interviewees	Position Title
Qantas	Airline	Qantas BA Flight Centre	Alliance Marketing Manager Group Operations Manager Marketing Manager
Qantas	Aircraft Frame Manufacturing	Airbus Boeing	Director Marketing and Sales Director Engineering
Ansett	Airline	Ansett Air New Zealand AWAS American Express Travel	General Manager Fleet Operations Chief Pilot CEO Aircraft Leasing IT Manager
TPI	Power Tools	AtlasCopco TPI	General Manager CEO/Director
TPI	Power Tools	Bunning's Hardware House Mitre 10	Marketing Manager Store Manger Owner/Operator
Mirvac	Housing Construction	Mitec Australia Mirvac	State Manager State Manager
SOMFY	Electric Motors	Somfy Somfy Somfy Luxaflex	Asia Pacific General Manager USA Marketing Manager EU Sales Manager Manager
Cuna Mutuals	Credit Unions	CRI Canada Cuna Mutual CUSCAL	President CEO IT Manager
Goodyear	Automotive Tyres	Goodyear Tyre Marketers' Michelin	General Manger CEO Asia Pacific General Sales Man
AOL7	Media	AOL BT	CEO Asia Marketing Manager

As Table 3.1 highlights, the twenty-seven executives interviewed were employed by firms engaged in alliances with the eight focal firms listed in the: airline industry supply chain (Procurement and Maintenance, Leasing, Operations, Marketing and Retail Service), power tools industry (Manufacturing, Distribution, Marketing, Customer Service); housing construction industry; electric motor manufacturing industry; credit union industry; tyre industry; pharmaceutical industry; and media industry.

The aim of the theoretical sampling is to compare and contrast categories in terms of events and dimensions until a saturation point was reached where I could gain no further insights (Strauss and Corbin 1998).

3.1.5 *Data Collection*

A semi-structured interview protocol was used for the data collections. Initial interviews were deliberately broad and as data collections progressed, questions were added with a higher degree of focus as the theoretical samplings were adapted to emergent insights (Straus and Corbin 1998). In the interview format there was consistency in the key questions asked to be able to categorise data. However, as indicated above, additional questions were also asked as the interviews progressed and insight was gained to solicit additional information from the interviewee unrestrained by set interview questions. All interviews were conducted face-to-face either at the interviewees' office, at company strategic planning conference venues or at the researcher's office at the University of Technology, Sydney. Face-to-face interviews was the preferred methodology as it allowed the researcher to glean additional information from visual clues, observations from the workplace and observations from any interactions with colleagues and their managers. Notes were taken at all interviews and most were also audio taped for subsequent verbatim transcription by a research assistant.

3.1.6 *Data Analysis*

The analysis was conducted through the methodological coding of the data in order to allow systematic comparison. Coded concepts were grouped into various categories including:

- External environment
- Industry data
- Internal environment
- Partners' firm data
- Competitive profile
- Risk factors
- Alliance formation strategy
- Structural choice
- Alliance dynamics
- Alliance performance variables
- Risk categories
- Tension and dialectic dimensions,
- Alliance contribution
- Alliance outcome

The coded concepts were grouped into categories and then linked into the theoretical process model (Figure 3.3). Grounded theory methodology (Straus and Corbin 1998) suggests that as soon as the first interview was completed the transcripts be coded using software packages (initially database and subsequently NVIVO[1]). The coding process followed the following methodology: open coding, axial coding, and selective coding. In this study, forty-eight concepts were initially coded in the open coding step. As soon as patterns or themes began to emerge during the open coding process subcategories were introduced. Patterns or themes were diagnosed by asking why,

[1] NVIVO are trademarks or registered trademarks of QSR International Pty Ltd.

how, when, where and with what results (axial coding) in order to add depth and structure and continued in parallel with open coding (see Straus and Corbin, 1998). Critically challenging the categories enabled the researcher to explore both structure and process in which the internal alliance tensions are situated ('why does this occur?') and the behaviour ('how does it occur?'). As the axial coding process progressed, categories and properties accumulated and began to form the core of an integrated framework (see Figure 3.1). This core formed the nucleus of the emerging theoretical framework and guided the collection of additional data and analysis. The next step was the reduction of the number of categories relevant to the developing theory (Glaser and Straus, 1967; Straus and Corbin, 1998).

To minimise the researcher's bias and to support data quality and integrity:

- The interview data was audio taped and transcribed by a research assistant to ensure accuracy and completeness of data collection (see also Maxwell 1996)
- The data was collected from 27 executives from multiple companies and industries engaged in eight alliances to minimise industry biases
- Grounded theory was chosen in order to provide a framework for methodically relying on the data to provide insights and understanding rather than imposing a preconceived theoretical framework (see also Straus and Corbin, 1998)
- Software packages provided a mechanism for systematic organising, coding and analysing the data
- Interviewees reviewed a summary of their interviews to ensure they agreed with the content (see also Hirschman, 1986)

Colleagues familiar with the constructs were consulted and reviewed the results to make sure they were understandable and confirmable and final results of the preliminary study was presented to research seminars and conferences (see also Hirschman 1986)

3.1.7 *Findings and Analysis*

This section presents findings from interviews from the explorative study on the dimensions of the phenomenon of internal tensions in strategic alliances and integrates existing theory drawn from relevant literatures. As described in the previous section, information was collected from twenty-seven executives who have knowledge of strategic alliance relationships for their companies. They represent twenty-five firms across eight industries, with nineteen firms in the airline industry linked through various alliance arrangements (see Table 3.1).

To explore the phenomenon of the governance of strategic alliance tensions the following questions were posed:

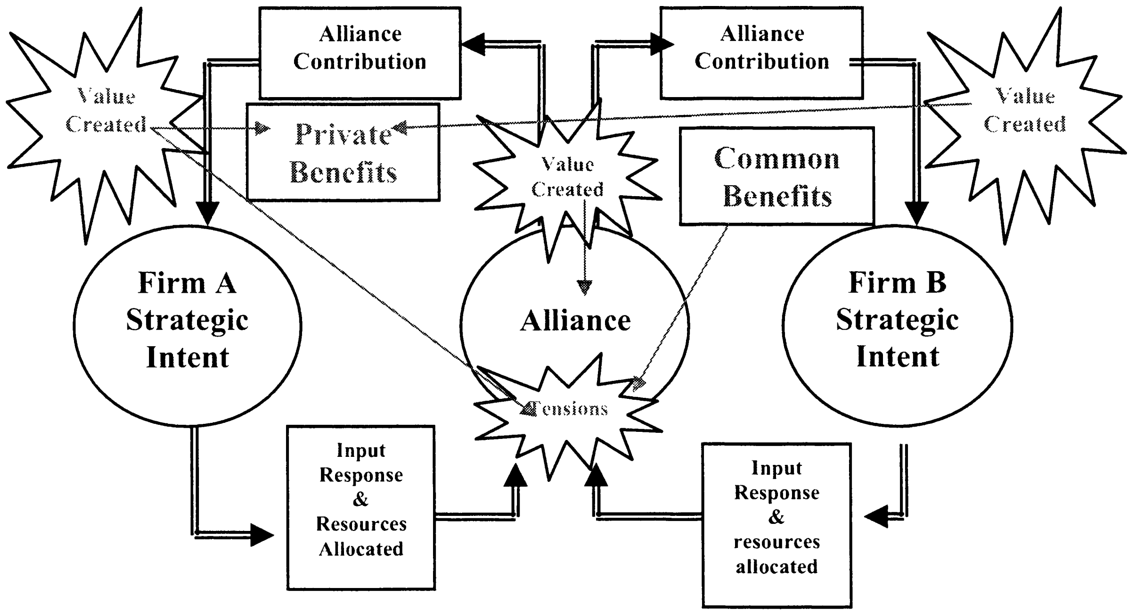
1) How do internal alliance tensions emerge?

2) Do strategic alliance tensions influence alliance performance?

3) Does an imbalance in the dynamics of internal tensions shape the evolution of an alliance?

In order to investigate the nature of alliance relationships, it was fundamental to establish the relative importance of alliance partners' supply chain relationship, extend any market overlap and define alliance performance. Analysing the research data of the pilot study and integrating insights gained from the literature review (Chapter 2) models were developed to support the next stage of the research. First a flow chart model contextualising aspects of the alliance, value creation and appropriation process (Figure 3.1) was constructed, and then the research framework (Table 3.3) was designed.

Figure 3.1 Value Creation Process in Alliances: Common and Private Benefits



The research framework hypothesises that strategic tensions between alliancing partners emerge as partners evaluate the risks between the actual and or anticipated alliance conditions versus their normative ideal of successful collaboration/performance (strategic intent). A matrix for prioritising the dimensions of internal tensions, high impact versus high priority (see Table 3.3) was also developed.

Finally the process model, the evolution of an alliance (see Figure 3.3) integrating the data from the various models and matrixes evolved. This integrative model conceptualises the contest between the opposing forces of convergences and divergences which will influence either the persistence of the alliance as an institution or dictates the path along which it will evolve.

Previous works, for example Daz and Teng (2001) that have examined the role of tensions between strategic partners and alliance performance have hypothesised how tensions may destabilise an alliance. However, theses scholars' study did not investigate the origins of, nor linked tensions and, alliance performance. How an imbalance in the dynamics of internal tensions shape the evolution of an alliance remains open to speculation. One of the aims of the preliminary study was to gain further insights to this problem.

The universal apprehension with the level of internal tensions between alliance partners expressed by the senior managers in this study was remarkable. Interviews were conducted over a twelve month period in 2000. Across industries, executives expressed optimism about the future influenced by the Sydney Olympic Games, growth in the global economy, and the partnership opportunities presented by a rapid growing Chinese business market for both suppliers and buyers. However, it was felt that the benefits attributed to alliances were often not realised. This was largely attributed to the tensions created by competing philosophies, competition versus collaboration (see also Minshall, 2005).

Respondents suggested that tensions between alliance partners, or within and among the alliancing firms, stem from a range of cultural, philosophical, functional, political and socio-institutional sources (see also Greenwood and Hinings, 1996; Oliver 1990). The dynamics of these tensions were associated with converging forces (eg embeddedness, collectivism and co-operation) or latent diverging forces (eg change, exploitation and competition).

The majority of respondents suggested that during alliance formation and growth, convergent forces seemed to dominate the latent divergent forces. The individual partner's inputs and resources allocated to the alliance venture can energise any number of converging and/or generate any number of divergent forces (see Figure 3.3). In many instances senior managers commented that input responses and/or the resources allocated are influenced by their own firm's strategic agenda, perceived risk, anticipated alliance contribution and the resources available. Other respondents commented that input responses and resource allocation introduced a cycle of tensions into the collaborative process. The speed and intensity of these forces were stimulated or mitigated by the actions and governance processes enacted by them or other senior managers within their organisation responsible for the management and allocation of resources to the alliance.

Commenting on the value created (common) and appropriated (private benefits) through the collaborative process itself, respondents agreed that the benefits or potential outcomes of the alliance invigorate or moderate converging and diverging forces. Respondents observed that they monitored and continuously assessed the contribution of the alliance to their own firm and that of their partner's firms at senior managers or board meetings as a priority agenda item. The evaluation process in turn influenced their commitment to the alliance relationship, dictated resource input and the evolution of the alliance. Governing internal tensions was defined by respondents as influencing the: allocation of resources to the alliance; alliance related management activities eg. business planning and strategic decision making processes; political, cultural and operational dimensions of the management process which either stimulate converging and or diverging forces both inside their own organisation or that of their partner.

A number of respondents commented on the presence of divergent forces. These were associated with two seemingly mutually dependent forces, namely contradiction and opposition. Contradiction was described as being generated by firms entering into an alliance arrangement and causing institutional change. Oppositions to these changes are seen to be potential sources of conflict and generate debate concerning the necessity for the formation of a collaborative institutional arrangement (see Benson, 1977).

3.2 Value Creation and Appropriation Mechanisms

This section of the chapter focuses on the dynamics of value creation and appropriation mechanisms in a dyadic alliance. Specifically, it explores the issue of whether a focus on common value creation (benefits) by alliance partners may moderate alliance tensions and alliance performance. In this section analysis from Study One is integrated with the findings from the literature, and the theoretical model for the origin of strategic tensions is developed.

It is unlikely that in every inter-organisational business transaction both parties are able to extract maximum value out of the exchange process for their individual organisation (private benefits) at the same time. The potential is there for one party to gain at the other's expense. On the other hand, both parties can extract value but at a different rate. There are several mechanisms for extracting value from an alliance. One option is to exercise bargaining power over the stream of economic benefits that are generated by the joint alliance partners the second option is to internalise skills of partners. Depending on bargaining power (a function of who needs whom most) a partner will gain a greater or lesser share of the value created (see G. Hamel in Reur, 2004). It can be argued that the best choice for an alliance partner is not always associated with attempting to maximise one's own private benefits at the expense of the partner.

In accordance with social exchange norms (Thibaut and Kelly, 1959), the pursuit of private benefits (self interest) may ultimately provide less personal benefits to an alliance partner than a concern for the general welfare of the alliance. It can be argued that when the partners are satisfied with the rate of contribution of the alliance, or where the contribution exceeds expectation, the alliance partners are likely to be interested in maintaining the status quo. Higher collective strengths suggest that an alliance will be able to proceed fairly successfully (Eisenhardt and Schoonhoven, 1996).

3.2.1 *Tensions in Value Creation and Value Appropriation*

Contradiction may stem from evolutionary tensions as partnering organisations and their constituent elements develop at different paces (Farjoun 2002).

When asked to describe dominant independent forces (variables) that they thought would shape effective alliance performance (see also Royer and Dietl, 2001) four categories emerged from respondents answers (see Table 3.2):

- Symmetry (equal distribution of value creation and appropriation)
- Entropy (compatible systems)
- Symbioses (interdependent relationship)
- Homology (strategic and resource fit)

In response to the question: 'how do you minimise risks associated with an alliance strategy?' respondents expressed universal concerns about a number of perceived risk factors (see also Daz and Teng 1999). These included:

- Risk in planning for the future
- Maintaining flexibility
- Managing collaboration
- Risk in finding fit

It is argued that apprehension and ambiguity around perceived risks was associated by respondents with giving rise to strategic tensions between alliance partners (see also Daz and Teng 2001). These were categorised in the analysis of the data as:

- Psychological (short versus long-term)
- Structural (flexible versus rigid)
- Behavioural (co-operation versus competition)
- Strategic (private versus common)

Table 3.2 Performance Variables, Perceived Risks and Internal Tension Dimensions

Performance variables Converging Forces	**Perceived Risk**	**Tension & Dialectic Dimension**
Symmetry	Planning for the Future	Psychological (a balance between short and long-term)
Entropy	Maintaining Flexibility	Structural (balance between structural flexibility and rigidity)
Symbioses	Managing Collaboration	Psychological (balance between co-operation and competition)

Performance variables Converging Forces	Perceived Risk	Tension & Dialectic Dimension
Homology	Finding Fit	Relationship (balance between private and common)

Respondents in the survey confirmed findings from the review of the literature (see Chapter 2) that governing these four key inter-firm tensions is central to building and maintaining an effective working relationship and sustaining the full value of strategic alliances. It is noted that previous process studies on governance and performance have ignored or condensed how senior managers responsible for an alliance, allocate and direct resources in pursuit of the partners' individual and common strategic goals.

Respondents in the survey also identified additional dialectic tensions (see also de Rond and Bouchikhi 2004. These included (see Table 3.3):

- Assurance (vigilance versus trust)
- Design (planning versus emergence)
- Focus (ambiguity versus certainty)
- Command (control versus autonomy)
- Growth (expansion versus contraction)
- Rent Distribution (individualism versus collectivism)
- Concentration (centralisation versus decentralisation)
- System (open versus closed)
- Utilisation (exploration versus exploitation)
- Positioning (consolidation versus expansion)
- Adaptation (compromise versus reformation).

Respondents suggested that these tensions are interdependent and parallel. Traditional management practices have typically seen strategic tensions as disruptive and needing to be eliminated. A senior alliance manager from the airline industry observed that:

"Tensions between us and our alliance partner are always there, they are a fact of alliance life, learn to live with them .They are latent forces, always present and need to be managed strategically and can be governed strategically if you get the drift".

Whilst these various tensions may have an influence on the governance, performance and outcomes of alliances (de Rond, 2003), respondents in the study suggest that the dimensions of short-term versus long-term; common versus private benefits; flexibility versus embeddedness; and collaboration versus competition are potentially the most relevant and meaningful variables (see also Das and Teng, 2003a).

Strategic alliances require a commitment to joint decision-making, which will place constraints on unilateral and arbitrary decision-making. Such process will eventually reduce the independence of each strategic partner. Respondents suggested that as a result tensions are encountered during the entire life cycle of an alliance relationship. These informants proposed that the ability to identify the sources of tensions between alliance partners would be beneficial to formulating a course of action that could positively influence joint decision making and alliance performance.

The research matrix 'Origins of Tensions in Value Creation and Value Appropriation in Commercial Organisations' (Table 3.3) illustrates the data from the pilot study. It contextualises how strategic tensions between alliancing partners may emerge. Alliance partners assess the gap between the actual (or anticipated) alliance condition and their strategic intent (anticipated normative conditions of successful collaboration / performance. It is from here, the perceived gap between the anticipated (normative) and actual alliance conditions those tensions between alliance partners may emerge.

Table 3.3 Origins of Internal Alliance Tensions in Value Creation and Value Appropriation in Commercial Organisations

Strategic Fit / Perceived Risk	**Symmetry** Profits, costs, shares and decision rights equally distributed to partners	**Entropy** Compatible systems	**Symbioses** Interdependent Relationship	**Homology** Organisational, Structural & Resource Fit
Risk Planning for the Future	**SYP** Strategic Internal Tension Psychological (Short-term vs. Long-term)	EP Dialectic Tension Concentration (Centralisation vs Decentralizations)	SP Dialectic Tension Progression (Innovation vs. Replication)	HP Dialectic Tension Positioning (Local vs. Global)
Risk Maintaining Flexibility	SYF Dialectic Tension Rent (Individualism vs. Collectivism)	**EF** Strategic Internal Tension Structural (Flexibility vs. Rigidity)	SF Dialectic Tension Systems (Open vs. Closed)	HF Dialectic Tension Utilization (Exploration vs. Exploitation)
Risk in Managing Collaboration	SYM Dialectic Tension Evaluation (Vigilance vs. Trust)	EM Dialectic Tension Growth (Expansion vs. Contraction)	**EM** Strategic Internal Tension Behavioural (Cooperation vs. Competition)	HM Dialectic Tension Expectation (ambiguity vs. certainty)

Risk in Finding Fit	SYFF Dialectic Tension Command (Control vis Autonomy)	EFF Dialectic Tension Design (Planning vs. Emergence)	EFF Dialectic Tension Adaptation (Compromise vs. Redesign)	**HFF** Strategic Internal Tension Alignment (Common vs. Private)

The aim of the decision making process by an alliance partner may be to cultivate or maintain one or all of the following conditions:

1. **Symmetry (Objective: achievement of equity)**

- **Cell SYP** contextualises the dimension of strategic issues associated with risks in planning for the future and ensuring parity and equilibrium between partners. The dialectic tension embedded in the decision making process here is along the psychological time continuum of short time versus long time.

As one respondent stated:

> *"..a strategic key issue for us, one of the great frustrations we experience with our alliance partner is their reluctance to invest in long-term projects, it seems they always want to keep their options open, hedging in case a better deal 'pops up around the corner. They fear that they will become too dependent on us; I guess you can't blame them really!"*

- **Cell SYF** contextualises dimensions of parity and equilibrium that may impact the alliance partner's strategic alignment. Inter-partner relationship decision making processes may be experiencing tension about maintaining flexibility, contextualised by the concerns of individualism versus collectivism.

- **Cell SYM** lists contextualises risks in managing collaboration in the context of parity and equilibrium that may impact the alliance relationship. Here the dialectic tension encountered in the decision making process is that between vigilance versus trust

- **Cell SYFF** lists strategic issues associated with parity and equilibrium in the alliance venture, ie cost sharing, decision rights etc., that may influence the value or benefits attributable to the partners. The dialectic tension embedded in the decision making processes here are those of control versus autonomy

As one respondent stated:

"Critical issue for us this one. They are a handy alliance partner no doubt, one of the largest players in the industry, but it is like being in business with a guerrilla, they flex their muscle a fair bit and we in turn are more and more looking at it from an angle what are we really getting out of this ... "

2. Entropy (objective: the use of compatible information systems)

- **Cell EP** contextualises strategic issues associated with communication and compatible information systems impacting the relationship between the alliances partners when planning for the future. The dialectic tension embedded in the decision making process here is centralisation versus decentralisation.
- **Cell EF** lists system problems associated with systems and maintaining flexible and compatible processes. The problem dimensions are contextualised by the dialectic tension of flexible versus rigid systems.

A respondent from the tyre industry suggested that:

"a critical alliance issue here, our marketing staff are furious, we need to use our own systems they are the latest point of sales technology and above all we want to remain flexible and up to date, but our partner is much larger than what we are and they want us to adopt their systems. They argue that their systems are robust and it would cost them too much to convert to our systems. Our guys aren't' talking to them right now" there is a fair bit of aggravation around... "

- **Cell EM** frames the risk dimensions surrounding the managing the uncertainties associated with the collaboration process and maintaining compatible systems. Here the dialectic tension embedded in the decision making process relates to expansion versus contraction.

- **Cell EP** represents strategic issues that are associated with the decision making processes concerned with resource and strategy fit. The dialectic tension embedded in the decision making process here are concerned with a partner's use of power and is contextualised in the dialectic tension of compromise versus redesign.

3. **Symbioses (objective: a strong interdependent relationship between the alliance partners)**

   - **Cell SP** contextualises the dimension of interdependency and the risk of dependency on the alliance partner. The decision making processes in this context when planning for the future may be concerned with the dimension of tensions embedded in the continuum of innovation versus replication.

   - **Cell SF** illustrates the dimension of interdependency and the risk arising from alignment. The decision making processes in this context may be concerned with the dimension of dependency and maintaining flexibility. This may give rise to tensions embedded in the continuum of open versus closed systems.

   - **Cell EM** contextualises interdependent relationship issues that are associated with uncertainty. The dialectic tension embedded in the decision making process here tends to be those of ambiguity versus certainty.

   - **Cell EFF** contextualises interdependent relationship issues that are associated with power and influence impacting alliance performance and evolution ie resource allocation and the dialectic tension embedded in the decision making process of control versus autonomy.

4. **Homology (objective: strategic structural and organisational fit between the alliance partners)**

- **Cell HP** illustrates how planning for conditions of optimum alignment and fit between the partners (structural, strategic and organisational) may engender concerns of positioning by one or both partners. This concern in turn can give rise to tensions associated with the issue of local versus global.
- **Cell HF** conceptualises those interdependent relationship issues that are associated with maintaining flexibility and alignment. These are listed here as, for example, the sharing of resources, integration of sourcing, production and distribution facilities and joint marketing. Dialectic tensions encountered in the decision making process are often in the tension dimension of exploration versus exploitation.
- **Cell HM** contextualises interdependent relationship issues that are associated with managing collaboration, for example resource dependency, value creation, research and development etc. The dialectic tension embedded in the decision making process tend to be those of ambiguity versus certainty.
- **Cell HFF** contextualises interdependent relationship issues that are associated with the use of power and strategic fit that influence alliance performance and evolution, ie resource allocation, and the dialectic tension embedded in the decision making process is common versus private benefits.

As one respondent stated:

> *"This is a big issue here; just do not know what to do . We are both tendering for the same major contract and it is important that we co-operate with our partner but if we co-operate with them and adhere to their price guides, it will show them we are co-operating with them fine, but the reality is that we both will wind up loosing the client. The customer is looking to save costs and there is plenty of competition out there."*

Regardless of the source of the alliance tensions, when managers become aware of these pressures they assign meanings to the event in the context of impact and perceived urgency. These assessments will contextualise the relevancy and importance of the tension to the strategic and/or operational domain of consciousness and areas of responsibility. This in turn will govern their level of response to assign differing types and volumes of resources to resolve arrest or escalate the tension. The critical role of diagnosis is a most important process as it will formulate a course of action (see Perrot 1993). This is particularly relevant to the focus of the researcher on the emergence of tensions between alliance partners and examination of the relationship between tensions and strategic issues. In this study, strategic tensions are those that are seen to be associated with high urgency and high impact by alliance stakeholders

3.2.2 *Prioritising the Impact of Strategic Tensions*

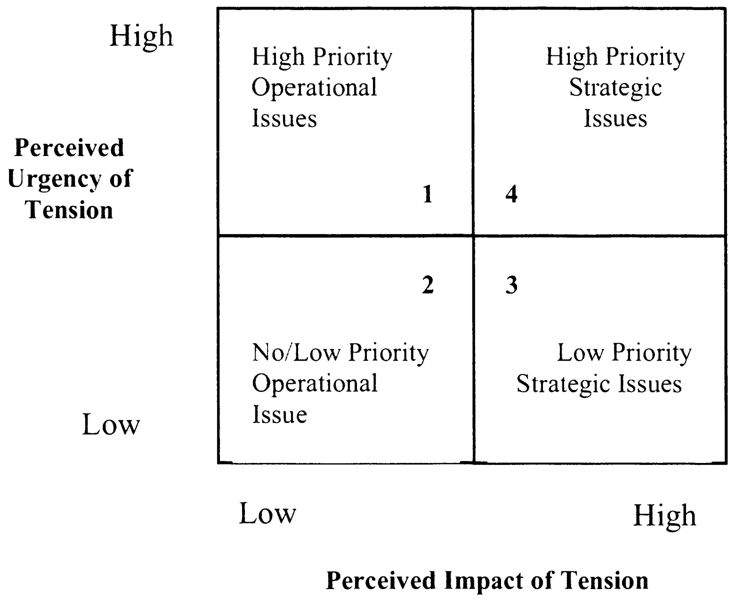
A matrix designed to assist decision making on how and when issues should be dealt with was developed by Ansoff (1980) (see Figure 3.2). This perspective finds broad consensus in the literature where it is argued that conflict between alliance partners even when ultimately resolved does not contribute to alliance performance (Das and Teng, 2003a). Poole and Van de Ven add that:

> *organisations can best be understood in terms of the tensions between personnel action and the structural forms at each level of organisational analysis and that the forces of conflict, coercion, and disruption at one level of organisation, and forces of consensus, unity, and integration at another level which can be seen as both prerequisites and reciprocals of each other. (1989: 571)*

Numerous variables may have an influence on the key tension emerging from time, benefits, structures and relationship, the dimensions of perceived impact and perceived urgency have been frequently cited as being the most effective means of measurement (Ansoff 1980; Aaker and Keller, 1992). Perceived urgency relates to how management rates the importance of the tension at a particular point in time. Perceived impact relates to how management senses the level of impact on the alliance ability to achieve its objective (see Figure 3.2).

Cell 1 presents a condition where the tension, because of its relatively low perceived impact, may be potentially be classified as an operational issue. It is perceived as being a high priority for operational processes.

Figure 3.2 Strategic Tension Impact Model



Source: Ansoff 1980 'Strategic Issue Managem*ent, Strategic Management Journal* vol 1: 133.

Cell 2 shows a condition where the tension is perceived to be relatively low in perceived urgency and impact. It is classified as a low priority and may be ignored or addressed by operational staff.

Cell 3 represents a condition when the tension is perceived to be of potentially high impact but not urgent. This issue is likely to be seen as a strategic issue which will be managed by senior management. It may be addressed by routine strategic planning meeting or management planning activity.

Cell 4 shows a condition where a tension is perceived to be both highly urgent and of potential high impact. This situation is likely to be classified as a strategic governance issue with high priority for urgent action by senior management.

The feedback from senior managers in the pilot study suggests that tensions that are often perceived as being of both high urgency and high impact are those that have a high priority for urgent action by senior management. These may include:

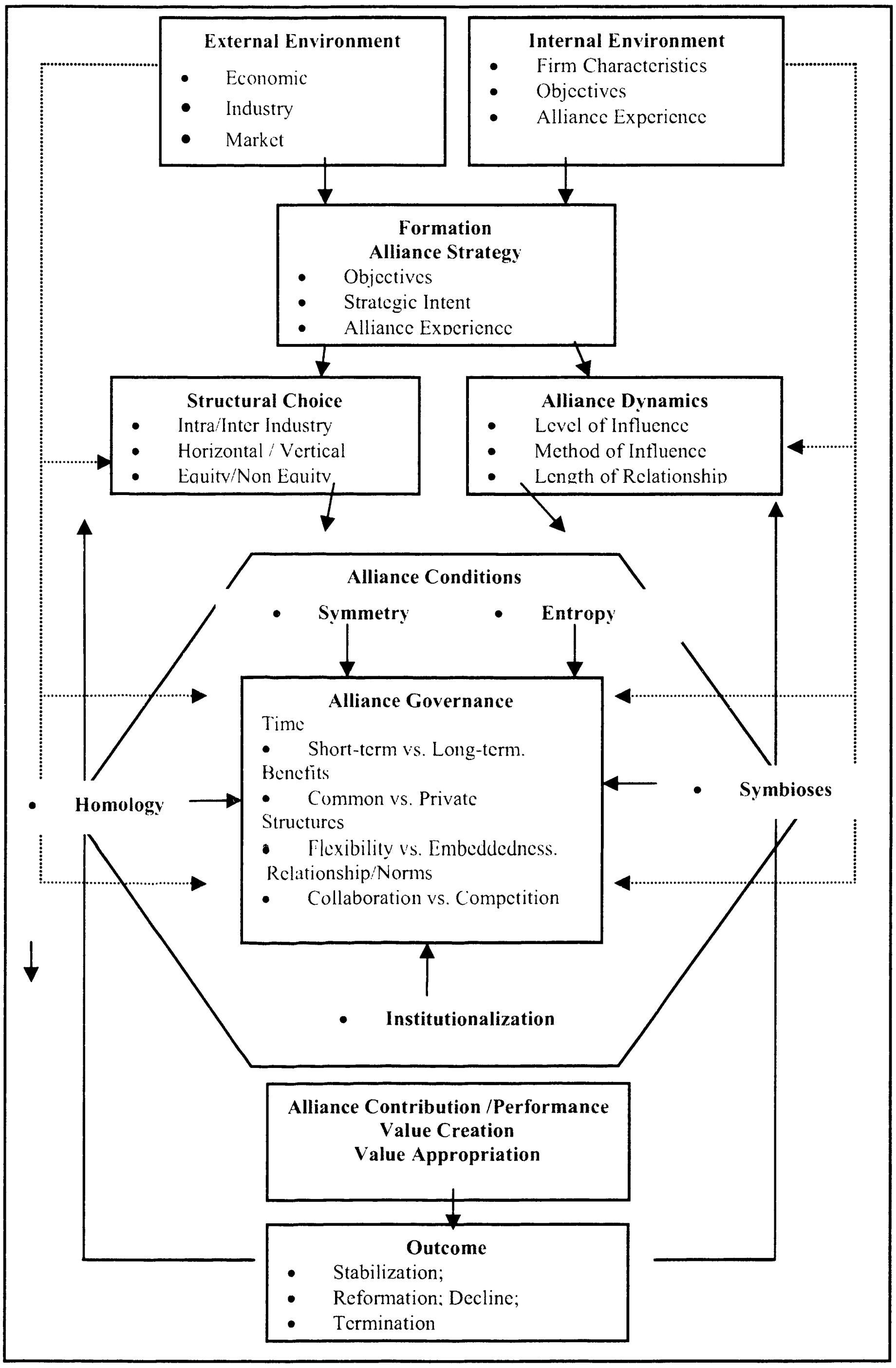
- Time-based issues [Symmetry versus planning for the future (SD)] – for example, what is the investment time span, payback time line, duration or horizon for this venture's investment etc?
- Compatibility issues [Entropy versus maintaining flexibility (ED)] – issues associated with the alignment of structure and processes that are often in the decision continuum (tension dimension) of flexibility versus rigidity.
- Behavioural issues [Symbioses versus managing collaboration (EM)] – tensions here are embedded in the decision making process of what defines the extent of the collaboration; whether, and to what extent, to collaborate or compete against one's alliance partner.
- Alignment issues [Symmetry versus power (SYP)] – strategic issues that are associated with resource and structural fit in the alliance that may influence the value or benefits attributable to the partners for example whether the focus of a resource decision by a partner should focus on common or private benefits. Tensions are most severe when the ratio of private benefits (the opportunity for a firm to apply knowledge acquired in the course of the alliance to operations and business opportunities outside the scope of the alliance) exceeds common benefits, the magnitude of the opportunities within the scope of the alliance thus the ratio of private to common benefits is a factor that determines the stability of a strategic alliance venture (Gulati, and Singh, 1998b). These competitive tensions lead firms to deviate from what alliance theory may describe as optimal behaviour patterns.

3.2.3 *Integrating Tensions in the Process View of Alliance System*

The conceptual theoretical framework of alliance systems (see fig 3.3) integrates and synthesises elements of the alliancing process and contextualizes the sequential relationship between the various structural elements and their interdependence and parallel processing characteristics. Integrating the various theories provided the platform for the proposed theoretical framework from which it can be argued that strategic alliances are dynamic institutional structures within which occur continuous dialectic tensions between convergent and divergent forces. Insights gained from the research suggest that internal tensions arise as a result of the processes that occur in a dyadic alliance that involve both social exchange and economic exchange processes.

The theoretical framework (Figure 3.3) presents a process model and illustrates the dualities and interdependence of the collaborative process, recognising both the overt and covert nature of the collaboration. The model conceptualises alliance tensions in structural choices and relational dynamics. The focus in the framework is on meta-level representation of alliance decision making and work. The process of evaluating an alliance contribution to the partner's goals and objectives contextualises alliance outcomes, ie alliance stabilisation, reformation, decline or termination (organisational integration or segregation). The model provides a theoretical framework for understanding alliance performance in terms of the governing process of alliance tensions and provides insights into the process through which imbalances in collaborative structure may be restored, or deteriorate further.

Figure 3.3 Process Model of Alliance System



At each stage of the model, the optimum decision by each partner is a function of its expected payoff to its own organisation and to its alliance partner. Factors influencing internal tensions and alliance performance include availability of resources;

differential bargaining power; alliance structure; alliance goals; stage of industry life cycle; and changing market conditions.

Most alliances represent a dyad of partners so focusing on pair-wise relationships is particularly relevant for alliance research. The inclusion of both market analysis and resource analysis of the partner firms provides a more complete picture of how the partners 'fit' (Das & Teng, 2003a). These interpretations sanction the theory that in collaborative partnerships, relational risk, alliance governance processes, structure, strategic intent, objectives, competitive advantage and strategy are all interwoven (see also Lendrum, 2003). Strategic philosophies and agendas, for example, shape the formulation and governance of processes and systems in the alliancing partners firms and have implications for the fundamental actions and behaviour of individuals in the partner organisation.

3.2.3.1 Stage 1: External Environment

The external environment (Figure 3.2) is contextualised by economic, technological, political-legal and sociocultural forces. It is here where opportunities and threats reside that are outside the organisations and are usually not typically within the short-term control of top management (Wheelen & Hunger, 2006). Events such as rapid economic and technological change; declining productivity growth and increasing competitive pressures; global interdependence; and blurring of boundaries between organisational entities all facilitate an alliance strategy (Clegg, Hermens, & Poras, 2003).

Ring and Van de Ven (1994) suggest that external endogenous events (eg natural disasters, economic crises, shifts in political regime, death or disability of a partner) are also the most obvious source for the premature termination of an alliance relationship. In some economies or industry sectors, collaborative arrangements are particularly conducive to organisational learning or the transfer of organisational intangibles such as knowledge, organisational routines and skills, experiences, reputation, and goodwill. In other environments, industries and locations, firms may be able to gain access to new technologies or markets more effectively, benefiting from economies of scale in joint research, production, and marketing, and gaining complementary skills by tapping into sources of know-how located outside the boundaries of the firm. In other situations, advantages include sharing risks in activities and gaining synergy by combining the strengths of firms (Clegg, Hermens, & Poras, 2003). It is the manner in which the alliance organisation understands and responds to its external environment that drives the rationale for the co-operation.

3.2.3.2 Stage 2: Internal Environment

The internal environment of a firm consists of its strengths and weaknesses and resides within the organisation itself. It includes structure, culture and resources. Wheelen and Hunger (2006) argue that the internal environment is not usually within the short-run control of top management. The literature review in Chapter Two concluded that an alliance strategy must be driven by the clear vision of senior managers and both shared with, and well understood and supported by, everyone inside the organisation. It is also proposed that ideally the firm's internal environment should be based on an open-system, integrating innovation and entrepreneurship, which can not only span the boundaries between potential alliance partners but also blur the line between the firms.

Previous alliance experience, either generally or specifically with an alliance partner, are important variables that may stimulate a firm's preference for choosing an alliance strategy and will give firms more insights into the way of appraising the benefits of a potential collaboration. Prior alliance experience may also assist managers to make more effective and efficient decisions regarding the potential strategic fit between their firm and a potential partnering firm. Royer (2002) suggests that collaborating firms should have a strong interdependent relationship (symbioses).

3.2.3.3 Stage 3: Formation

Farjoun (2002) suggests that the alliance formation process has important implications for the subsequent dynamics of the alliance evolution by delineating potential sources of convergence and divergence (contradiction and opposition). Once an alliance is established and evolves, conflicting forces emerge and/or develop over time as a result of new influences and responses. These forces are energised by the internal environment (norms, culture paradoxes) and external environment (competitors, customers, regulators) and may engender the evolution of alliance tensions and the reconstitution of the collaborative dynamics. Arino and Doz (2000) propose that internal events including shifts in organisational strategic intent, change in structural arrangements and completion of the collaborative purpose may lead to inter-partner conflict and prejudice the survival of an alliance.

3.2.3.4 Stage 4 Structural Choice

The structural design of an alliance entails choosing between either or both contractual and institutional forms of governance. A number of elements will influence the choice of structure, including industry evolution, equity or bargaining power of each alliance partner, and frequency with which other industry participants use particular structures.

Doz (1996) suggests that in designing an alliance a number of factors needs to be addressed, including:

- the operational and strategic scopes within which the partners will collaborate
- the configuration and evaluation of contributions
- need for joint working, joint optimisation and speedy joint decision making
- tensions and conflict and how to minimise these.

The creation of alliance symmetry seems to favour those partnerships that are approximately equivalent in terms of size, alliance experience, profitability and status, and possess complementary know-how and resources (Brouthers, Brouthers &Wilkinson 1995). Royer (2000) adds that a structural fit is essential (Homology).

Strategic alliances involve joint activities with or without the creation of a new corporate entity. These interorganisational structures can create value through either vertical or horizontal collaboration inside or across industry boundaries. Daz and Teng (2003) suggest that alliances where the partnering firms have high market commonality or are direct competitors, the likely result is that these partnerships may perform better over the short-term and partners should plan for a short-lived and clear-cut alliance.

3.2.3.5 Stage 5: Alliance Dynamics

Lendrum (2003) suggests that the dynamics of an effective alliance is based on shared vision and common goals (Homology). The survey of the alliance literature found substantial support for the theory that strategic alliance value creation relationships are very different from markets, since their transactions involve joint, bilateral co-ordination of plans and activities. It is also found that the relationships are different from firms or hierarchies in that they do not establish a unique actor and participant.

From a corporate governance perspective, in an alliance the partners' organisations maintain their independence. Thus the coordinating mechanisms include negotiation and a broad interchange of information (Clegg, Hermens & Porras, 2002). The overall synergy between the partners strongly affects the alliance performance.

A challenge for the partners is how an alliance will adapt to the customer paradigm. It is suggested that effective alliance dynamics include systems that process the inputs of environmental, market and customer knowledge and expertise to ensure that the strategy will respond to constant change, delivering barriers that lock-out competitors and create superior value for the various stakeholders.

Functional, political and social institutional sources may generate contradictions within and between the collaborating partners. These sources of conflict may be divergent interests between collective interests and the individual partners' interests. Additional sources of conflict may stem from normative, cognitive, or regulative elements within the partnering firms' organisation and their external environments.

Homology is often assumed but the lack of understanding of partners' strategic intent or motives and ideology inevitably will lead to resistance, tensions and conflict. If co-operation is lacking, opportunistic behaviour will become the norm.

The collaborating partner's ability to create, transfer and protect their core competence/knowledge within a framework of inter-organisational collaboration is a key source to ensuring mutual reinforcement of private and mutual benefits. A common vision of how the alliance will collectively build a competitive advantage is imperative. This requires alliance partners to share information; to understand each others' core competencies; and how their independent and internal corporate and/or functional strategies may conflict or compliment each other.

3.2.5.6 Stage 6: Alliance Conditions

Alliance conditions are the characteristics of an alliance at any given moment in the alliance life (Das & Teng 2003a). They are a common set of variables that capture the essence of alliance conditions across the development stages. They are the key to understanding the transition from one alliance stage to another, for example, why do some alliances remain stable while others have to be reformulated / terminated soon after they are formulated. Key characteristics (conditions/state of the alliance) link firm characteristics and the alliance process.

Alliance conditions are determined by five key elements (Royer, 2000) which partly influence each other. These are: symbioses, symmetry, homology, and entropy (see Table 3.2). These elements broaden the constituents of alliance conditions beyond the model of Das and Teng which is limited by theorising about collective strengths, interdependencies and inter-partner conflicts. This thesis proposes that the five key elements are not equally relevant for all alliance relationships but are contingent on the extent the influencers (external environment, internal environment, the formation strategy, structural choice and alliance dynamics) have shaped the alliance. Arguably many management scholars and much of the alliance literature has been preoccupied with a focus on 'trust' and the threat of exploitation by alliance partners. However I argue that whilst inter partner harmony (see also Das & Kumar, 2008) may not always be easy to achieve nevertheless it is a fundamental principal for an alliance to exist that there is a degree of symmetry and tolerance between the partners.

Successful collaborations combine the strength of two or more companies and create a core competence that cannot be attained by one company alone. Collaboration enables firms to expand capabilities that cannot be developed by a single firm, to have economies of scale, to outclass competitors by establishing de facto standards, to avoid the risk of stand-alone large investments. The nature of the supplementary and complementary resources and their alignments impacts the collective strengths of an alliance. The critical issue thus is what perspective alliance partners need to adopt to attain interpartner harmony.

It became evident from the review of the literature that collaboration is particularly open to this risk. Viability may be threatened where the bond between partners is weak. Conflicts can occur both between the parent organisations and within the alliance structure itself. Parenting firms experience degrees of conflict whenever there are too many differences in strategic orientations, technological systems, corporate cultures, risk perceptions, and managerial practices (Das & Teng, 1998b; 1999b; 2001; Park and Ungson, 1997).

In an open environment where the alliancing firms enact quality leadership and facilitate and promote co-operation between departments and functions, conflicts that arise may be handled quickly and effectively (Lendrum, 2003). Increased dependence on an alliance partner can lead to a greater need for co-ordination, often resulting in more bureaucracy. Greater ties with a strategic alliance partner through synthesis of systems may lead to restricted access to other organisations and their capabilities.

3.2.5.7 Stage 7: Alliance Governance of Internal Alliance Tensions

The survey of the literature suggests that there is an overlap between governance, internal strategic tensions and alliance contribution/performance. The study suggested that a powerful internal governance system is needed "in the idiosyncratic and asymmetric market microstructures that characterise these competitive relationships" (Baum &Korn, 1999: 274). It is argued that effective corporate governance structures promote and resource firms to create value and incorporates control systems appropriate to the risks involved (Clarke, 2005).

Alliances include several mechanisms of control in their structure (Stinchcombe, 1985). Objectives for the governance of internal alliance processes includes: maximizing synergy, efficiency and maintaining strategic alignment. Governance processes that support optimising the value chain, achieving time to market, and measuring progress and effectiveness, require continuous adjustment in moving forward. It is argued that achieving these objectives will determine success in the alliance model. These include a command structure and authority systems, incentive systems that facilitate performance measurements, standard operating procedures, dispute resolution procedures, and non market pricing systems.

Noteboom (1999) adds a cautionary rider and observes that both experience and research have demonstrated that firms are not yet sufficiently sophisticated in their governance of alliances to systematically take a two sided approach. A specific example cited by this scholar is the reluctance by managers to look at the alliance relationship from the perspective of the partner, assess what one would do in their place, and then determine what one could do to help the partner to help oneself.

Dyer and Singh (1998) add that "governance plays a key role in the creation of relational rents because it influences transaction costs, as well as the willingness of alliance partners to engage in value creation initiatives" (1998:3630). Governance structures regulate the conduct of alliance partners (Harrigan 1988; Heide 1994; Osborn & Baughn 1990; Ring & Ven de Ven 1992) and are an important aspect of the implementation of an alliance strategy.

The governance of interorganisational exchanges involves more than formal contracts. "Inter-firm exchanges are typically repeated exchanges embedded in social relationships and governance emerges from the values and agreed upon processes found in those relationships that may minimize transactions costs as compared to formal contracts" (Dyer & Singh, 1998; Poppo & Zenger, 2002). Gulati and Singh, (1998b) suggest that both the extent of co-ordination costs and appropriation concerns in an alliance can predict the use of a particular governance structure since alliances are built on a foundation of dualities. The design of an alliance governance system must consider the individual partners' strategic orientations eg short-term vs long-term, flexibility vs embeddedness, co-operation vs competition. These orientations will either increase or reduce the ties between the partners and in turn will affect the complexity of the governance system (Nooteboom, 1999).

Ring and Van de Ven (1994) however caution that excessive control can cause an alliance to collapse. Alliances are dialectic systems whose stability is determined by balancing multiple conflicting forces. Dyer and Sing (1998) propose that if alliance partners are able to employ trust or hostages in favour of legal contracts, the greater will be the potential for increased contribution to the alliance partners. What is not certain is how the individual parents firms' strategic agendas influence the dynamics of alliance tensions.

A constant tension in formulating and implementing alliance strategy is between a short-term and long-term orientation (Joskow, 1985). A short-term orientation emphasises quick and tangible outcomes, highly focused and aimed at immediate results (Newman, 1992). Alliance duration is often uncertain (Kogut, 1991) and consequently, a short-term orientation may limit the capital, resource and time exposure of individual partners to a collaborative relationship. Alliance agreements with a short-term orientation often involve non-equity arrangements and tend to be more exploitative in nature. In a long-term orientation, the alliance is regarded more as a semi-permanent structure concerned with relationship building. Long-term alliance agreements often involve equity arrangements and tend to discourage opportunistic behaviour among the strategic alliance partners. Nevertheless, a long-term orientation may tend to ignore short-term tangible performance and can make the alliance more vulnerable.

The opportunities for each firm outside an alliance critically impact its behaviour and are often incompatible with optimal theoretical behaviour patterns. The opportunities for each partner outside the alliance (private benefits) acutely affect its behaviour within the alliance. An acceptable state of tension between these two competing forces is one that does not permit one collaborating partner's private benefits to develop significantly independently from the common benefits.

Flexibility refers to the degree to which partners are able to modify structural arrangements in the alliance in order to adapt to changing economic and market conditions. Flexible arrangements enhance the capacity of partners to capitalize on market trends with greater speed and efficiency. An alliance also creates heightened market power and enables them to exercise combined and collective strength and increase competitive leverage over other firms.

Structurally, more flexible alliances are those that are non-equity, or which have no equity change or creation between partners. However, some alliances have been criticised for being too flexible, where individual partnerships lack sufficient detail, have little irreversible commitment, unclear property rights and a weak authority structure. Consequently, the bond between the collaborative partners can weaken, encouraging partners to join competing alliance groups.

The advantages of a high level of embeddedness, especially through equity investment, are that it can generate increasing incentives and commitment, align the partners' interests, and deter opportunistic behaviour (Parkhe, 1993b; Williamson, 1983). (Gunasekera, 1997) observed that where there is greater co-ordination of activities, services and facilities between alliance partners, higher volumes of traffic would be generated. A balance between being flexible and rigid is essential for a sustainable alliance (Das & Teng, 1996).

The advantages of a high level of rigidity, especially through equity investment, include increasing incentives and commitment, aligning the partners' interests, and deterring opportunistic behaviour. However, such rigidity may seem especially paradoxical when the enabling technologies promise flexibility

Collaboration among businesses with complementary resources, whilst creating substantial risks, is necessary for survival and growth. The interrelationships among the partners will be influenced by industry dynamics, governance structure and market commonality. Market commonality can be categorised as: the strategic importance of the market to the alliance and the partners individually; and the role of the partnering firm to each other in the market as either complimentors or competitors.

Competition can be described as one alliance partner pursuing its own interest at the expense of others. Co-operation ensures the smooth working relationship needed to meet the objectives of the alliance through the pursuit of mutual interests and common benefits, and both are essential for a sustainable and successful outcome. A lack of understanding of a partner's operations, culture, strategic intent, and ideology can lead to resistance and conflict. For example, one partner in an alliance might be more concerned about network synergies and improved access to distribution channels, whereas another might expect capital injection. If co-operation is lacking, opportunistic behaviour will become the norm. Competition protects a partner from losing its firm-specific advantage through inattention, but these advantages are put at risk where competitive economic rationalisation pressures lead to alliance partners downsizing and losing core competencies.

3.2.5.8 Stage 8: Performance and Governance

Partner firms use alliances to achieve specific strategic objectives. Das and Teng (2003a) identified risks and the tensions in alliances and linked these to the performance of the alliance (see chapter 2). It can be argued that alliance performance should be measured in terms of the perceived achievement of partner firms' strategic objectives (Parkhe 1993b; Yan & Gray 1994; Zaheer, McEvily & Perrone, 1998). It has been argued that complementary objectives and strategic intent are vital to the success of alliances. Similarly, when both partners are equally intent on internalising the other's skills, distrust and conflict may spoil the alliance and threaten its very survival (Hamel, 1991).

Partnering companies need to focus on the key value drivers, efficiency, complimentarities, lock-in and innovation. The nature and availability of resources in an alliance are critical to the performance of the collaboration. Paradoxically, where the characteristics of the committed resources by one partner are imitable, partners may quickly lose their mutual dependence. On the other hand, a high level of dependency by one partner on resources could result in the partner firm being held hostage inside the alliance in order to achieve their own objectives. Lack of control over the resources may generate surplus or the waste of resources which in turn may negatively influence the partners achieving their goals and objectives.

3.2.5.9 Stage 9: Outcomes and Trajectory

The contribution of an alliance to the individual alliance partner's goals and objectives will determine its outcome and trajectory. Contractor and Lorange propose that the benefits of an alliance will have to exceed the "direct and indirect costs, such as creating competitors" (1988b:23). Alliance outcomes therefore can include stabilisation (maintaining the status quo); reformation (reconstitution); decline (exit strategy) and termination.

In summary, the process model (Figure 3.3) contextualises external, internal and relationship factors that influence the alliance environment. Conditions that determine the success of an alliance relationship include: symbioses, symmetry, homology, entropy and institutionalisation (see Royer, 2000) and can introduce tensions between alliance partners. These include:

- Incompatible strategic decision making processes, and governance structures
- Lack of strategic fit, in terms of complementary resources, and organisational fit, in terms of compatible cultures, lack of trust
- Inability to manage conflict, lack of adaptable inter-organisational exchange processes
- Impact of sudden major environmental shocks

3.2.4 Value Creation Processes in Alliances

Paradoxically, the governance process inevitably promotes internal dialectic tensions as it aims to reduce the potential for inter-partner conflict, for example minimising inter-partner market commonality and interdependencies will require the partners to act more independently and/or compete in the marketplace for resources. When partner firms achieve better competitive positions in the market, they will however have higher collective strengths but lower interdependencies. Strong strategic positions diminish the need for alliances. Achieving low interdependencies among the partners can lead to a situation where the alliance is likely to be dissolved.

A negative performance or cost/benefit evaluation will lead the partners to re-evaluate the alliance and adjust their approaches. It may also change the strategic objectives of the partners of the alliance. The dynamics of the tensions ultimately lead partners to reform the alliance.

Termination of an alliance can occur through acquisition of one partner by another, representing a move toward a hierarchical relationship. Alternatively, alliance termination can occur through the dissolution of the collaboration, representing a shift towards a market type transaction (Das & Teng, 1999a). Convergent forces, such as strategic interests, access to infrastructure, manufacturing or distribution channels, knowledge exchange, functional utility, industry structure and supporting institutions, promote the creation, reproduction and evolution of an alliance.

3.3 Research Question and Propositions

In this section of the chapter the research questions are restated and various propositions listed. Internal and external developments continuously interact upon the alliance. The internal dynamics of alliances is a continuous contest between converging and diverging forces. Douglas (1986) argues that by studying underlying tensions and stages of instability one can learn more about stable systems. An alliance transformation occurs when contradictions develop momentum and combine with entrenched opposition to override convergent forces. Divergent forces may lead to entropy and the destruction of the [alliance] institution (Farjoun, 2002: 592).

3.3.1 *Research Questions and Related Propositions*

Cooperation and competition represent significant forces in strategic alliances. Cooperation ensures a smooth working relationship and competition protects partners from losing its "firm-specific advantages from inattention (Das & Teng, 1999a:16). The challenge for senior managers responsible for the governance of an alliance is to find the right balance between competition and cooperation. The (behavioural) tension between simultaneous cooperation and competition is measured by the difference (discrepancy) between the level of cooperation and the level of competition, i.e., behavioural tension level = competition – cooperation.

Another pair of contradictory forces is flexibility and rigidity. Flexibility is the degree to which partner firms are able to modify structural arrangements. This may be required when there is a need to control risk, limited resources available or when operating in a turbulent industry. In contrast rigidity enables the partners to exercise control and strengthen their bonds, align the partners' interest, deter opportunistic behaviour and provide a mechanism for distribution of residuals (Das & Teng, 1999b:20). However when flexibility is high between the partners the threats to the alliance relationship may include weak bonds, limited control over process and direction and the probability of low exit barriers. Following the earlier discussion a relative balance between rigidity and flexibility is important for alliance value creation processes. The (structural) tension between rigidity and flexibility is measured by the difference (discrepancy) between the level of rigidity and the level of flexibility in alliance relationship, i.e., structural tension level = rigidity – flexibility.

Alliances are in a constant state of tension between short term and long term orientation Partners that adopt a short term orientation demand quick and tangible results and regard the relationship as transitional in nature in contrast the long term orientation perceives the alliance as semi-permanent requiring medium to long term investments and the exercising of commitment and patience. The short term perspective is often associated with exploitation and a focus on results whereas the long term view is often associated with exploration/investment (see chapter 2). Das and Teng, 2001 argue if a short term view dominates the thinking of the partners then the sustainability of the alliance may be threatened as the resources may be exploited'(Das & Teng, 1999a:22) conversely a long term orientation may ignore short term results. Balancing these opposing forces will contribute positively to the long term value creation and appropriation process in a dyadic alliance.

The (structural) tension between short term orientation and long term orientation is measured by the difference (discrepancy) between the short term orientation and the long term orientation. This tension is present in many organisation and here either orientation can be adapted and be successful whereas in an alliance relationship a careful balance must be maintained, the psychological tension level = short term orientation – long term orientation.

Private and common benefits are a paradox and represent are a source of conflict between alliance partners and may generate significant tensions in a strategic alliances. A focus on common benefits ensures that resources and attention is channeled into ensuring that the value created by the alliance benefits both partners and is greater than an individual partner's opportunity for value creating outside the alliance. This tension is a key strategic tension throughout the alliance life cycle and is a key determinant enacting on the previous three tensions discussed It is proposed here that a key challenge for the governance of an alliance is to find the right balance between common and private benefits. A focus on common benefits is essential to maintain a cooperative environment competition and cooperation. A focus on common benefits may impact the individual partner adversely as they may become increasingly dependent on their partner. A focus on private benefits may lead to the fear of exploitation and opportunism. The (alignment) tension between private and common benefits is measured by the difference (discrepancy) between the level of focus on private benefits and the level of focus on common benefits

RQ1: How does an alliance firm's strategic intent influence the emergence of internal tensions?

Alliances can be classified by their structural arrangements eg joint ventures, minority equity alliances, equity swap, joint production, joint marketing (Das and Teng, 1999a). The choice of alliance structure is highly correlated to alliance strategic intent (purpose) and "limit the structural options available to the partners" (Das and Teng, 1999a:29). Alliance strategic intent is closely related to tensions for example an alliance formed with the objective of entering a foreign market would encourage long term orientation and cooperation. Structural choices argue Das and Teng (1999a) may predispose alliances towards emphasizing certain tensions rather than others.

This dissertation proposes that vertical equity alliances eg an alliance venture between a manufacturer and distributor in foreign markets to distribute products are more cooperative oriented here partners interest are more closely aligned and the partners tend to favour cooperation, focus on common benefits, flexibility and long term orientation. It is proposed that:

- P1a – the divergence of strategic intent between the parenting firms in a competitive equity joint venture will be inversely related to the difference between the level of cooperation and the level of competition between the alliance partners.
- P1b – alliance symmetry will be positively related to cooperation and common benefits.
- P1c – the levels of rigidity and cooperation will be positively related when the strategic intent of the partners is to have a long term orientation

RQ2: What are the dynamics between internal tensions and partner satisfaction with the value created by the alliance?

Four pairs of internal contradictions are particularly present in alliances and are more likely to impact alliance performance and evolution than in a single organisation. It is argued in this dissertation that there is a need in dyadic alliance relationships to maintain a balance (to governing internal tensions) to support the value creation and appropriation process.

It is proposed that:

- P2a – alliance partners will be more likely to cooperate with each other if the perceived contribution (benefits) of the alliance to their firm is high
- P2b – alliance tensions are more likely to be in equilibrium where the partners are satisfied with the perceived value contributed to their firm (private benefits)
- P2c – both value creation (common benefits) and the value appropriated (private benefits) are dimensions of alliance performance.

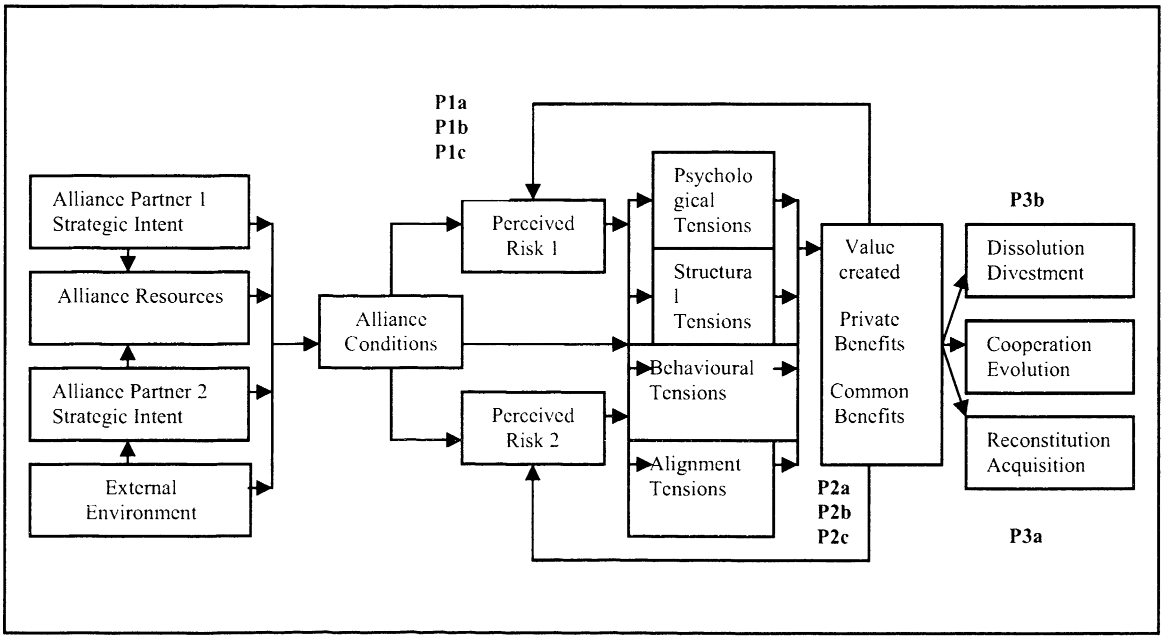
RQ3: What happens when the balance between the different competing forces shifts towards the dominance of one force or another?

Termination of an alliance can occur through acquisition of one partner by another, representing a move toward a hierarchical relationship. Alternatively, alliance termination can occur through the dissolution of the collaboration, representing a shift towards a market type transaction (Das and Teng, 1999a). Hypothetically, one may propose that dissolution will follow a process of accelerating imbalance amongst the internal competing forces, and that alliances characterised by initial imbalances are more likely to be unstable in duration. A shift in balance towards domination by collaboration, rigidity and long-term orientation may result in partners losing their firm specific resources, making them vulnerable to merger or acquisition. An alliance dominated by competition between the partners, and characterised by loose, flexible structural arrangements, governed by a short-term time orientation, resembles a traditional market relation that can severely limit or negate benefits, resulting in the termination of the collaborative relationship. It is proposed that:

- 3a – an alliance is more likely to move towards a merger or acquisition when there is a dominance of cooperation, rigidity and long-term orientation

- 3b – an alliance is more likely to move towards dissolution when there is a dominance of competition, flexibility and a short-term orientation.

Figure 3.4 Locations of Propositions



Thibaut and Kelly (1959) propose, that partners in a dyadic relationship can anticipate potential outcomes and will have the sense to choose the best option, reasoning that the internal cost of conflict reduces the worth of an outcome however its resolution will add value. This leads these authors to theorise that collaborators confronted with conflict, will strategise to relieve the tension.

3.4 Summary

Few studies to date have investigated the governance of internal strategic alliance tensions within the strategy portfolio of each partner's firm. This research was motivated by the intense interest in the academic and applied literature of 'how alliances can be managed to gain competitive advantage'.

This chapter presented a framework of dyadic alliances in terms of the governance of their strategic internal tensions to address a theoretical deficiency in explaining alliances performance. The framework presented here depicts a governance process that may moderate the relationship between important internal and external influencers and internal tensions such as different alliance partners' strategic purposes and different stages of industry.

This process model integrates many other studies including Daz and Teng's (1999) theory of strategic alliances as a system of multiple internal tensions and Farjoen's conceptualisation of institutional evolution as a continuous dialectic contest between convergent and divergent forces. The perspective presented here is that different kinds of imbalances among the various competing forces (tensions) will influence the performance and the contribution the alliance makes to the individual partners goals and objectives. Having developed the theoretical framework the next chapter presents the research methodology.

3.5 Definition of Key Terms

Terms	Definitions
Alliance Conditions	The aggregate of selected characteristics of an alliance at any given moment in the life of the alliance
Alliance Environment	Internal and external dynamics that enact the conditions in which collaboration occurs
Alliance Performance	The degree to which both partner firms achieve their strategic objectives in an alliance
Capabilities	Routines or processes which allows a firm to reconfigure its resources
Complementary Resources	Additional resources which may be required to be combined with a number of core resources to form a competences
Competitive environment	The influence of competitive pressures in the firm's external environment that will influence the urgency of the realignment of the firms resources
Core Resources	Tangible and intangible firm specific resources that the firm has internalised
Collective Strengths	Aggregated resource endowments of partner firms in relation to the strategic objectives they aim to pursue jointly
Competencies	The method by which resources are bundled together to form specific and distinctive skills areas

Terms	Definitions
Entropy	Multi-channel communication occurs on many levels, is formal and informal, and uses compatible information systems
Evaluation	Quantitative and qualitative mechanisms to measure alliance performance and contribution relative to common and private objectives
Homology	A structural, strategic and organisational fit is given
Institutionalization	A joint company is established; the partnership incorporates common production and administration buildings and plants, common planning and bonus systems
Interdependency	The degree to which partner firms in an alliance need each other for the achievement of their goals – a condition in which both parties benefit from dealing with each other (Levine and White 1961)
Inter-partner tension	Degree of divergence in partners preference, interest, and practices in an alliance (Hardy and Phillips 1998; Kogut 1989b), eg different organisational routines, technologies, decision making styles and preferences; private interests and opportunistic behaviour; fierce competitors in the same market.
Interpartner conflicts	The degree to which partner firms have competing interests, preferences, and practices that cannot be easily reconciled in an alliance
Interpartner market commonality	The degree of presence that partner firms manifest in the market targeted by the alliance
Interpartner resource alignments	The pattern that integrates the resources of the partner firms
Outcomes	Effect of actions or inactions instigated in response to evaluation
Partner analysis	The examination of the overall match between the partner firms in an alliance in terms of their interpartner market commonality, resource characteristics, and resource alignments
Resource similarity	The extent of the resource contribution of each partner firm that is comparable, in terms of both type and amount
Resource utilization	The degree to which contributed resources are being utilized to achieve the goals of the alliance
Stability	the optimal degrees of competition and co-operation (Daz and Teng 2000a)
Strategic alliances	Interpartner co-operative arrangements aimed at pursuing mutual strategic objectives
Structural choices	Alliance structure mechanisms that serve the purpose of control –e.g. Opportunistic behaviour and promote alliance performance
Symbioses	Co-operating companies have a strong interdependent relationship.
Symmetry	Profits, costs, shares and decision rights are equally distributed to partners

Chapter 4 Research Methodology

Autonomy and spontaneity are indispensable to alliance success but must be curbed by planning and control. (Mark de Rond, 2003:176).

4.1 Overview

This chapter outlines the research methodology and presents an overview of the research. The chapter is organized in three parts. Part One presents a brief literature review of research methods. The Strategy as Practice approach is examined, quantitative versus qualitative methods is contrasted, and then various research methodologies are classified.

Part Two reviews the rationale for adopting an applied approach, and discusses the background to the study, the methodology and key constructs of the research. The data gathering process is presented, including reasons for the selection of the case studies and how the data was managed during collection. The research sequence and a definition of alliance tensions are listed, followed by a description of the case study protocols and a review of the intra site research Flow Chart and Cross Site Research Flow Chart. Importantly, Part Two also highlights how this study makes a contribution to alliance theory. In Part Three, the scope of the research is discussed, with an overview of the case studies, and emerging issues presented.

4.2 Part 1 –Literature Review – Research Method

This section presents an overview of various research approaches employed in investigating and studying strategic management and alliancing behaviour.

Perrot (1993) suggests that in comparative terms, strategic management as a discipline is a relatively young field of study and that the development of theory is central to strategy research. Nevertheless, in this short period of time a number and variety of concepts and hypotheses of both a descriptive and normative character have been developed to form the basis for strategy as scholarly discipline.

4.2.1 *Introduction*

Eisenhardt (1989) observes that traditional strategy authors develop their theories by integrating interpretations from the literature, common sense and experience. Glaser and Straus (1967) however proposes that testable, relevant and valid theory is closely linked with empirical reality. It was not until the late 1970s that a greater emphasis was placed on empirical research. Over the past twenty years the volume of empirical investigations published on strategic management has grown exponentially in volume and scope. Arguably, there is still not enough theory to enable researchers to integrate the disparate pieces of research into a coherent whole.

As more and more researchers have studied business strategies and devoted greater effort to statistical analyses of readily available databases, their findings have emphasised highly rationalised interpretations of past events. It can be argued that one result has been the establishment of prescriptions that advocate results to be achieved without offering guidance about how to achieve these results.

4.2.2 *Strategy as Practice Approach*

Bower (1982) suggests that for strategic management to remain both credible and relevant as a science, it will need to address issues of importance to both academics and practitioners. This scholar proposes that if strategic management is to be considered relevant for its primary constituencies, its research agenda must include issues reflecting their respective views. Gopinath and Hoffman (1995) concur and add that given the professional orientation of strategy research, it is essential that the discipline has practical relevance. This is however easier said than done, given that academics in strategic management are observers of their field and can choose what they wish to observe/study based on prevailing paradigms which are often slow to change (Kuhn, 1970). By contrast, managers are participants in their field and must act/react to developments as they occur in real time (Gopinath & Hoffman, 1995)

More recently (2002) a number of likeminded and prominent strategy scholars have formed an interest group, sponsored by the Strategic Management Society that is known as 'Strategy as Practice' (SAP). It is argued by these scholars that if academic research is to have a significant role and influence, it needs to come closer to the actual concerns of practitioners. The practice perspective on strategy focuses on strategists and strategising, and argues that research on strategy needs to take seriously what strategists do and the effects of what they do. This group of scholars suggests that there has been an increasing call for research into strategy as practice (Pye, 1995; Hendry, 2000; Whittington, 1996, 2002). One of the key proponents for the Strategy as Practice perspective, Whittington (2006), argues that the activities of the people who actually manage and develop organisational strategy have become marginalised. Whittington (2006) suggests that an understanding of micro activities in an organisation is what separates performers from non-performers. The Strategy as Practice movement calls on researchers to pay more attention to how people develop and pursue strategic goals in real life

Whilst Strategy as Practice shares a concern for firm performance with traditional strategy researches, it also emphasises the significance of multiple strategising outcomes and their interactions through time. The research methodology favoured by this school of thought is in-depth qualitative research. A criticism that is often levelled at the Strategy as Practice perspective is that it is the science of 'flipping hamburgers' (Whittington, 2006: 613).

Given the differing perspectives of academics and practitioners on strategy there is a need to address the future direction of its research agenda. The Strategy as Practice field, for example, lacks an integrative framework between the micro and macro practice of strategy. It can be argued however that this practice perspective research agenda more closely reflects the contemporary environment and work of practitioners. It provides a common platform for researchers and practitioners to devise integrative frameworks and develop methodological approaches that reflect the multiple social and subjective interactions that may lead to a better understanding of competitive advantage in a diverse global environment (Whittington, 2001).

4.2.3 *Quantitative vs Qualitative Analysis*

A study of the Strategic Management Journal reveals that there is a paucity of published qualitative research design. Some argue that this type of research is not favourably received by certain reviewers (Schwenk & Dalton, 1991). However, there are a number of scholars (eg Whittington, 2006, Clegg, Carter & Kornberger, 2004) who contend that there is an increasing interest in qualitative research. These scholars suggest that the emergent trend towards employing qualitative research methodologies is attributable to the distrust and scepticism of findings emerging from studies using traditional research tools, such as surveys.

Calls for more qualitative research have been particularly strong for those studies involving the observation and practices of strategic management (Duncan, 1979; Harrigan, 1983; Fredrickson, 1983; Burgelman, 1985; Shrivastava, 1987; Schwenk & Dalton, 1991; Das & Teng, 2003a). It is noted that qualitative research can present limitations as it generates large amounts of data and usually in a non standard format. An interesting perspective is offered by Balogun, Huff and Johnson (2003) who suggest that the two methods are complementary rather than contradictory.

Nevertheless over the past twenty-five years a large number of scholars have focused on the creation of methodologies that enable theories to be systematically developed from qualitative data. These include: Mintzberg (1979); Duncan (1979); Miles (1979); Yin (1981,1994, 2003); Quinn (1980); Patton (1980); Burgelman (1985); Janesick (1998); Denzin and Lincoln (1998); Eisenhardt (1989); and more recently Daz and Teng, (2002).

Methods used to discover theory from field data rather than by quantitatively testing hypotheses are referred to as 'Grounded theory'. This approach is particularly effective when dealing with qualitative data gathered from participant observation, observation of face-to-face interaction, semi structured or unstructured interviews, case study material or documentary sources (Turner, 1983).

Qualitative research is generally associated with generating new theory that leads to an understanding of human behaviour and produces descriptive data. Quantitative research adopts a Positivist approach, its primary attention is facts or causes. Johnson, Scholes and Whittington (2008) are critical of this approach to strategy research, suggesting that it pays little regards to context. Patton (1980) offers an alternative perspective when he argues that the issue of selecting research methodologies is no longer one of the dominant paradigm versus the alternative paradigm, or of experimental designs with quantitative measurement versus holistic inductive designs based on qualitative measurement. Patton concludes that it is recognised that different methods are appropriate for different situations (Patton, 1980).

Increasingly there are grounds for mixed methods that can embrace paradigm commensurability. Formerly, such variation has been separated by paradigmatic boundaries that strongly influence the unit of analysis and the method of study (compare Burrell and Morgan, 1979). Qualitative methods are clearly indicated in studies of micro strategy, particularly ethnography and in-depth case studies. However, such methods may also lack the flexibility or breadth to adequately grasp the complexities of the modern diversified corporation (Balogun, Huff & Johnson, 2003). There is a case to be argued for methods which can span micro and macro practice and access strategic action in multiple contexts.

4.2.4 *Fine grain vs. Broad Grain Approach*

Harrigan (1983) classifies methods for researching strategic management on a continuum from a fine grained methodology at one end, to coarse grained methodologies at the other end. The advantages of adopting a fine grained methodology particularly in explorative research include attention to detail, relevance to business practice and access to integrate multiple viewpoints. This research methodology can capture the complexities of internal and external analysis surrounding strategy formulation at the micro level of the firm.

There are also a number of disadvantages associated with this methodology. The first is access to the data that is subject to corporate interest and the level of co-operation from the corporation. The second is that the data can be so detailed that it is site specific and has limited generalisability. Finally it can be argued that the value of this approach alone as a research methodology is limited due to the constraint the data presents in terms of hypothesis generation, replication and statistical analysis (Harrigan 1983).

On the other end of the continuum, a coarse grained methodology involves the aggregation of data and has the advantage of generalisability. It also enables the researcher to have access to, or compare, information via an industry database. The limitation of this approach is that the aggregation may be so broad and useful at the corporate level that it presents difficulties analysing strategic behaviour at the functional or business unit level.

A third approach represents a medium grained methodology and combines the generalisability of coarse grained methodologies with the detail of fine grained methodologies via case studies. Schwenk and Dalton (1991) and Harrigan (1998) note the general reluctance by researchers to use a broad based methodology that the medium grain approach represents. For example, the Strategy as Practice approach emphasised the need for strategy research to link micro and macro levels analysis (Whittington, 2006).

4.2.5 *The Case Study Approach*

Given the complexity of the strategy research agenda with its varied phenomenon of interest and multiple levels of analysis, it must be asked if there a best way to study strategy as practice. Table 4.1 categorises different research approaches. This researcher has used a case study method as case studies have the advantage of capturing complex relationships within a single study at multiple levels, for example at the industry and company level (Yin, 1994). The case study research strategy, suggests Eisenhardt, focuses on the understanding of dynamics within single settings (1989: 534).

A case study is defined by Yin (1981) as an empirical enquiry that investigates a contemporary phenomenon within its real life context: when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used. Case study research may be carried out using either qualitative or quantitative evidence.

Royer suggests that "the strengths of the case study are the ability to work with different types of proofs eg documents, artefacts, interviews, observations" (2000: 18). By adopting case study methodologies researchers can make generalisations based on identifying the causal mechanism underlying the phenomenon. Case studies can be generalised to theoretical propositions however they do not represent a "sample" and the goal of this thesis is to expand and generalise theories.

The case study method is an inductive approach representing the phenomenological paradigm methodology (Easterby-Smith, Thorpe and Lowe 1991). It operates from within the realism paradigm and emphasises the building of theories but also incorporates prior theory, and so is a blend of induction and deduction.

Table 4.1 Relevant situations for different research strategies

Strategy	**Form of research question**	**Requires control over behavioural events?**	**Focuses on contemporary events?**
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/No
History	How, why	No	No
Case study	How, why	No	Yes

Source: Yin 1994: Case study research: design and methods, p 6

Some scholars do not favour the adoption of the case study methodology, instead preferring quantitative methodologies such as experiments or surveys. These researchers contend that the case study approach is less rigorous, may have a limited basis for scientific generalisations of case findings, and is generally more onerous and time consuming (Yin 1994).

There are however many contemporary researchers, for example Larson (1992), Uzzi (1997), Doz (1996) and Arino, De La Torre and Ring-Smith (2001), who have successfully used case studies for analysing interorganisational relationships. The case study method is particularly useful when the objective is to build theory from field work, archival records, verbal reports, observations or combinations of these (Eisenhardt 1989). Further, the case study approach facilitates researchers interviewing, observing and probing within one organisation, then completing a contextual analysis of similar situations in other organisations, in which the nature of the problem is the same as the current problem under investigation (Cavana, Delahaye & Sekaran, 2001).

There is broad consensus among researchers that the case study is the most appropriate methodology for capturing the strategic value and dynamic nature of strategy that involve human interaction over time and space (Niederkofler, 1991; Spekman, Isabella, MacAvoy and Forbes III, 1996; Bruner and Spekman, 1998; Bailey and Johnson, 1992; Eisenhardt, 1989).

Eisenhardt (1989) suggests the following criteria for evaluating case studies:

- Good theory – are the concepts, frameworks or propositions which emerge parsimonious, testable and logically coherent?;
- Methodology of evidence gathering – does evidence support the theory, is the analytical procedure sound and is there sufficient evidence to allow readers to make their own assessments?
- Strong theory- do the findings provide interesting new insights, rather than replicate past theory?

Yin (1981; 1994) provides a set of logical tests on which the quality of case study research may be judged. These are:

- Construct validity (multiple sources of evidence; establish a chain of evidence; involve key informants in analysis)
- Internal validity (pattern matching with dependent and independent variables; explanation building; time series analysis).
- External validity (replications of the findings in multiple environments where the theory specifies that the same results should occur).
- Reliability (case study protocol; case study database so an auditor can replicate results if required).

The next section of this chapter outlines the methodology used to investigate the research questions.

4.3 Part 2 –Research Design of this Study

4.3.1 *Background*

The focus of this research is on the emergence of strategic tensions, their governance and the implications for value creation within the strategy portfolio of each partner's firm. This thesis adopts an applied approach as it searches for new insights on strategic alliance tensions and strategy. The rationale for adopting an applied approach can be found in the strategic management literature, including:

1) That the distance between organisations, science and managerial practice is too great (Brown and Eisenhardt, 1997)
2) Many of the practical guidelines on alliancing that are currently in writings for practitioners and in executive programs are still based on limited evidence or unscientific studies (Reuer, 2004)
3) Executives have only a superficial understanding of what drives the economic and competitive consequences of strategic alliances (Doz and Hamel, 1998)
4) Discuss the determinants of post formation tensions in strategic alliances, the relevance that parent firms bear upon alliance dynamics and the implication for governance changes and performance
5) To develop a body of research that more closely reflects the work of practitioners
6) To introduce integrative frameworks that break down some of the barriers in existing alliance research.

4.3.2 Key Constructs of the Research

The levels of analysis in this thesis are dyadic alliances between two partners and two categories of dyadic alliance relationships are addressed in this study:

1) Co-operative – alliance partners who do not compete directly in the same market place or supply chain stage and

2) Competitive – alliance partners who do compete directly in the same market place or supply chain stage.

The study investigates a number of firms from various industries and alliance relationships that span industry boundaries, incorporating both horizontal and vertical alliances between 1993 and 2005. The case study based research was conducted sequentially over a period of 12 years.

Table 4.2 Alliance Structures and the Internal Tensions

	Short	**Term**	**Long**	**Term**
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	**Cell 1** *Arms length contracts** *not an alliance	**Cell 2** Joint Marketing Joint R&D	**Cell 3** Licensing Joint production	**Cell 4** Joint Venture Minority equity alliances
Cooperative	**Cell 5** Product Bundling Funded Research Shared Distribution	**Cell 6** Joint Bidding Joint R&D Joint Marketing	**Cell 7** Dealership Franchising Licensing Joint Production Long Term Sources Open Architecture Alliance	**Cell 8** Joint Venture Minority equity alliances

(Adapted from Das and Teng 2000b' *Instabilities of Strategic Alliances'*: 54)

4.3.3 Justification for the Research Design

This research is designed as a comparative, descriptive study. The purpose of the study is to gain a better understanding of the countervailing forces that simultaneously push an alliance together and pull it apart, and how these forces influence the value created and appropriated in an alliance. The rationale for the design of this research study is inspired by:

1) Das and Teng's (2001) suggestion that future research methods for investigating alliance tensions should adopt a longitudinal case study approach

2) The fact that alliance tension, which is at the centre of this research, is difficult to study outside its contextual setting. Thus, the complexity and dynamic nature of the variables and the interdependency between them make the case study analysis the appropriate methodology for the investigation

3) The research sites being contemporary inter-organisational relationships and thus requiring some inductive reasoning as the cause and effect of the constructs have not been established. This required the discovery of unique combinations of variables

4) The research problems being addressed in the thesis are more descriptive than prescriptive

5) The concepts and variables being many and difficult to quantify (see Ghauri and Gronhaus, 2005)

6) The strengths of case studies being the ability to work with different types of data such as documents, interviews, and observations (see Yin, 1994; Eisenhardt, 1989; Royer, 2000).

7) The research involving the collection of perceptions of complex events and informal processes (see Tharenou, Donohue & Cooper, 2007).

Seven cases were selected for the study based on:

- The Das and Teng (2000b) alliance structures and internal tensions model (see Table 4.2) to assess more accurately the factors explaining the relationship between degree of tensions and alliance stability. The analysis is conducted with two categories of alliance relationships, arrayed in levels of horizontal and relational risks.
- The view espoused by both Yin and Eisenhardt that between four and ten cases are appropriate (Yin, 1994: 46; Eisenhardt, 1989: 545).

In sum, the design of this research seeks analytical generalisation rather than statistical generalisation (see also Yin, 2003). Case study selection was driven by the theoretical propositions in the expectation that the researcher would find predictable results (see also Yin cited in McCutcheon and Meredith, 1993).

The logic for this is replication: the (seven) cases serve to confirm or disconfirm the hypothesis (Yin 1994).The theoretical framework (see Chapter 3) is systematically compared with evidence from each case in order to ascertain how well the data fits with the theory. Each hypothesis is examined for each case and not for the aggregate cases. When a relationship is supported by the qualitative data, it assists in the understanding of the theoretical reasons why the relationship exists and establishes the internal validity of the findings (Eisenhardt, 1989).

4.3.4 Theoretical Sampling

The procedure for selecting the alliances was guided by a theoretical sampling technique (see Eisenhardt, 1989). Seven dyadic alliance relationships were selected for research guided by Das and Teng's (2000b) internal tension framework for studying alliances. The framework facilitates the comparison of two types of alliance relationships competitive and collaborative. These relationships are hypothesised to favour particular tension phenomena: short- term flexible / rigid or long-term flexible / Rigid. Fourteen firms in seven alliance relationships were selected for study.

The first two case studies of Presmit and South Pacific Tyre Manufacturers and F&G and Fulda alliances were selected because these fitted the Das and Teng (2000b) category emphasising long-term rigid competitive and long-tem rigid co-operative relationships. These alliancing firms were known to the researcher through previous professional and industrial engagement. To mitigate personal or professional biases, a research assistant was first engaged to independently review the case records, personal interviews and assist with transcribing the data. In the second stage, the case studies were peer reviewed by academic colleagues from the School of Management, Faculty of Business at the University of Technology, Sydney. These cases were subsequently presented as conference papers (work in progress for PhD research) at two Australia and New Zealand Academy of Management conferences in 1996 and 1997.

In the middle stage of the research a sound understanding of the factors on which case information may be grouped was developed and two more alliances were selected for study, Ansett Airlines and Air New Zealand, and TPG and News Corporation. These joint marketing alliances fitted the Das and Teng (2000b) framework of the long-term flexible competitive and long-tem flexible co-operative category, respectively. The airline industry was chosen because of the high prevalence of alliancing in this industry, with 'Star Alliance' and the 'One World Alliance' globally the largest airline operators in the industry. Senior Executives from Ansett and AWAS were approached and agreed to participate in the study as part of overall strategic planning professional development.

To again avoid the possibility of biases an independent research assistant was engaged to review the case records, personal interviews and assist with transcribing the data. Subsequently the two case studies were peer reviewed by academic colleagues. These cases were subsequently peer reviewed and presented as conference papers (work in progress for PhD research) at three academic forums: Strategic Management Society Conference in Berlin (2002) and San Diego (2003), and APROS conference in Sydney (2001). These cases were again independently peer reviewed and published as a book chapter Hermens, A. (2002). Managing the Interconnected Organization: An Internal Tension Perspective in *Management and Organization Paradoxes*, Clegg. S.(Ed). and two journal articles Hermens, A. (2001) "Exchanging Knowledge Through Strategic Alliances," *Creativity and Innovation Management,* and Kenney, Hermens & Clarke, 2004, Strategic Alliances in eLearning: Commercial Prospects, Organisational Tensions and Educational Dilemmas" *Education and Training* .

In the middle to late stage of the research project, a sound understanding of the source of tension among alliance partners was developed and two more alliances were selected that would fit the theoretical dimensions of (1) competitive alliance that had a long term focus and a flexible relationship; (2) a co-operative alliance that had a long term focus and flexible relationship. The financial services industry was chosen to increase the likelihood of generalisability of the theory, with this industry structure being significantly different from those in the airline or tyre industries. Alliancing and networking is commonly adopted among credit unions as they compete against other financial service providers, particularly banks.

The Financial Services Institute databank of alliances in the credit union sector was accessed and the Cuna Mutual and CUSCAL Alliance was selected as it represented the largest alliance of its type in the industry. The CEO of Cuna Mutual was approached and agreed to participate in the research. The research was conducted during a major strategic review by Cuna of its strategic relationship with CUSCAL. All interviews and focus groups were conducted in the presence of an independent observer and tapes transcribed by a research assistant. The draft version of the case study was reviewed by senior managers of the alliance and academic colleagues at the University of Technology, Sydney. The draft version of this case was presented at a research forum at the School of Management, University of Technology, Sydney and in "Vienna Austria at the 'Strategic Management Society Conference 26th Annual International Conference', 2006.

The CRI Canada and Celero alliance study was conducted during 2006 and 2007. This alliance relationship is a co-operative licensing joint venture. CRI Canada is a competitor of Cuna Mutual in North America and operates in similar market segments. The President of CRI and the CEO of Celero agreed to participate in the research as part of a broader study of strategic alliances in the credit union segment of the market. The President of CRI Canada, a graduate from the Australian Catholic University, was familiar with this researcher's previous study into alliances and specifically the Cuna Mutual and CUSCAL project.

The final case study, HBOSS and WCC alliance was conducted during 2006 and 2007. This alliance was selected for further study as it fitted the theoretical dimensions of a co-operative short-term flexible relationship. The method of data collection was examination of documentation, focus groups and interviews with senior management of the alliance partners and their respective business analysts. The aim of this study was to gain in-depth understanding of the alliance value creation and appropriation process in an ongoing successful entrepreneurial alliance relationship.

4.3.5 Case Study Protocols

Four tests to establish the quality of this empirical research were applied as follows (see Table 4.3):

1) Construct validity was achieved by using multiple sources of evidence (Personal in-depth interviews, short interviews by phone, analysis of internal and external documents). The key informants (senior managers and partners) were involved in the analysis by discussing the model with them.

2) Internal validity into the research design was established via a method of pattern matching with the dependent and independent variables for the data analysis.

3) External validity was achieved through the use of replication logic in multiple case studies (ie seven analysed cases of collaboration).

4) A test of reliability was used to demonstrate that the operations of the study can be repeated with the same results. The goal was to minimise mistakes and bias in the study. This included writing case study protocols and developing a case study database.

Table 4.3 Case Study Protocol

Tests	**Case study tactics**	**Phase of research in which tactic occurs**
Construct validity	Use multiple sources of evidence Establish chain of evidence Involve key informants in analysis	Data collection Data collection Composition
Internal validity	Do pattern matching with dependent and independent variables	Data analysis
External validity	Use replication logic in multiple case studies	Research design
Reliability	Use case study protocol Develop case study data base	Data collection Data collection

(Source: Yin 1994, Case study research: Design and methods, p 33)

The data analysis is primarily concerned with the outcomes of the method and focuses on emerging theory, rather than the description of a particular case. The first step of the data analysis was to make transcripts of the recorded interviews. The raw data gathered from the structured interviews was collated in Excel for content analysis to elicit themes and sub themes in a process that required the identification, codification and categorisation of the data.

Implausible hypotheses were eliminated by comparison with the characteristics of variables found in several cases (see Royer 2000). The objective of the interviews and observations was to seek out information on the various levels of tensions at different points in the alliance life cycle. For the study to be comprehensive, interviews were applied at a longitudinal level.

These methods were wide-ranging enough to tap into a variety of strategic dimensions including the formal and informal processes of collaboration. The concept of process is employed in this case study to describe a sequence of events and activities that describe how things change over time. Data sought included: the development of the alliance over time, its strategic rationale, its critical issues, its benefits and contribution to its partners.

Doz's (1996) study of open-ended interviews as a basis for inductive analysis of alliance cases was used to design the specific questions, which were pre-tested with a group of alliance managers drawn from various organisations in several industries, to ensure acceptable validity and reliability. Several questions were developed for each measure, and the value assigned to each measure was the average for the items.

4.3.6 Data Collection

The primary data was gathered through several rounds of face-to-face interviews with the firms' senior management teams including CEO and General and Divisional Managers of the partnering firms, alliance manager, the managers of the Strategic Business Units of the joint venture, customers and suppliers to the joint venture. The qualitative data is used to build theory that explains the relationship between corporate strategy and tensions between alliance partners. Adopting Creswell's argument that (2003) qualitative data may be used to illustrate other relationships the qualitative data is used to illustrate quantitative findings from a survey of 240 alliance managers.

In each case study, at least one of the head offices of the alliance partners is based in Australia. The executives interviewed were directly responsible for the formulation and implementation of the partner firm's corporate and alliance strategy. The data was co-ordinated over a series of case studies employing data collection methods which ensured that multiple viewpoints and approaches, such as feelings and behaviours, direct and indirect reports, obtrusive and unobtrusive observation, were captured. For the study to be comprehensive, interviews were conducted longitudinally, with both close and open-ended questions used (see Uzzi 1997).

In some instances, the data was gathered in the course of serving as an observer to important meetings of all the parties. This researcher was a participant as an advisor immersed in these firms' strategic planning process. In a number of cases the researcher was asked to be an advisor to the CEO. In all cases, the researcher agreed on the proviso that study of the alliance governance process could be used in this thesis. (see also Currall, Hammer, Baggett and Doniger 1999).

Interviews and observations were supplemented by archival data from public sources, such as industry reports, stockmarket reports, an industry commissioned research report, and the alliance partners own files of internal management reports and memorandums etc.

Data was contextualised by observing the managers in their natural work environment and recording their behaviours. The observations acted as a reliability measure to evaluate and contextualise managers' responses with his or her 'true' perceptions of the strategic priorities, strategies and tensions. To reduce problems in the collection of the data through open and closed questions in the interviews the researcher adopted the TAP procedure "that should ameliorate potential difficulties in questionnaires and interviews" (Foddy, 1993 cited in Tharenou, Donohue & Cooper, 2007: 109). These procedures included:

- ensuring that the topic is clearly defined and each respondent clearly understood the topic in context
- ensuring that the respondents were asked questions only about their area of expertise or area of practice and within their grasp of knowledge
- informing respondents about the perspective they should adopt

- ensuring questions were not biased and set in context
- explaining why the questions were being asked
- eliminating complexities that prevented respondents from easily understanding the meaning of the question.

The interdependencies between the different model elements and alliance performance mandated personal in depths interviews and intense analysis of documents in order to understand the complex variable and interdependencies between them. Information collected from the documentation, interviews, site visits and meetings were used in the preparation of a draft strategic alliance analysis report. The draft was submitted to the senior management team for review and comment. The feedback was evaluated and considered when drawing up the final case study and report. Key informants were the Chief Executives and those managers who were directly involved in the strategic alliance and familiar with the strategic planning process at the respective parenting firms. At each research site the senior management teams from each partnering firm were the principal interviewees. A total of 57 senior managers from 14 firms participated, and 10 of the respondents were Chief Executives or General Managers.

An initial interview was arranged with the Chief Executive or Senior Manager responsible for strategic planning. These were guided by a number of open ended questions (Appendix 1). These interviews were used to gain some insights into contemporary challenges and strategic issues confronting the firm and an indication of any concerns relating to the operation and performance of the alliance. Handwritten notes were made of each interview and were later entered into a Word document and used as a database for the development of a research instrument.

Following initial interview, the document research began. The Chief Executive or General Manager was asked to provide a list of managers who had good knowledge of the firms' strategic and business plan, and a list of managers who had first hand knowledge of the alliance strategy and operational processes. Interviews were then conducted in two phases. In phase one, open ended questions were posed (an inductive approach) on aspects of the company's culture, strategy, financial, operations and alliance history. Various issues on contemporary and emerging strategic issues were examined. The interviews were recorded by written notes or audio tapes and later transcribed into a Word document. Collecting longitudinal data on the emergence and processing of the converging and diverging alliance forces (tensions) was an important consideration in the design of the research.

In the second phase, the same managers participated in completing a scaled questionnaire (Appendix 1). In view of multivariate measurements of business strategy being used in previous qualitative research (see Hambrick 1989), the instrument recorded perceived levels of the tensions and alliance contribution over the life span of the alliance. Questions included: alliance objectives and their importance to their firm, including reducing costs; accessing knowledge; accessing financial resources; and entering new markets. Respondents were requested to rank these on a 7 categories / points scale:

1) not at all important
2) a bit important
3) somewhat important
4) quite important
5) moderately important
6) very important
7) extremely important

4.3.7 Measuring Alliance Tensions

Das and Teng's (2000b) conceptual paper – 'Instabilities of strategic alliances: an internal tensions perspective provided information for constructing an instrument to operationalised the research variables. Scales for the independent variable measure each tension, and the gap between each of the variables indicates the level of alliance stability.

Co-operation was operationalised in terms of the degree to which firms seek mutual interests rather than self-interests in alliances, using the following items:

- To what extent do the partner firms exercise mutual patience in their dealings with each other? (Buckley & Casson, 1988)
- Neither partner makes demands that might be damaging to the other partner (Inkpen and Currall, 1997a).

Competition was operationalised in terms of the degree to which a firm pursues self-interest rather than mutual interest:

- How often did you and your partner firm disagree on who should have control over the key decisions in the alliance? (Cullen, Johnson & Sakano, 1995)

Embeddedness was conceptualised as the degree of structural formality and connectedness that prevents modification of alliance arrangements:

- To what extent are the partners precluded from making changes in the alliance relationship?

Flexibility was operationalised in terms of the degree of adaptability, responsiveness, and agility:

- In this relationship, our firm and our partner firm expect, to be able to make adjustments in the ongoing relationship to cope with changing circumstances (Aulakh, Kotabe & Sahay, 1997: 189).

Short-term orientation was operationalised in terms of the degree to which partners focused on quick and tangible results:

- To what extent does the criterion for resource allocation generally reflect short-term considerations? (Venkatraman, 1989: 959)

Long-term orientation was operationalised in terms of the degree to which partners focused on developing the alliance rather than concentrating on achieving short-term goals:

- The extent to which the partners focus on long-term goals in this relationship (Ganesan, 1994: 15).

4.3.8 Content Analysis

Ambrosini, Johnson, Scholes, (1998) argue that the content of consensus, ie what the agreement is about, is of importance, and that strategic priorities concerned with the extant strategy are constructs that are strategically relevant to the exploration of consensus-performance links (1998: 241). In this study, the managers' perceptions of strategic priorities have been plotted on spider graphs. Bowman and Ambrosini add that by plotting the patterns of perceptions produced by a management group, more information is retained for subsequent interpretation and hence a richer picture of the extent and nature of shared perceptions within a management group can be developed (1998: 241).

The research reported in this thesis examines the link between managerial perceptions of alliance strategy and firm performance. If consensus around a particular strategic issue between alliances partners is revealed then it is argued in this study that the views expressed by the respondents describe the realised strategy (convergence). Conversely, if the research reveals no consensus around a particular alliance strategic issue than it is argued that there is no coherent or consistent realised strategy (divergence).

A technique of analysis known as 'pattern matching' is used in the research to improve the validity of the causal conclusions reached (see McCutcheon & Meredith, 1993; Yin 2003). This technique facilitates the theoretical configuration of independent and dependent variables to be compared for each case against the pattern of observed characteristics "to determine if they correspond to each case" (Tharenou, Donodue & Cooper 2007:261).

The steps for pattern making recommended by Yin (2003) were adopted:

1) the patterns results were compared with patterns predicted from theory (Das & Teng, 2000b)

2) explanation building by looking for causal links and to explore plausible or rival explanations

3) conducted time-series analysis in which a change in pattern is traced over time (Tharenou, Donohue & Cooper, 2007).

Convergent validation is ascertained in this study's data through triangulation via the use of multiple respondents, multiple participant interviews and comparison with findings of similar studies (Gilchrist, 1992). The CEOs of each parent firm in the alliance were interviewed on a number of occasions, repeat interviews with senior managers of each alliance partner firm were conducted, document searches undertaken, and field interviews with customers and suppliers to the alliance partners firms were conducted. Early interviews suggested that senior managers were intensely anxious as a result of the alliance and the resultant state of flux, especially concerning their job security. The effectiveness of triangulation rests on the premise that the weaknesses in each single method will be compensated by the counter-balancing strengths of another (Rohner, 1977).

This methodological strategy is favoured since the technique can capture a more holistic and contextual portrayal of the tensions under study. The focus of this research is to examine the sources and symptoms of strategic tensions and its impact on the functioning of the partnering organisation. The research strategy allowed the researcher to be more confident of the results, as multiple measures did uncover some unique variances which otherwise may have been neglected by single methods.

Among other advantages, qualitative data consisting of case studies and interviews contributed to an independent survey analysis with respect to the validation of results, the interpretation of statistical relationships, and the clarification of puzzling findings (Sieber, 1973). Thus context variables can be used to shed light on quantitative data (Diesing 1972).

Creswell's (2003) eight steps for basic content analysis were followed as outlined below:

1) the researcher read through the transcripts noting ideas as they came to mind to get a sense of whole

2) then the researcher selected a document or record of the interview and analysed it in the context (underlying meaning) rather than substance.

3) then the researcher repeated the procedure with several documents and made a list of topics by clustering together similar topics of the four categories of the various elements of the theory model:

   a. theory model 1 (9 stages illustrated in the theoretical model Figure 3.3)

   b. theory model 2 (common benefits and private benefits Figure 3.1)

   c. theory model 3 (20 categories of origins of tensions see Table 3.3)

   d. theory model 4 (3 categories of strategic alliance outcomes Figure 3.4)

4) Returned to the data and abbreviated the topics as codes and wrote the codes next to the appropriate segments of the text.

5) Reduced the list of categories by grouping the topics that related to each other

6) Alphabetise the codes

7) Assembled the data materials in each category and performed a preliminary analysis

   a. origins of tensions (1 – 20)

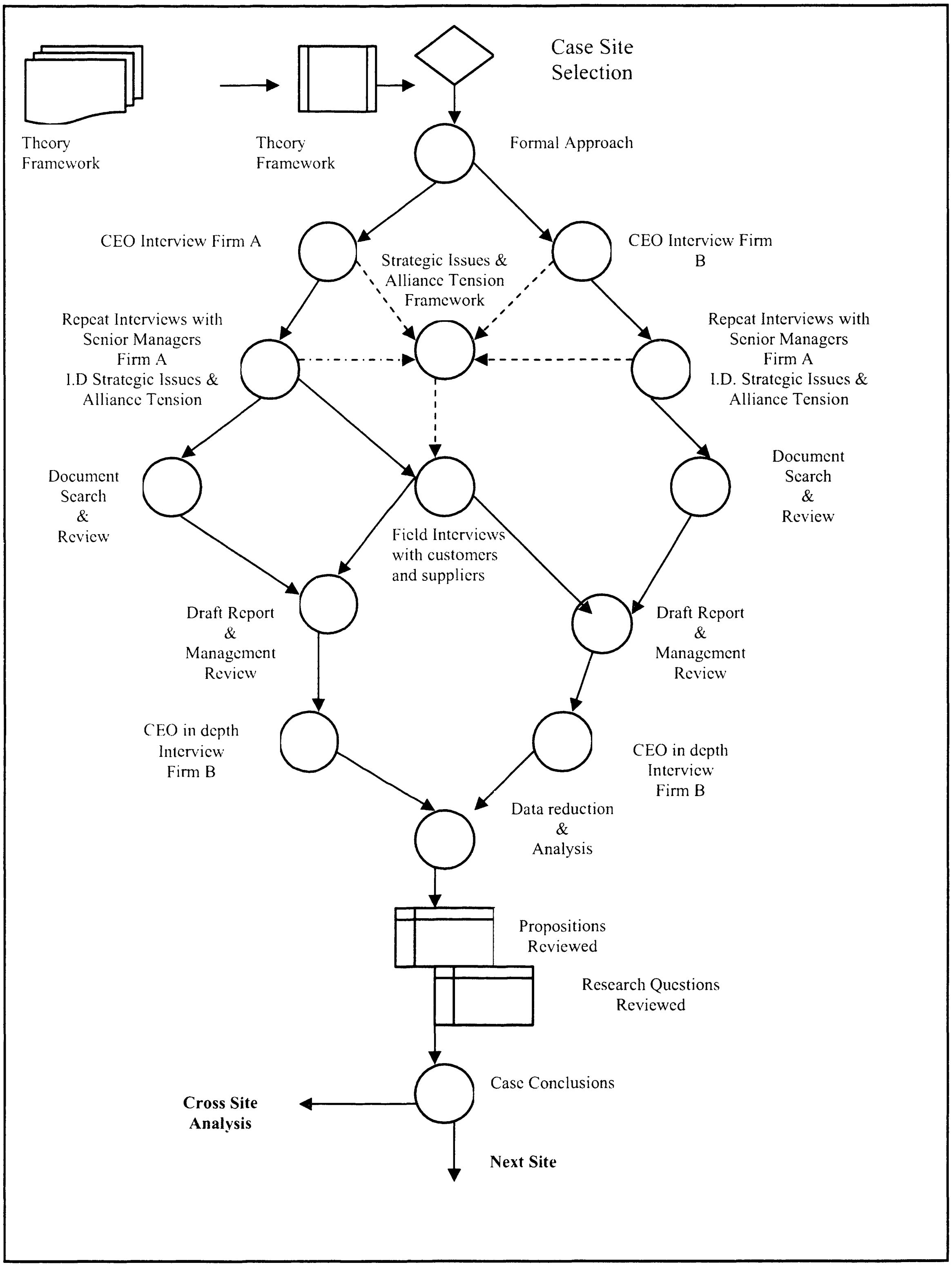
   b. value creation private & common benefits (30 and 31)

   c. dialectic tensions (40 – 44)

   d. perceived contribution (50 – 54)

8) the researcher undertook a recoding of the existing data in accordance with 7 (above).

Figure 4.1 Research Flow Chart – Intra Site Research Framework



Manual and computer aide methods were used to assist in the analyses of the data: Microsoft Access and Excel, and in the latter stages NVivo was used. The Microsoft programs were used predominately in the early stages of the analysis.

The study's research design called for regular review and feedback by the CEOs. The level of interaction with the respondents and the researcher's own familiarity with this software was a key factor in its choice. The design of the analysis was based on Reid (1992) and Tesch (1990: 15) practical guidelines to using computer aided analyses of qualitative data. This procedure aided the researcher not to become distanced from the data and it also ensured that the theoretical rationales guided the analysis.

4.3.9 Cross-Case Patterns

Royer argues that the analysis of several cases can be seen as a quasi-multiple experiment, the developed theory is used as a pattern, and with this pattern the empirical results from the case studies [can be] compared" (21:2000). To avoid the danger of premature or information processing biases, cross-case comparison was conducted to search for patterns.

The case data was compared first to select pairs of cases and then the similarities and differences between each pair were listed. This enabled the researcher to look for similarities and differences between the cases. The cross-case methodology ensured that any novel findings which may exist in the data were captured. The advantage of using a qualitative research methodology is that qualitative data is particularly suitable to provide insights why or why not, the hypothesised internal tensions, alliance stability and performance relationships hold.

4.3.10 Contribution and Constructs

Philosophically, the research is embedded in an emerging field of study in strategic management and governance that seeks to understand what senior managers do 'when they enact strategy' (Clegg, Carter & Kornberger 2004, Whittington, Melon, and Johnson 2003a). Specifically, the research reported in this thesis constitutes a contribution to strategic management, alliance governance theory, and adds to the work by others who have addressed a theoretical deficiency in explaining alliance performance.

A key limitation in previous studies investigating internal strategic tensions in alliances (Das and Teng 2000b) stems from their static perspective. An understanding of strategic alliance relationships demands a dynamic perspective, since process elements are accessible through traditional quantitative methods (Doz, 1996; Arino & de la Torre, 1998). This limitation is acknowledged by Das and Teng who state that their conceptual framework does not clearly depict the evolutionary process by which tensions may develop. Further, Das and Teng do not "explicitly examine the consequences from the evolution of competing forces in alliances" (2000b: 36).

This research study sets out to make the following contributions:

- gain insight into how strategic tensions emerge within the context of a dyadic strategic alliance relationship in a sample of Australian and international firms
- contextualise the process of governing internal strategic tensions and the resulting implications for alliance contribution and evolution of the alliance structure within the strategy portfolio of each partner's firm
- facilitate an improved understanding of how mangers can govern strategic tensions and generate effective alliance strategies

There are a number of defining characteristics that validate this thesis' investigation and resulting framework that contribute to alliance theory. First, it is suggested by Eisenhardt (1989) that powerful theory centers on important problems or social phenomena. Alliance theory explores the fundamental aspects of organizing and relates to widespread global phenomena. Collaboration represents an important social phenomena, and its use as a strategic mechanism has significantly increased over the past decade. Alliances will represent $US25-40 trillion in value by 2010 (Ernst & Bleeke, 1993). The alliance phenomenon is being fuelled by globalisation, technological advances, convergence of industries and the increasing importance of intangible assets such as brands. The interplay between alliance partners may explain some of the underlying dynamics of how tensions evolve and provide an understanding of the factors over which managers have greater or lesser control. This is of particular importance for issues surrounding the governance of internal tensions and alliance outcomes.

Secondly the relevance of this thesis is supported by its focus on issues of collaboration and competition. Theories that deal with the interplay between co-operation and competition are powerful because they centre on problems or issues that are ubiquitous and fundamental within the social sciences (Eisenhardt 1989). One contextual aspect of the research is that it investigates the paradox of competition and collaboration. The world's largest companies, by taking advantage of a spate of "deregulation" and international trade agreements that are intended to increase competition, have been able to achieve a scale that allows them to simultaneously reduce exposure to competition and exploit different strategies of co-operation. The top 1000 global companies have 20% of their total revenue and costs tied up in alliances. In the 1980s, this was 5-10%, and by 2009 this proportion is projected to be higher than 60%. So intense is alliance activity that management consultants Ernst and Young (2005) propose that it will ultimately change the meaning of what is meant by the term competition.

As companies develop global spans of influence, there is both a risk that the dynamics of the alliances come to dominate and a contingent risk that market power can be abused, especially in smaller economies like Australia. Global companies, many of which have larger revenues than countries, are able to locate production in different countries. The implication is that no single national regulatory authority can finally dictate the conditions of competition. The size of these companies means it is no longer as easy to sustain a distinction between the macro conditions of markets, where diversity of competition is regarded as essential, and the micro level, where players routinely employ a variety of co-operative strategies. Alliances are blurring the lines between co-operation and competition and challenging the whole notion of competition.

The third aspect of this research is that it seeks to contextualize alliances within the strategy portfolio of the alliance partner's strategy portfolio; it does not claim to be a theory of everything. Powerful theory explains phenomena in a particular domain and not every domain, therefore, multiple paradigms are necessary (Eisenhardt 1989). In most cases, mergers, alliances, partnerships and joint ventures are logical commercial responses to globalisation and the liberalisation of trade barriers. These forces are generally good for competition, because they widen consumer choice and increase the number of services and lower prices. However, it is also true that these forces create some temptations for anti-competitive behaviour. Many alliances have manifested themselves in anti-competitive behaviour that can lead to cartels.

The fourth dimension of this investigation is that it employs a number of empirical methods across a variety of settings. Eisenhardt (1989) suggests that powerful theory is testable and has concrete and enduring value across a variety of empirical settings and methods. This author concludes that powerful theory is very often personal. Each of us connects with some theories more than others, and contributes more effectively to some rather than others. As an educator and researcher in strategy working on the union of paradox, dialectic and internal tension theory in alliances are much closer to the experience and interest of the researcher of this thesis.

The study of strategic alliance relationships between two collaborating partners, (dyadic relationships) within the context of the circumstances of each particular organization and its operating environment provides a richer view of the idiosyncratic and asymmetric market microstructures that characterize alliance relationships.

4.4 Scope of the Research

This section of the chapter presents an overview of the empirical studies; seven in-depth investigations detail how various rationalities play against one another in different types of alliances in differing contextual and strategic agenda's. The first study's aim is to identify how firm factors influence the emergence of dominant internal strategic tensions in a dyadic alliance; the source of these tensions; and the relationship between an imbalance in dominant tensions and alliance performance. The second study aims to contextualise alliance partners' interdependency and internal strategic tensions and alliance performance, i.e. can the findings of the first study be replicated in a different setting and context? The third study aims to explore how differing alliance purposes shape internal tensions and outcomes – can appropriate governance structures control internal tensions? The fourth study aims to focus on the alliance governance and the mechanisms used to control conflict and internal tensions, specifically how internal tensions influence the stability and outcomes of an alliance. The fifth study aims to investigate how alliance experience, resources and bargaining power influence the value created in an alliance.

The two concluding case studies investigate the strategic management and governance of alliance tensions, specifically how industry environment moderates the relationship between the degree of dialectic tensions and alliance management complexity. Little is known of the dynamics, the governance and the evolution of collaborative strategies. The majority of previous studies of alliance evolution have presumed that each alliance between firms is an independent and unrelated incident with no consideration for relationships among the firms through direct and indirect ties. The treatment of the role of the parenting firms or external organisations is either ignored or usually condensed solely within measures of competitiveness or uncertainty in markets (Gulati, 1993).

The tyre Industry is the setting for the first of two investigations. Case one is a study of a competitive relationship, while the second case is a collaborative alliance:

- Case 1: this study investigates alliance structure and collaborative processes in a joint venture equity alliance in the automotive tyre industry (cell C4- Table 4.4). The purpose of this investigation is to examine how differences between the alliance partner's resources and structure influenced the dynamics of converging and diverging forces in the alliance. An emerging issue from this research is the link between alliance symmetry and strategic tensions. This was considered critical given the contextual nature of the study.
- Case 2: The research focus of the next case was suggested as a related area of study to Case 1 to explore partnering firms objectives, strategic intent and the dynamics of converging and diverging forces in the alliance. The strategic alliance between F&G and Fulda is a non competitive equity alliance between a large German tyre and rubber manufacturer and a medium sized Australian tyre wholesale and retail firm (cell C8 -Table 4.4). This preliminary research gave rise to the

question what are the potential implications for strategic fit and managerial complexity given a different industry setting?

The next two case studies occur in the Airline and Airline Financing Services Industry:

- Case 3: is a study of a competitive alliance relationship (cell C2 –in Table 4.4) between Ansett and Air New Zealand in a marketing and maintenance alliance. The two airlines code share passengers in the Star Alliance Network and share maintenance and service facilities. The research problem focuses on how strategic fit influences the dynamics of converging and diverging forces in the alliance
- Case 4: reports on the investigation of a joint venture marketing alliance in the aircraft leasing industry. (Cell C6 in Table 4.4). The research question is: 'how does institutionalisation influence the stability of an alliance?'. The partners decide to divest the joint venture. The senior managers responsible for the alliance must ensure alliance stability and performance in order to ensure a profitable sale. The key tensions are value creation (common benefits) by the joint venture and private benefits ie maximising return to the parent firms of the alliance partners and the joint venture senior managers. An area for further investigation evolved from this study, namely 'Does prior alliance experience act as a moderator on alliance performance?'

The next two cases are contextualised in the Financial Services industry:

- Case 5: reports on a product bundling alliance between two similar sized Financial Services organisations (cell C7 in Table 4.4). The focus of the study is 'does alliance experience influence the dynamics of value creation and appropriation in an alliance?', An area for further investigation evolved as to whether a focus on either common benefits or private benefits influences the evolution of an alliance.
- Case 6: reports on the investigation of a distribution and licensing alliance (cell C3 in Table 4.4) between the Credit Union Industry association CUSCAL and Cuna Mutual, an insurance and software

supplier to the credit unions. One alliance partner changes the rules of engagement, and the other partner Cuna Mutual must learn to compete and collaborate.

- Case 7: reports on a macro investigation of an entrepreneurial alliance (cell C7 in Table 4.4), between two financial service organisations, one an international investment bank HBOS and the other a venture capitalist WCC. The investigation focuses on long term product bundling venture, the value creation and value appropriation process in the collaborative alliance (see Table 4.4).

Table 4.4 Case Studies

Research Problem	**Case Study/ Industry**	**Relationship & Organizational Size**	**Structure & Internal Tension**	**Emerging I**
1) How does an alliance firm's strategic intent influence the emergence of internal tensions between partners in a competitive alliance relationship?	Case 1: Presmit / Tyre Marketers Tyres	Minority Equity Venture Large / Small	*C4* Competitive: Long Term: Rigid	*Symbioses & Tensions*
2) How does an alliance firm's strategic intent influence the emergence of internal tensions between partners in a collaborative alliance relationship?	Case 2: F&G/Fulda Tyres	Minority Equity Venture Large / Small	*C8* Cooperative: Long Term: Rigid	*Homology & Tensions*
3) How does an industry environment influence the complexity of managing internal tensions between partners in a competitive alliance relationship?	Case 3: Ansett /Air New Zealand Airline Services	Joint Marketing Large / Small	*C2* Competitive: Short Term: Rigid	*Institutiona & Alliance Stc*
4) What are the dynamics between internal tensions and partner satisfaction with the value created by the alliance in a collaborative alliance relationship?	Case 4: TNT / News Corp Aircraft/Finance Services	Joint Marketing Large / Small	*C6* Cooperative: Short Term: Rigid	*Experience & Value Crea*

Research Problem	Case Study/ Industry	Relationship & Organizational Size	Structure & Internal Tension	Emerging Issue
5) Does a focus on common benefits by alliance partners moderate alliance tensions?	**Case 5** **CRI Canada/Celero** Credit Union / Financial Services	Product Bundling Large / Small	*C7* Cooperative: Short Term: Flexible	***Common*** ***&*** ***Private*** ***Benefits***
6) What happens when the balance between the different competing forces shifts towards the dominance of one force or the other in a collaborative alliance relationship?	**Case 6:** **CUNA/CASCAL** Credit Union / Financial Services	Distribution License Large / Small	*C3* Competitive: Long Term: Flexible	***Entropy*** ***&*** ***Value Creation***
7) How does alliance experience influence value creation in an alliance	**Case 7:** **HBOSS & WCC** Financial Services	Long Term Product Bundling Large / Small	*C5* Cooperative: Long Term: Flexible	

Chapter 5 Case Studies

5.0 Overview of the Chapter

As described in chapter 4 the aim of the case studies is to compare and contrast the emergence and governance of internal strategic tensions between alliance partners.

The focus of the investigations reported in this chapter is from a perspective of management for the governance processes in strategic alliances. Governance systems are defined here (see also chapter 1) as formal and informal structures and mechanisms to allocate alliance partners pooled resources, manage internal tensions and distribute alliance benefits to the partnering firms. The aim of such systems is to ensure the efficient flow of resources between the partners, monitor the transfer of technology, protect intellectual property rights; and prevent the dissipation of benefits by the various stakeholders. Strategic tensions (countervailing forces) are hypothesized as being initiated by the critical trade offs alliance managers choose to make in order to achieve the realization of collaborative synergies in pursuit of the purpose of alliance benefits, in the context of a dynamic environment.

This study aims to explore:

- How resource allocation may initiate these tensions and how these internal tensions impact alliance contribution (common and private benefits).
- Alliance tensions between collaborating partners and focuses on those tensions that are strategic i.e., perceived to be of high urgency and have the potential to significantly impact the performance or evolution of the alliance. These tensions are likely to be the focus for urgent action by senior management (see chapter 3, section 3.3). Evaluating which problems a firm is facing in an alliance relationship (the threat of opportunism, the need to gain or retain competencies, sources of competitive advantage, or the need to be flexible) and formulating an appropriate response is a key requirement for alliance managers.

- Mapping critical trade-offs, decision processes and outcomes.

Both qualitative and quantitative methods can be successfully employed in theory building, however a qualitative approach was chosen for the field studies and this chapter reports on seven empirical investigations; seven case studies from four industry sectors. The alliance governance process provides an organisational context that determines the rules of the game and creates an administrative structure within which the partnership proceeds (Gulati and Sing, 1998b: 811). Transaction Cost theory suggests, to optimise the exchange of goods and services between two economic actors an appropriate governance mechanism must be matched to the nature of the transaction, the efficiency of organizing transactions is largely based on the transaction characteristics of frequency, uncertainty, and asset specificity (Williamson, 1985). The governance process aims to influence how resources are allocated, risk is monitored and evaluated, performance is optimized and both bilateral relationships and partners' autonomy is effectively maintained.

Each alliance relationship investigated in this study represents a unique alliance relationship; its selection was guided by Das and Teng's classification framework for investigating alliance structures and tension. To ensure that the data is broad enough to provide information on how tensions were processed over time within the context of their respective operating environments, strategic alliances from different industry sectors were included in this study to capture different terms of the environmental volatility. To measure alliance performance this research adopts Geringer and Hebert's, (1991) suggested approach namely that perceptual measures of alliance performance are often superior to archival measures of performance because of the strategically subjective, multi-dimensional and non financial focus of many alliances (in Judge and Dooley, 2006).

A participatory action research approach was adopted that facilitated advances in substantiative knowledge and theory as well as solving practical problems that would been unlikely to have emerged out of more orthodox research (see also White 1989).The candidate was an employee of Hermens Tyres and is related to the Hermens family. To mitigate personal or professional biases, a research assistant was first engaged to independently review the case records, personal interviews and assist with transcribing the data.

The first two case studies were peer reviewed by academic colleagues at the School of Marketing at the University of Western Sydney (Hawkesbury) and subsequently from academic colleagues at the School of Management, Faculty of Business at the University of Technology, Sydney. The data and insights gained by studying the Presmit and South Pacific Tyre Manufacturers and F&G and Fulda alliances afforded insights that other organisations would not be able to provide. The immersion in the rich data of the first two cases assisted in identifying gaps in existing theory and helped fill them (see also Siggelkow (2007). These cases were subsequently presented as conference papers (work in progress for PhD research) at two Australia and New Zealand Academy of Management conferences in 1996 and 1997.

5.1 Case Study 1: Automotive Tyre Industry – Presmit and South Pacific Tyres (SPT)

The research focus in this particular study is on how strategic intent influences the emergence of internal tensions between partners in a competitive alliance relationship. The aims of the partners in the equity venture were to grow and improve market share and financial performance.

5.1.1 *Research Site*

This alliance was selected as the first research site and investigates the origin and evolution of internal tensions between alliance partners in a joint venture. The alliance is a long term joint venture and competes in similar market segments as other Pacific Dunlop owned retail operations (see cell 4 table 5.1).

Table 5.1.1 Alliance Structures and the Internal Tensions

	Short	Term	Long	Term
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	Cell 1 *Arms length contracts** *not an alliance	Cell 2 Joint Marketing Joint R&D **Ansett/Air New Zealand**	Cell 3 Licensing Joint production **CUNA/CASCAL**	Cell 4 Joint Venture Minority equity alliances **Presmit/ South Pacific Tyres**
Cooperative	Cell 5 Product Bundling Funded Research Shared Distribution	Cell 6 Joint Bidding Joint R&D Joint Marketing **TPG Logistics / News Corporation (AWAS)**	Cell 7 Dealership Franchising Licensing Joint Production Long Term Sources Open Architecture Alliance\ **CRI (Canada / CELERO**	Cell 8 Joint Venture Minority equity alliances **F&G / Fulda**

Adapted from Das and Teng 'Instabilities of Strategic Alliances an Internal Tension Perspective' . 2000 p54

5.1.2 *Alliance Structure and Strategic Intent*

Joint ventures are one of the most common forms of equity alliances (see Faulkner and De Rond 2000). The alliance partners formed Hermens tyres as a joint venture, whose stock is shared by the two partners, each expecting a proportional share of dividends as compensation. In the context of strategic alliances, patterns of cooperation and competition are closely associated with the strategic intent of the partners. These can be categorized as:

1) Cooperate then compete, the partners who are their competitors in the market place first cooperate with each other for short term objectives; then compete among themselves

2) Cooperate while competing; the partners continue to compete while they cooperate in some parts of the business the long term objective is learn from each other to strengthen weaknesses in their business model.

3) Cooperate amongst alliance partners to compete with third parties (see also Culpan, 1993b).

The intent of the Presmit – South Pacific Tyres alliance partners was to compete whilst they cooperated in some parts of the business the long term objective is to grow the joint venture and learn from each other to strengthen weaknesses in their business model for the joint venture (see cell 4 table 5.1). In the alliance agreement South Pacific Tyres is a majority shareholder (51%) and Presmit (49%) agree that the long term goal of the alliance partners is to grow the joint venture into a profitable national independent tyre retailer. The exit clause in the alliance agreement stipulates that the alliance partners parents firms will always have first right of refusal should the Board of Hermens Tyres recommend the raising of additional capital, reach consensus on an offer for the sale of the joint venture or approve the sale of shares in the joint venture by a partner.

5.1.3 *Alliance Structure and Strategic Intent*

This study focuses on how managers and executives responsible for a joint venture govern key interfirm alliance tensions to improve the probability of achieving the purpose of the alliance and the achievement of the partners' common and private goals. The common strategic objective of the alliance partners in the joint venture firm was to expand Hermens Tyres from a regional family business to a national independent retailer. The objective of SPT directors was to improve the market share of tyres manufactured by its parent company Pacific Dunlop and to grow the joint venture firm through a carefully controlled program of acquiring selected South Pacific Tyres owned retail stores in the Sydney metropolitan that were identified as "problem stores", businesses who consistently did not meet budget targets set (Memorandum of Understanding 1986. p1). Presmit directors strategic intent was capital growth and to be the preferred supplier to the joint venture by of rubber products, tyre manufacturing and servicing equipment.

5.1.4 *Alliance Partners: Corporate Background*

- *South Pacific Tyres (SPT)*

In 1987, South Pacific Tyres (SPT) was formed as a 50/50 joint venture entity between the US based Goodyear Tire and Rubber Company, and the Australian-based Pacific Dunlop Limited (now Ansell Limited). Goodyear is the world's largest tire company. The company manufactures tires, rubber products and chemicals in more than 90 facilities in 28 countries around the world. Goodyear employs approximately 80,000 people worldwide. Following restructuring and cost cutting Goodyear decided to withdraw from the Australian and New Zealand market place selling its local operations to SPT in return for a fixed 50% share holding in SPT. It was suggested that in return for Pacific Dunlop retaining management control of the SPT joint venture, Goodyear's investment in SPT shares was guaranteed by Pacific Dunlop should the values of the shares fall below the original sale price. Goodyear remained largely responsible for supplying tyre manufacturing technology including Research and Development, Pacific Dunlop's role was the management of assets and operations including manufacturing, distribution, retail operations and marketing of South Pacific Tyres products and services. Based in Melbourne, SPT employs 4231 individuals in Australia and 1048 people in the Asia pacific region in such diverse areas as new tyre manufacturing, truck and aircraft tyre rethreading, and tyre and automotive services, retailing (sales). Annual sales are approximately $1 billion annually.

Table 5.1.2 South Pacific Tyres (Part of Pacific Dunlop) Profit before Tax and return on sales

	1991	**1992**	**1993**	**1994**	**1995**	**1996**
Profit $m	53.0	64.0	72.0	65.0	98.0	100.0
%	5.7	7.0	7.4	9.0	9.1	9.1

The scale of operations included 16 rethreading plants and 711 tyre outlets in Australia and New Zealand. SPT brands include; Dunlop, Olympic, Kelly Springfield, Beaurepair for tyres, Goodyear Auto Service Centers, Dunlop Super Dealers, Discount Tyre Service and Tyre Marketers. For some years Goodyear and Dunlop's radial branded tyres had experienced high levels of technical failures, particularly steel belt separations. This had damaged the reputation of its locally produced tyres and resulted in high recall and warranty costs. As a result of falling tariffs barriers, imported cars and new tyres had captured a significant share of the domestic market. The supply of new tyres from Japan, Korea, Taiwan and China had fuelled competition between retail stores and had driving retail prices down and squeezing operating margins (see table 5.3). Importers of new tyres had distribution centers in most of the capital cities of the Eastern States of Australia, the majority being located in what was a rapidly growing Sydney market.

Table 5.1.3 South Pacific Tyres (Part of Pacific Dunlop)

Three year summary at June 30

In $million	1992	1993	1994
Sales Revenue	1,070	1,048	950
Depreciation	39	43	40
Operating Profit	73	17	(40)
Assets Employed	686	681	677
Funds Employed	488	477	423
Capital Expenditure	45	30	19
Profit Margin (%)	6.8	1.6	(4.2)
People	6,005	5,953	5,279
Sales per person ($'000)	178	176	180

An ever increasing number of independent dealers were switching away from selling domestic brands changing to imported brands motivated by better margins, broader products range, more flexible trading arrangements and improved productivity having to deal with far fewer customer warranties. In general Goodyear and Beaurepair stores particularly in the Sydney metropolitan region were struggling with low comparable store sales growth and inconsistent or declining profitability.

- *South Pacific Tyres' Corporate Challenge*

The importing of low-cost Asian tyres was a real ongoing threat for South Pacific Tyres. Its company owned tyre retail chains were finding that they were getting squeezed in the middle. No longer able to provide competitive prices and suffering from a standardized product offering (or weak differentiation at best), these chains were losing ground at an accelerating rate. As a result Goodyear and Beaurepair were struggling with low comparable store sales growth and inconsistent or declining profitability. At the same time, independent multi brand retailers exhibit strong revenue growth, positive same store sales growth and sound returns. Retailers that marketed primarily up market tyres like Bob Jane were also getting squeezed. Low cost operators like FHTS, Independent Tyre Service, were enjoying significant growth while department store outlets like K-Mart, franchise outlets and service stations were fighting each other for survival.

- *Frank Hermens Tyre Service (FHTS)*

Presmit trading as Frank Hermens Tyre Service (FHTS) commenced business in 1968 and its' owners the Hermens family contributed most of the operating capital and bore the risk of ownership. Managerial control was vested in members of the founder's family. The rationale for this practice was that it lacked the financial resources to employ professional specialists in areas such as marketing, administration, finance and logistics. Consequently most of the critical decisions are made by the family members. In its early years of operations the fledgling firm had to overcome multiple entry barriers into a mature and fragmented industry dominated by five powerful local tyre manufacturers most of these companies were large and foreign owned. One of FHTS's early challenges was designing a sustainable successful business strategy. The crucial question for FHTS was how to effectively leverage its core competencies and grow the business with its limited resources in an industry environment marked by high levels of competitive rivalry. The family entered into exclusive supply chain alliances for technologically advanced radial tyres with leading German, Italian, Japanese, Chinese and Korean tyre manufacturers.

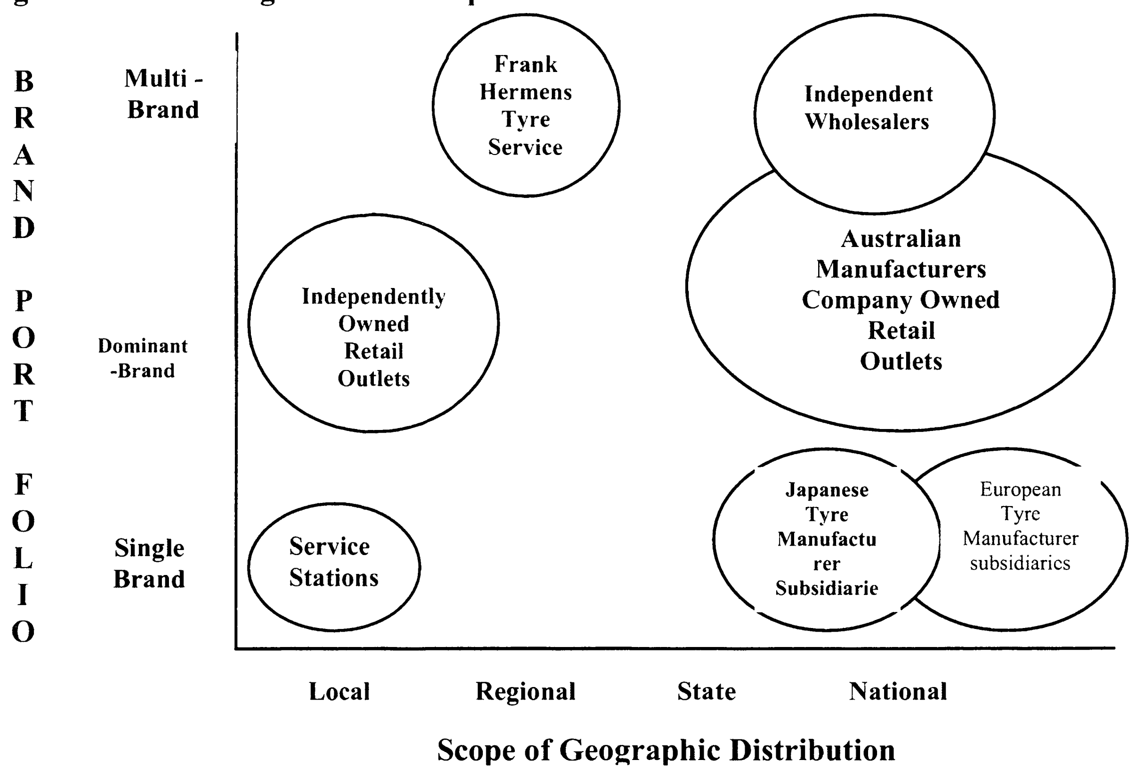
The family's entrepreneurial drive and technical skills were a significant factor in FHTS's success and growth. The business was a pioneer in its industry sector and offered its customers a range of quality imported radial tyres, at a low price. The high volume price strategy was supplemented by extended trading hours and seven days a week service facility that soon became popular with its customers and suppliers. The business enjoyed favorable extended financial trading terms from its suppliers, largely due to the close personal relationships between these firms and members of the Hermens family. Frank Hermens Tyre Service as an independent operator provided a successful distribution channel function for its international suppliers many of whom had previously experienced difficulties accessing the Australian market place.

The Hermens organization had staked out a strong competitive position by 1985 in the Sydney Metropolitan area, one that clearly differentiated it from its competitors and was pretty much in a strategic group by itself, with few rivals that had the same geographic coverage, brand image and channel positioning (manufacturing, wholesale distribution, trade sales, corporate service accounts and retail outlets). The multi brand strategy had strong appeal to the consumer, trade and industrial market segments and the availability of more than one brand had allowed FHTS to compete with products positioned at low, mid, and upper premium points. FHTS's strategy was predicated mainly on broad product selection, product quality, remanufacturing of car and truck tyres, efficient 'family' customer service, and a best-cost provider type of competitive strategy. Its focus on wide production selection was reflected in its broad product mix, including retreads, radial and conventional tyres, car, truck and tractor tyres and magnesium wheels, in almost all categories throughout its stores. FHTS wanted to be known for carrying items that other stores did not carry.

The cornerstone of the value proposition that it offered customers was its wide product selection strategy which also involved carrying locally manufactured tyres. FHTS product breadth and best cost strategy appealed to a broad range of customers and had helped it to attract a diverse clientele. FHTS pursuit of being a best cost provider was reflected in its combination of variety, quality and pricing. It offered a broader mix of products, to a more diverse clientele, at lower prices, than its major competitors, Goodyear Tyre Stores and Dunlop's Beaurepair Stores.

The family business supported its best-cost approach by providing superior quality at a lower cost per hour. That is, it was able to provide more customer service in the form of more employee commitment, expertise and hours than their unionized competitors. Being privately owned is also willing to accept a rate of return that might be unacceptable for a publicly traded company. Competition between store managers ensured high performance standards, especially for the family management team. In 1984 the family business was experiencing excellent growth their growing market share had the family satisfied with growth and performance that their strategies were generating. The company's chairman and CEO, Frank Hermens continually emphasized the need to drive down costs and push up sales. Senior managers at FHTS wanted to continue the company's rapid and profitable expansion and were constantly on the lookout for opportunities to grow the company's business.

Figure 5.1.1 Strategic Position Map



- *Presmit's Corporate Challenge*

By 1986 the scope and the size of Hermens business operations had rapidly grown and brought a need for additional funds for further expansion. Initially the business had funded expansion from its own equity and cash flow. Following a number of approaches by competitors and suppliers, the family decided on the strategy of raising additional capital through an equity alliance between Frank Hermens Tyres Service and one of the two Australian tyre manufacturers. Such an arrangement would give the business access to capital and secure a strategic supply relationship, thus enabling further growth and improved its competitive position and profitability.

5.1.5 Alliance Negotiation

SPT and the family firm had a long standing and often strained relationship the former being both suppliers and competitors of Frank Hermens Tyre Service. The Tyre Marketers directors were persuaded by the Goodyear senior management team of the strategic benefits that an alliance venture with Frank Hermens Tyre Service would generate an increase in local market share and give access to an expanded network of after-market clients. The Dunlop senior management team also favored the joint venture however on differing grounds, arguing the benefits of acquiring a stake holding in an independent retail chain, its strong regional brand image and the opportunity to access a successful retail management formula. Tyre Marketers directors felt a joint venture would offer potential for rationalization of their own existing retail outlets in NSW. Privately senior managers at the South Pacific Tyres agreed amongst themselves that it would also afford an opportunity to control the growth of Frank Hermens Tyre Service and limit the marketing of domestic and imported competitors' products by that company.

FHTS short term debt level is high as a result of its rapid growth and the company needed additional working capital. Its current strategy of funding growth from cash flows had presented Hermens with a major challenge. In order to sustain the growth senior management at Hermens realized that the business needed further capital and following a number of strategic planning meetings by the family two options were being considered; either a public listing of 60% of the company or a 50% joint venture Alliance partnership with a Japanese or Australian tyre manufacturer. The majority of the family favored the public listing of the company where the family would retain control through their 40% equity holding. Following a sudden down turn in the share market in 1986 this option fell out of favor.

In 1985 Frank Hermens Tyres entered into negotiations with South Pacific Tyres (SPT) to form a joint venture tyre retail company. SPT was a joint venture company between Goodyear Tyre and Rubber Ltd (USA) and Pacific Dunlop. South Pacific Tyres manufactured, distributed and wholesaled Goodyear, Dunlop, Olympic and Kelly branded tyres in the Australian market. In addition South Pacific Tyres manufactured and produced rubber and also operated three national tyre retail chains, Goodyear Tyre Service, Beaurepair and Ms McLeod in direct competition with independent dealers. Company owned retail operations were generally unprofitable in most states and particularly in NSW and retail operations were subsidized through volume rebates by the manufacturing arm.

5.1.6 Alliance Agreement

After protracted negotiations, arrangements were made for the retail and manufacturing assets of Frank Hermens Tyre Service to be sold to a new corporate entity, Hermens Tyres Pty Ltd (HT) to be a joint venture company, a strategic alliance between Tyre Marketers (TM) the majority shareholder (51%) and the Hermens family the minority share holder (49%). The family's rubber and equipment importing and distribution activities along with its real estate holdings and commercial building assets were transferred into a wholly owned Hermens family company. The board agreed that HT would operate as a separate entity pursuing its current strategy; SPT would be a preferred supplier for domestically produced tyres, tubes and rubber. The Hermens family trading company owners of the Hermens family real estate portfolio would lease all existing commercial premises to HT on a 10 year lease and would be the granted preferred supplier status for all retreading and tyre service equipment, pre-cured treads and consumables. HT would also supply SPT with specialized retread products.

5.1.7 Alliance Partners Collective Strengths

Frank Hermens Tyre Service a medium sized independent business founded its Australian operation in 1968 and is managed, funded and operated by its owners. Its staff size, financial resources and assets are comparatively limited in scale. A key differentiator between large and SME organizations is that SME success is dependent on the entrepreneurial capabilities of its operators (Dollinger, 2006). In contrast South Pacific Tyres managers (a division of Pacific Dunlop a large multinational corporation) could be described as risk adverse; adhering to broadly accepted organizational norms of behaviour and were more professional and predictable in their decision making.

The combination of the complementary strengths of the joint venture partners (SPT access to resources, and Hermens retreading and retailing expertise) and the entrepreneurial flair of the Hermens management team theoretically should empower this joint venture to be successful and positively contribute to individual alliance partners objectives.

SPT access to the global Goodyear network has enabled the company to reform itself and make significant gains in the area of intellectual property and technology transfer. New tyre manufacturing has been consolidated at Somerton and its truck tyre retreading business expanded, bringing the number of SPT retreading plants to 13. The joint venture partners Goodyear and Pacific Dunlop have heavily invested in capital equipment and research and development in an attempt for SPT to retain market leadership.

Hermens retailing expertise and technology related capabilities in retreading, it willingness to pioneer new advances in cold retreading autoclave technology will allow the joint venture to expand into attractive new commercial tyre product categories. The company has an excellent reputation as a family business that aggressively pursued innovation and technical excellence. Hermens is very diligent in monitoring R&D activities in retread production processes worldwide—and then aggressively implementing those innovations that prove worthy. Proven skills and expertise in keeping costs low, integrated value chain activities, lean corporate management, a cost-conscious corporate culture and has been profitable every year since 1966, despite industry downturns. The State-of-the-art retreading plant with the latest equipment, and the company's retail stores are among the most modern and most efficient in its region.

5.1.8 Alliance Performance

It was generally agreed in the industry that the joint venture seemed to offer both partners access to new resources, products and market segments and ample strategic fit opportunities that would benefit the overall performance of both business groups, but some SPT managers questioned whether the purchase price for 51% equity of the joint venture company was too rich. According to an analysis by Price Waterhouse and valuations by the State Bank the 40% price premium demanded by Presmit shareholders was within the range offered in other manufacturing and retail industry mergers, but the acquisition price seemed high when comparing the merger price sales and EBIT multiples to those of other recent SPT joint ventures or mergers. SPT Directors expected a 1 + 1 = 3 effect from the alliance with Presmit since the joint venture company Hermens Tyres would have a stronger business line-up and brand portfolio and provide significant cost sharing opportunities between the two companies' businesses. Hermens Tyres ability to introduce Pacific Dunlop brands to new markets segments by its retailing system caused SPT management to increase its near-term annual sales growth objective from 4%-6% to 5%-7%. When Hermens Tyres closed its first quarter as a joint venture company on December 31, 1987, the company was performing at the high end of Directors expectations. In addition, the joint venture company's had dramatically improved SPT new tyre brands market share in its weakest region in New South Wales. Despite the potential profits to be made in the joint venture, alliance partners were also faced with a number of challenges in implementing the strategy despite both partners past alliance experiences.

The joint ventures initail performance was very strong however, Hermens operating and net profit margins were eroding during the 1987-1989 period (see table 5.4). Return on assets and return on equity have been eroding.

Table 5.1.4 Selected Financial Ratios For Frank Hermens Tyres 1987-1989

	1999	**1998**	**1997**
Return on total assets	4.9%	5.3%	6.3%
Return on equity	10.1%	11.4%	12.7%
Gross profit margin	44.6%	46.0%	44.8%
Operating profit margin	16.4%	18.3%	18.3%
Net profit margin	8.3%	8.9%	9.4%
Current ratio	6.3	6.1	4.8
Debt to assets ratio	.40	.43	.39
Debt to equity ratio	.83	.92	.78
Inventory turnover	1.41	1.44	1.79

The challenges associated with integrating SPT company culture with the Hermens culture were daunting. According to the CEO the company had to decide "whether we should adapt Hermens management practices to SPT culture or whether we should, instead, implement SPT management policies in Hermens Tyres" Hermens Tyres had a unique and powerful culture. The culture is combative and feisty and a "warrior mentality" prevails—a carryover from family's firm battle to survive in its early years. There is a tradition of employee empowerment and decentralized decision making. The majority of its store mangers were young competitive and had a love for motor sport.

The SPT Directors however had identified approximately $200.000 in annual cost savings resulting from value chain synergies between SPT businesses and Hermens business units. Frank Hermens however maintained his vision that Hermens Tyres retain its independence, should grow through the acquisition of underperforming SPT retail stores and integrate all SPT employees into "one big Hermens family." He argued that the joint venture was independent of the other SPT businesses and management structures and served as a strategic partner to them.

The SPT directors were of the view that the boundaries between the Hermens Tyres and SPT business units were blurred. They recognized that the joint venture did not have a formal place in the SPT hierarchy Hermens Tyres managers would have to work closely with their SPT partners in various business units.

A Hermens Director commented:

> *"We made the deal with Goodyear people but the people we have to live with right now are Dunlop people and they are not the same. Dunlop wanted the deal but Goodyear put the deal together I think Goodyear did not communicate the strategic intent of the alliance or to the Dunlop people who are going to carry the deal forward did not listen..."*

Governing this sensitive relationship was a challenge, the CEO felt that if the situation was not handled correctly costly misunderstandings might occur. However, (subsidiary strategy) prioritize collaboration with SPT wherever possible – avoid direct competition with SPT entities. Employee morale, in general, declined as many felt that the 'family spirit' that characterized work relations in the company was under threat as a consequence of these measures. Some employees were unhappy at what they perceived as arbitrary behaviour on the part of middle management.

Hermens Tyres' strategic approach involved developing a greater understanding of the consumer to tailor the retailing experience to customer expectations and needs. Even though the company understood the importance of competing on price, it utilized different retailing approaches for customer groups with different brand preferences and demands. Store product assortments were tailored to the customer characteristics of the region. Therefore, Hermens Tyres 1500 SKUs would vary between stores based upon they type of consumers living in the area. Hermens Tyres range of new tyre brands and retreads allowed it to attract consumers that needed product advice and installation services.

The key elements of SPT strategy involved cutting the size of the company's portfolio from 16 brands down to 4 "core" brands, concentrating R&D and advertising on the company's leading brands, divesting under-performing brands and business activities, The key strategic targets were to achieve top-line sales growth of 5-6 percent annually, and increase operating profit margins from 11 percent to over 16 percent—both to be accomplished by year-end 2004.

The sources of the tensions are predominately embedded in the structural dimension; Presmit has a long term planning and investment horizon, its strategic intent is market related, to collaborate and compete and to retain its flexibility in stand alone structures. Whereas South Pacific Tyres strategic intent in the alliance is that their alliance partners to act like a subsidiary firm. SPT symmetry is embedded in the dimensions of its majority ownership and voting rights.

An SPT manager commented that

> *"...the lack of speed of receiving direct visible benefits to their organization forced changes – we focused on self rather than alliance ..."*

Another SPT respondent suggested that

> *".... the shift in focus on self interest reflected the changing views of senior management in their organization ..."*

5.1.9 Alliance Operations

The market-oriented philosophy of the Hermens family business had resulted in a strong customer base and a strategically well-managed product portfolio, including a broad range of "own brand" re-manufactured products for the lower priced market segment. However, its growth had been constrained by a lack of trading capital. The new restructured joint venture HT had additional resources and the company soon enjoyed significant growth in sales and market share in what was a fragmented retail market and achieved market domination in its most important geographic region, the Sydney metropolitan area. Its retail sales results and productivity were significantly higher that those of SPT owned retail stores. Senior managers at SPT viewed the strategic alliance as an interesting experiment and a natural forward integration.

Following complaints from some SPT store managers of HT aggressive marketing and retail strategy considerable pressure was applied to the majority directors of HT to reformulate its retail strategy. Initially the board and the CEO resisted the pressure from its majority Directors however after 8 months in response for calls to be more cooperative with SPT; the management team refocused its strategy by raising the prices of SPT branded products and increasing its marketing of imported products. This resulted in a dramatic lowering of unit sales in SPT products and an increase in imported tyres. This created considerable tensions between the alliance partners.

The minority of directors representing the Hermens family's interest expected their joint venture partners to permit the Hermens Tyre Service management team to operate independently and that SPT would extend to the joint venture company favorable buying conditions including price and payment terms. The majority of Directors pressed for a significant alteration in product range in order to ensure that brands manufactured by SPT represented 80% of total sales. While Hermens was poised to overtake all of its regional competitors in market share, it was still substantially smaller than most of the South Pacific Tyres owned national retail chains and a number of these stores were said to be strategically dumping new tyres in selected regional markets were Hermens stores were operating at cut-rate prices.

The Hermens management team and the minority Directors decided that adverse economic conditions in the Australian retail tyre industry presented the company with a host of opportunities to exploit its low-cost capabilities and take sales and market share away from its higher-cost rivals. But Hermens was not alone in being aggressive. A number of independent tyre retailers were in the process of forming an alliance, Australia's largest independent retail tyre franchise. There was now an urgent expectation that some of SPT's poorer performing retail outlets in the joint venture's geographic region should be acquired by the joint venture business. Neither of these expectations had materialized after 8 months. In response the majority directors representing SPT interests wanted the joint venture to adopt an internal strategic orientation focusing on consolidation and allowing for very limited and tightly controlled growth. The majority directors also sought adoption of SPT corporate HRM techniques and the integration of IT systems. The minority directors, by contrast, resisted alteration of the product portfolio, urged maintenance of a strong market orientation and stressed economies of scale through further rapid expansion. There was clearly a difference in expectations between the partners which had not been anticipated and which proved difficult to resolve.

5.1.10 Alliance Conditions

Alliance conditions in the joint venture changed over time. Imports of low cost new car tyres from China, India and Thailand are impacting the industry and threatening the viability of new tyre manufacturing and retreading in Australia. Price of raw materials, are rapidly increasing as a result of industry consolidation, two of the three main suppliers of rubber are subsidiary companies of its alliance partner and competitor, SPT. The resources made available to the joint venture significantly affected alliance conditions. One of the many frustrations for the minority directors was that the achievement of their objectives in the alliance, i.e. the growth of the joint venture, was hostage to changing resource needs of Pacific Dunlop, SPT parent company. The majority of the directors' strategy was to ensure that the alliance partners did not lose their mutual dependence.

A critical activity for the CEO was to evaluate whether the partner firms were tending towards more conflicts or more interdependencies. Based on that judgment, he governed the alliance process through mechanisms such as controlling, coordination, political activities, and managing conflict.

5.1.11 Emergence of Structural Tensions

The majority directors favored the integration of the Hermens Retread Factory into the various SPT manufacturing plants. These directors argued the case for standardization of the retread product range would produce greater economies of scale and increase the interdependency of the alliance partners. The minority directors and the CEO strongly opposed this suggestion they argued that central to the future success of the joint venture is that HT retains its own system and processes. The success of the Hermens business model is based around its flexibility and its capacity to respond to the diverse needs of its target market.

The Hermens retread factory was located in South Windsor and contained two integrated plants, a hot retreading facility and the cold capping facility. It was described by most managers as the "Heart and soul of Hermens". Retreading was described by many in the industry as capital intensive and a 'small margin business' however for Hermens retreading was very profitable for the firm. Three generations of the Hermens family had been involved in developing the technology; FHTS were one of the first manufacturers in Australia to successfully retread car and truck radial tyres. The factory contained some of the most modern automated equipment in Australia and produced a broad range of tread design and tyre and truck sizes. The hot retreading plant produced car, light truck and truck retreads and had a capacity of producing about 300 units per day. Most of the equipment was sourced from the world leading tyre equipment manufactures located in Germany and Italy. The cold plant produced 100 truck units per day and most of the plant equipment had been developed and manufactured in house. Raw materials were sourced from several suppliers including SPT. Premium imported precured tread rubber used in the manufacturing of 25% of the truck tyres produced in the cold plant was sourced from F&G imports a Hermens Family owned business.

FHTS gross margins at 35% were significantly larger than the industry average of 15% – 20%. Strategically retreading was at the core of the FHTS business model explained one of the senior managers:

> *".... we amortize most of our operating and overhead costs to the retread production this allows us to operate in the rest of the business with much smaller mark ups than our competitors."*

One Hermens store manager commented that:

> *"The family has a significant ownership stake in Hermens tyres; they have very strong passion and commitment to develop new retreading technologies that can produce tyre at the lowest cost. South Pacific Tyres, however do not share that passion, they do not like retreads and have much higher costs than us producing them. They exert a lot of pressure on us to conform to their philosophy to sell new tyres – they keep telling us that for every retread we sell we could have sold a new tyre at a much higher ticket price, however the margins in retreads are much larger and the cost to the customer only half the price of a new tyre..."*

A senior SPT manager commented:

"....Hermens just don't get it, there is no future here for car rethreading, with imports from China and Eastern Europe you will soon be able to buy cheap new tyres for near enough the same price as retreads. More importantly on many new cars soon you cannot legally fit retreads because they do not comply with speed rating."

The minority directors strongly argued the case that:

1) There would always be a market for car retreads particularly in the commercial market, e.g. Taxies, Hire cars, Four Wheel Drives and light commercial,

2) The legislation did not apply to cars 5 years and older

3) Hermens were confident that they could produce car retreads rated for speeds up to 140 kilometres per hour, given the sophistication of the rethreading processes and the new equipment Hermens planned to order from German and Italian equipment manufacturing.

At the second board meeting the majority Directors asked for the request by the CEO for authority for capital investment in new equipments ($ 500.000) to be deferred for 6 months when the board would consider the request.

An SPT director argued that

"The CEO and the management team should first focus on existing systems and operations and trade profitably for at least 6 months before we start investing additional capital."

The Presmit directors agreed and told the CEO privately that:

"Well I think this proves that Phil and Kim agree with us that retreading remains central to Hermens operations you just need to come up with the right numbers".

After 6 months elapsed the CEO again requested the board to approve capital expenditure arguing that the joint venture was ahead of budget and trading favourably. The majority directors argued that this decision should be deferred for a further 6 months until the end of the financial years and after the accounts are audited so we can be sure that we are on track. The Presmit directors strongly disagreed at first however after the SPT Directors suggested that the first instalment of the loan repayment was due to the minority directors in 60 days and additional capital expenditure would be difficult to fund the minority directors reluctantly agreed.

Thirteen months after the launch of the joint venture the capital expenditure request was again considered by the board. This time the majority directors argued that they opposed any additional investments in the retreading plant. They suggested that Hermens should phase out car retread sales in favour of new tyres and should consider selling the car retreading plant and source car retreads from SPT during the phasing out period. This was strongly resisted by the minority directors. The matter was deferred for discussion in to the next board meeting however the relationship between the directors seemed to be deteriorating rapidly.

The CEO and the leadership team decided to redirect the focus of car retread sales to their own retail clients and raised the wholesale price of retreads and at the same time reduced the wholesale price on new tyre sale by 5%. Incentive schemes were put into place to reinforce this strategy. The majority directors were pleased with the increase in new tyre sales seeing this as a "positive move in the right direction by Hermens Tyres" and the minority directors were equally pleased as car retread sales remained strong and the margins on car retreads were growing.

The lack of investment by the "new management team" in the retread factory however was starting to put severe pressure on margins in the business as lack of retread capacity increased delivery times and an aging car retreading plant increased the cost of manufacturing. This was further exacerbated by the fact that not purchasing new retread moulds, the factory may not be able to produce the latest new tread designs and the premium price strategy for their up market models of retreads was no longer sustainable.

Strong arguments were made by some of the directors that Hermens Tyres should use most of its free cash flows during 1987, and at least part of 1988, to improve its liquidity and debt ratios, however the minority directors argued that the join venture firm will need to invest in upgraded production facilities to grow substantially beyond its current size. The CEO felt that an upgraded production facility was critical to sustain Hermens Tyres strong first-mover advantage in the retread market . The management teams focus was to increase the company's light truck and truck retread sales to fleet operators such as taxi, parcel, coeriers and transport companies. Hermens store managers felt strongly that greater retread sales are necessary to create a more stable revenue stream and increased profit margins. Greater sales to the fleet operators are attractive to the retail stores since such accounts are more easily serviced. Retread sales to fleet service accounts it was argued offer growth potential at least as great as new tyre sales.

5.1.12 Emergence of Psychological Tensions

The majority directors were pleased with the joint ventures first six months financial performance. Nevertheless they believed that performance could be further improved by adopting SPT operational structures. The majority directors suggested that SPT systems and HR practices should be adopted. They suggested that the CEO consider reducing overtime salaries standardized and Sunday trading hours reduced. The CEO encouraged store managers to align with some of SPT systems such as invoicing separately for services and limiting Sunday trading in those Hermens stores located in industrial areas however in most areas retained Hermens flexible management practices.

A Hermens manager observed:

> "…. *They (SPT) believe that they have acquired sufficient knowledge of how the Hermens business operates and now they want to challenge our managerial decisions whilst half of their own Beaurepair stores are running at a loss…"*

One of the main strategic building blocks of the business model for FHTS was its flexibility and one stop shop concept. This required Hermens store managers to have in-depth knowledge of their target market to ensure that each store stocked an appropriate mix of tyres from a broad product range across a number of imported and local new car and truck tyre brands and two retread product categories, 'hot remoulded and pre cured retreads. Retail stores were stand alone business units and managers had a great deal of flexibility that enabled them to respond with immediacy to customer requirements in their local region. Pricing by Hermens of the various product categories were influenced by the company strategy and local market forces. Gross margins varied widely across the product categories and brands. The local store managers were responsible for their branch overall performance and had a great deal of flexibility in pricing and determining margins. The culture of Hermens Tyres store managers was to promote extra discounts for cash sales. Typical ratios of cash sales to account sales in these stores were 70: 30 whereas in SPT owned retail stores the focus of management was on national account sales and its company store sales ratio was 80% credit sales and 20% cash sales. Hermens sales staff included service charges when submitting a quote to a retail client. SPT store managers when quoting prices would cite the price of the product only and add service charges at the time of invoicing.

Hermens extended trading hour's policy and its flexible HR practices ensured that its tyre technicians take home pay were about 40% higher than its competitors. Productivity and staff retention were among the highest in the industry. Retail stores were usually staffed by a manager, a tyre technician and a front end automotive mechanic. Generally for each employee a Hermens retail store generated $20.000 sales revenue per month, rent and fixed expenses were set at 5% of annual sales revenue and gross store margins targets set at 35%.

At the end of the joint ventures' first year of trading increasing pressure from the board forced the CEO in order to maintain product flexibility to reduce the flexibility of store managers an introduce practice and processes aligned with SPT systems. As Hermens stores adopted SPT systems and structures store performance and staff morale were adversely impacted.

A Hermens store manager commented:

> *"Probably the best example of how things went in the wrong direction is that we were all the time being asked to make adjustment to the way SPT did things. Our customers do not accept the new policies, like charging extra for wheel weights, pushing Dunlop brands that have a poor reputation in the market place. We were not adequately compensated as they were always comparing wage rates we paid and our overtime figures against SPT stores, trying to cut*

down overtime whilst our sales and productivity was much higher than their stores."

5.1.13 Emergence of Relationship Tensions

To ensure accurate margin reporting and to improve the availability of products and increase inventory turnover the newly appointed CEO of the joint venture decentralized administration and commissioned a point of sales (POS) information system in each store and these were linked to a general ledger at the Head Office in Castle Hill. Retail stores were responsible for all account transactions and the role of Head office was to support and audit the retail stores.

The CEO and the CFO had previously agreed that during the first 3 months of commissioning the point of sale systems the superseded batch computer systems should operate parallel. The majority directors however were unfamiliar and uncomfortable with the POS system and expressed reservations at the extra costs incurred running parallel systems. The board suggested that the extra costs were not warranted and advised the CEO to either retain the batch systems which they would prefer or switch over to the point of sale systems.

Reluctantly the CEO agreed to switch over to the new system within 30 days. Soon thereafter a number of system failures occurred which were rectified within hours of occurring. The directors now became concerned with the integrity of the system and the majority directors suggested that the back office work should be outsourced to SPT. The CEO advised against this and was supported by the minority directors. He persuaded the board not to revert to a SPT system and in return (trade off) agreed to regular audits by SPT accountants and independent external auditors.

A senior administrator at Hermens Tyres commenting on the tension surrounding the IT integration:

" There needs to be a joint recognition by the board of the value of working to grow the joint business rather than one growing at the expense of other ".

A Senior SPT manager commented that:

"The CEO backed by the minority directors has become less willing to be flexible and see it our way. Of course it could be the fault of both of us; however as the CEO has became more rigid we are more comfortable in challenging him and looking after our interest."

5.1.14 Alliance Evolution

Hermens Tyres growth was impressive in the first 7 months of the relationship and beyond that predicted by the majority partner SPT.

A SPT manager observed that

"The share of SPT products in Hermens increased from 30% to 55%, the benefits drive behaviour We believed a long term relationship was worth working on in the early days however the different corporate cultures and procedures, SPT reluctance to commit more resources, and the tensions between the partners are a dark cloud over alliance (SPT manager)"

A Hermens senior manager observed that

Since SPT were getting into more strategic alliance with other companies, the bonding and the flexibility and the comfort level wobbled over the period of time. (Hermens manager)

A senior Presmit Executive commented that:

" ... My biggest concern about the alliance with SPT is that we will potentially hurt our own ability to market. Hermens have developed something of great value they have a great family business image. To make the Hermens name and the technology and know how available to our alliance partner in anticipation if getting something in the future is not smart but foolish. I think all we really have done as a small company is to make our main competitor Dunlop stronger ..."

After 18 months of trading and a series of management clashes between directors the majority partners moved to acquire the Hermens family interest in the joint venture. Following intense negotiation this interest was acquired, ending Hermens 28 year involvement with the business. SPT management and marketing "blueprint" were immediately implemented in the Hermens Tyre Service stores. In due course manufacturing facilities, products, services and trading hours were rationalized. Some years later the Hermens Tyres stores were renamed Goodyear stores as a result of declining market share and profitability.

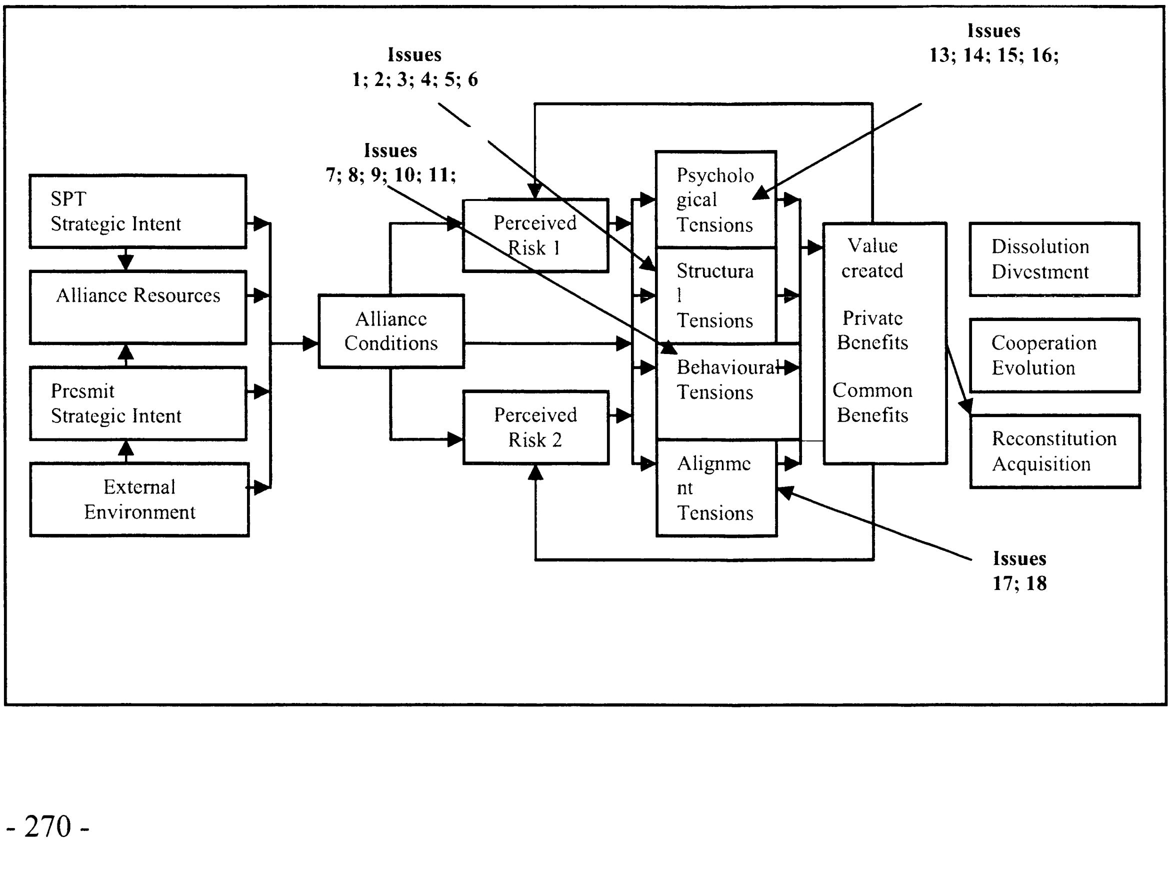
A Hermens store manager commented that:

> *"The SPT guys are bullies, they are cold and calculating in their ways and the real losers is the Hermens business. Some of the SPT directors are just sort of thrown into this, they are just handed this alliance deal by Goodyear and that is creating a real problem. They have placed the performance and even the long term survival of the Hermens business at risk".*

5.1.15 Origins of Strategic Tensions in Presmit and SPT

In this section I will outline a number of structural, behavioural, psychological and alignment issues that confronted the Board of the Hermens Tyres joint venture and the context for the resolution (governance) requiring various trade off's by the stakeholders of these issues (see figure 5.2).

Figure 5.1.2 Location of Issues & Tensions



Actual alliance conditions in the joint venture are enacted upon by a number of drivers of; 1) influencers from the external environment, 2) the available resources and 3) the alliance partners' strategic goals and intent. The perceived gap by the Hermens directors between the normative ideal alliance conditions and the actual alliance conditions generated contextual concerns (strategic issues) eg, alignment of systems, resources fit etc and how these may influence alliance performance and contribution to the either of the partnering firms. The resolution of these strategic issues generated conflict (tension) between the directors as to 'how best to resolve these strategic issue(s). Resolution of these tensions required (dialectic) trade offs between various stakeholders.

Structural Tensions

Structural issues relating to concerns for the risk of maintaining flexibility that emerged in the Hermens joint venture included:

1) Sharing storage facilities with SPT – should Hermens bulk warehousing facilities be sold
2) Consolidating retreading facilities – should the manufacturing of car retreads be outsourced to one of SPT Retreading facilities
3) Review of operations – should Hermens adopt SPT branch staffing structures, Human Resources practices etc
4) Relationship banking – should Hermens retain its traditional bankers or use SPT banking facilities
5) Management information system– should Hermens retain its current stand alone state of the art point of sales systems or adopt SPT systems.
6) Centralized administration – traditionally Hermens stores were responsible for sales, invoicing, banking, collections including debtors' management.

Governing strategic issues pertaining to strategic fit, embroiled in differing views (tensions) how potential actions or inaction may promote or impact alliance performance and contribution required the negotiation of trade off's in the Hermens joint venture this was either to be:

- Flexible – JV retain independent operating structure
- Rigid – JV align with SPT structure & systems

Behavioural Tensions

Issues relating to concerns for the risk of maintaining cooperation among the partners that emerged in the Hermens joint venture included:

7) Positioning – should it retain its own independent identity
8) Brand Mix – should tyre sales of SPT key competitors, e.g. Michelin, Bridgestone, Firestone, and Yokohama be phased out?
9) Car retread sales – should car tyre retreads sales be phased out in favour of new tyres sales?
10) Pricing Strategy – should the focus shift away from the high volume low margins strategy
11) Customer focus strategy – should large fleet customers currently serviced outside Sydney Metropolitan area be retained
12) Customer profitably review

Governing strategic issues and maintaining interdependent relationship between Presmit and SPT , embroiled in differing views (tensions) how potential actions or inaction may promote or impact alliance performance and contribution required the negotiation of trade off's in the Hermens joint venture this was embedded in the behavioural strategic tensions of,

- Cooperation – (subsidiary strategy) prioritize collaboration with SPT wherever possible – avoid direct competition with SPT entities
- Competition – (stand alone strategy) strategic focus primarily on Hermens Tyres performance

Psychological Tensions

Issues relating to concerns for the risk of maintaining cooperation among the partners that emerged in the Hermens joint venture included how to:

13) Divest non core activities

14) Expansion – time line for opening new retail outlets

15) Acquisition of SPT under performing stores – budgeting, time line and operationalization

16) Defer investments in additional plant and equipment and maximize profitability in the first 2 years of operations

Governing strategic issues pertaining to the psychological dimensions of time, short versus long between Presmit and SPT , embroiled in differing views (tensions) how potential actions or inaction may promote or impact alliance performance and contribution required the negotiation of trade off's in the Hermens joint venture was embedded in the psychological tensions of:

- Short term – focus improving short term performance
- Long term – prioritize investing in expansion and technology for long term positioning and economy of scale

Alignment Tensions

Issues relating to concerns for perceived risks of maintaining a strategic fit between the partners in the Hermens joint venture included:

17) Deferment of loan repayments for 2 years to minority directors to generate free cash flow

18) Increase terms of trade currently 60 days and revolving credit limit from SPT \$500.000 as key supplier to Hermens Tyres. Standard terms of trade from each of its main international suppliers were 120 days and credit limit \$1000.000

Maintaining strategic alignment and interest in the joint venture simultaneously generated governance tensions between the partners. It was soon realised by the managers of the joint venture that Presmit and SPT had widely different views on how potential actions or inactions could impact alliance performance.

In summary, the joint venture partners were embroiled tensions between:

- Common benefits – strategic and operating decisionmaking should prioritize interest of joint venture and/or
- Private benefits – strategic and operating decision making should prioritize interest of alliance partner.

How these issues were prioritized in terms of trade offs and impact on the alliance partners was discussed with the Board of Hermens Tyres (see table 5.1.5).

Following extensive discussions with the Directors and CEO it was then agreed that the strategic tensions that resulted from the high priority / high impact strategic issues (tensions) how these were dealt with by senior managers, what compromises/trade offs were made and how the tensions were governed internally by managers provided the platform (were most liable) for the ultimate outcome, the acquisition of Hermens Tyres by SPT.

Table 5.1.5 SPT and Presmit Strategic Alliance Issue Matrix

High Urgency	**High Priority Operational Issues** 12) Customer profitably review – 13) Divest non core activities 14) Expansion 6) Centralized administration	**High Priority Strategic Issues** 2) Consolidating retreading facilities 3) Review of operations 5) Management information system 7) Positioning 8) Brand Mix 9) Car retread sales 15) Acquisition of SPT Stores 16) Defer investments 17) Deferment of loan repayments 18) Increase terms of trade
Perceived Urgency of Tension		
Low Urgency	**Low Priority/ Operational Issues** 1) Sharing storage facilities with SPT	**Low Priority / Strategic Issues** 10) Pricing Strategy 11) Customer focus strategy 4) Relationship banking

5.1.16 Discussion

There are multiple reasons for the emergence of tensions between alliance partners; differing and conflicting strategic objectives, the merging of separate corporate cultures, slower and more complex decision making, contributions that leave expectations unfulfilled, lack of trust and incompatible personal chemistry. It can be argued here that the very forces that created Hermens Tyres Pty Ltd eventually came into contradiction with the alliance strategic intent.

A SPT manager suggested that:

> *".... The alliance between Hermens and SPT on paper looked like it could create some great economic value however Hermens claimed that SPT appropriated more value out of the deal."*

Strategic alliances are an advanced and complicated means of executing strategies. They require on both sides a thorough understanding of techniques for handling difficult business problems. The Hermens Tyre alliance is characterized by many contradictory forces, cooperation vis competition, embeddedness vis flexibility, short term vis long term, private vis common benefits. The inherent instability of the joint venture springs from the difficult challenge of balancing many competing forces simultaneously and the demise of the alliance can be directly attributed to an imbalance amongst these forces.

The opportunities for each firm outside an alliance critically impact its behaviour, often deviating it from optimal theoretical behaviour patterns. In this instance, the opportunities for each partner outside the alliance (private benefits) acutely affected its behaviour within the alliance. SPT secured a number of private benefits from the alliance venture (benefits that accrued only to SPT): a distribution channel for its own products; access to its partner's knowledge (benefiting SPT retail stores); and finally to control the growth of a rival. In order to secure these private benefits however SPT was highly dependent upon the venture achieving its goals (common benefits).

Deriving private benefits governed SPT resource allocation strategy. Consequently the ability of SPT to use its partner's knowledge for private gains was a function of its relative bargaining power. Presmit ability to derive private benefits was limited and highly dependent on the venture's success (common benefits). Thus the ratio of private to common benefits in the alliance was higher for SPT because it had more opportunity to apply what it had learned from collaboration to its business outside the scope of the alliance. An acceptable state of tension between these two competing forces is one that does not permit one collaborating partner's private benefits to develop significantly independently from the common benefits. The collaborating partner's ability to create, transfer and protect their core competence/knowledge within a framework of inter-organizational collaboration is a key source to ensuring mutual reinforcement of private and mutual benefits. Common vision of how the alliance will collectively build a competitive advantage is imperative.

Cooperation ensures that there is a sound working relationship and emphasizes goodwill, collective interest and common benefits. Presmit and SPT had previously been involved in a supply relationship for some years. As a result the firms developed close bonds with each other through recurrent interactions. These interpersonal ties allowed Presmit and SPT to enter into the alliance that otherwise may have been impossible even with detailed contracts. Hermens intent was to protect the core competence of the alliance through competition by ensuring product and marketing independence. The SPT directors discouraged this approach maintaining this to be an impediment to cooperation. Both firms entered into the joint venture with the reliance on the contracts and consequently the perceived inequalities got in the way of creating a good exchange relationship and trust between the alliance partners. Lack of competition allowed the other partner to learn from the alliance, absorbing the knowledge and competence. In this case the other partner learned enough from the alliance to shift the balance of power resulting in an acquisition (hierarchy). A balance between cooperation and competition contributes to an enduring alliance.

Performance is hard to understand without an understanding of how participants in the processes that generated these outcomes interacted. The fundamental importance of leveraging and sharing knowledge is evident in this case through the collaborative inter-organizational relationship. Presmit in competing in a complex business environment relied heavily on the quality of their employees' decisions and actions. The company's performance can be linked to its supportive, flexible organic organization environment, and to its human resource management strategies (selection and promotion by merit, commitment to family values, long term employment, and incentive based reward structure). In the alliance the minority directors endeavoured to maintain its independence by promoting flexibility in strategy, systems and structure. The SPT directors favoured embeddedness and promoted the adaptation of South Pacific Tyres management, human resource and information technology systems, strategies and practices.

To make strategic alliances durable, flexibility and embeddedness should be fostered. As opposing tendencies within strategic alliances, flexibility and embeddedness competes for dominance. A middle ground serves the best interest of an alliance. If flexibility is too emphasized the bond between the partners will be weak and the alliance is vulnerable. At the other extreme if embeddedness is favoured it will restrain the partners from responding and adapting to environmental changes.

A long-term orientation requires commitment and a good working relationship. The Hermens business evolved on family values, a strategic market orientation (an organic organizational system) with a focus on long term goals. The joint venture managed by a member of the Hermens family an experienced entrepreneur, regarded the alliance as at least semi-permanent in nature, requiring patience, investment and commitment. The majority directors of the joint venture were, by contrast, "company men" (a company with a mechanistic organizational structure) primarily conservative and relatively inexperienced in the retailing industry. The SPT directors adopted a short term orientation, requiring resources of the alliance to be exploited quickly, (majority directors were fundamentally committed to maximizing immediate return on investment) and for the alliance to then be transformed into an acquisition (Hierarchies) or terminated (Markets).

A desirable state of tension between these two competing forces is one that does not permit dominance by either orientation. The dominance of the short-term orientation closed the door on high growth opportunities and encouraged exploitation among the partners whereas the dominance of a long term orientation without ongoing periodic tangible results would undercut SPT directors' motivation and commitment.

The architecture of the alliance process favoured one partner (SPT), whilst the other partner Presmit was restricted in adapting its strategies, structure and operations as they gained collaborating experience. This limited the joint venture in its ability to adapt to its changing environment. The case demonstrates that strategic alliances low in coordination and high in control are more likely to result into an acquisition, merger or dissolution.

The alliance structure created organizational and inter-firm constraints on Presmit. It was unable to retain its independence in product and marketing and could not protect and enhance its core competencies. This inhibited it in to adapting to its new environment. The respondents agreed that Presmit's inability to adopt and protect their core competencies pre-empted the acquisition. .

The ethnicity of the collaborating parties (one essentially a Dutch and the other an Australian culture) created differing perceptions and attitudes towards collaborations and power distance. This resulted in strained relations between the directors of the venture almost from the outset. The case data suggests that strategic alliance with high culture distance and low levels of communication interactions are more likely to result into an acquisition, merger or dissolution

Strategic alliances are an advanced and complicated means of executing strategies. They require on both sides a thorough understanding of techniques for handling difficult business problems. The Hermens Tyre alliance is characterized by many contradictory forces, and the inherent instability of the joint venture spring from the difficult challenge of balancing many competing forces simultaneously and the demise of the alliance can be directly attributed to an imbalance amongst these forces (see table 5.1.6).

5.1.17 Conclusion

Does a competitive market place relationship affect the governance of a strategic alliance tensions? First, in terms of interpartner market commonality, managers should take note of the pros and cons of having direct competitors as partners—more collective strengths are often at the expense of potential conflicts. Accordingly, such alliances may achieve better short-term performance but are unlikely to last long. However, if partners plan for a short-lived and clear-cut alliance, then high interpartner market commonality may be the preferable decision. Strategic alliances are dialectic systems comprised of a mix of contradictory forces of firms (embeddedness, cooperation and long-term orientation) and markets (flexibility, competition and short term orientation).

Alliance stability is determined by balancing multiple conflicting forces of firms and markets. As an organizational form, a strategic alliance is located somewhere between a market and hierarchy and is arguably only viable when neither a market nor hierarchy structure is preferred. It is when the forces of markets and hierarchies are in equilibrium and the cost benefit trade offs are equal that the alliance is most stable and arguably most effective.

How is a firm's size related to the collaborative process? The case study aims to demonstrate that entering into a strategic alliance with a major corporation is a major challenge for small and medium enterprises. In today's business context, when large businesses have a monopoly on "the business" of the smaller venture they tend to become arrogant bureaucracies. In many cases one partner in an alliance gains the upper-hand which can lead to the acquisition or domination of the increasingly dependent partner or partners. Many large/small business alliances fail because the larger company's structure and culture are adopted. This inevitably causes the loss of the innovative and responsive qualities that make small businesses successful.

Finally, what factors other than organizational size are relevant to the governance of a strategic alliance? A longitudinal case study methodology is employed to examine a strategic alliance between a family business Presmit Pty Ltd and the major shareholder Tyre Marketers Australia a division of Pacific Dunlop. In this investigation a detailed analysis of internal and external firm documents and interviews with senior managers from the alliancing firms took place in the phase of data collections and analysis. This study identified a number of sources and symptoms of strategic tensions and their impact on the functioning of the partnering organization. The alliance became increasingly unstable and South Pacific Tyres (SPT) gained the upper-hand which lead to the domination of the increasingly dependent partner. The alliance terminated prematurely, the partners focus on different alliance goals gradually influenced the dynamics of the tensions between the partners in the relationship.

This investigation's findings suggested a very rich arena for further study of the tension in strategic alliances. This research confirmed the research model process dimensions (see chapter 3) and suggested that a future area for further investigating was the relationship between individual firm level economic performance and the governance of alliance tensions. Specifically 1) will a collaborative relationship (vertical supply chain relationship) alter alliance conditions and 2) the dynamics of internal tensions and individual firm level performance in a dyadic alliance?

The research identified the origin of internal alliance tensions as the product of the variance between partner's strategic intent for alliance conditions (perceived normative collaborative conditions), actual alliance conditions and perceived risk. The research findings suggest that overall tension levels and sub-systemic dialectic tensions (ie short term versus long term; flexibility versus rigidity; collaboration versus competition; common versus private benefits) evolve over time and reconstitute relationships and shape the evolutionary trajectory of an alliance

Using a single case in one industry provided a greater degree of control over market and environmental irregularity (Conant, Mokwa, & Varadrajan, 1990). This was considered critical given the preliminary nature of the study. However it imposed certain constraints in terms of generalizability. The scope of the study is limited to one case study of an interorganisational relationship between partners in an intra industry horizontal and vertical alliance. To address the concerns of generalizability beyond a specific industry boundary and the specificity of the interorganisational relationship required further investigations. In the second study a horizontal alliance in the same industry is examined.

Table 5.1.6 SPT and Presmit Strategic Alliance Converging and Diverging Forces

Intrinsic Factors	Presmit	South Pacific Tyres
Institutionalisation (Converging)	*Required resources* Capital Retail Outlets National Scope Rubber Supplier	*Resources available* Budget for acquisitions Surplus retail outlets National distribution Rubber manufacturer
Cultural Fit (Diverging)	*Business Model* Innovative Experimental and R&D Entrepreneurial Flexible and adaptive systems	*Business Model* Conservative Policy driven Rules and Regulation Inflexible systems
Strategic Fit	*Business Model* Importers of New Tyres (Asia, USA & Europe) Tyre Re-manufacturing – low cost (regional) Retailer multi brand challengers in competition	*Business Model* National New Tyre Manufacturer (Dunlop, Olympic and Goodyear brands) National Tyre Remanufacturing National Retailer own brands – defenders vulnerable to imported tyres –
Legitimacy	Limited	Broad

Intrinsic Factors	Presmit	South Pacific Tyres
History & Track Record	Established 1967: Small and Medium Family Enterprise – Rapid growth	Established -1932 – National Corporate – subsidiary listed company Pacific Dunlop – Stable growth
Economic/Political power	Little influence over environment	National Employer – economic and political leverage
Organisational Characteristics	**Structure**: Family Business Informal Flat Structure **Communication**: single level, frequent, informal & broad horizontal **Decision making**: Speedy, flexible, informal, centralized from the top, long term focus, opportunistic, keeping options open strategy	**Structure**: Bureaucratic, formal, fragmented. **Communication**: Multiple levels, slower, infrequent, open to distortion, narrow horizontal **Decision making**: slow, policy driven formal, consensual, decentralized at the subsidiary level, long term strategies,
Business Focus	Expansion in scale and scope, products and services	Consolidation, defensive products

5.2 Case Study 2: Automotive Tyre Industry Fulda and F&G Alliance

5.2.1 *Research Site*

The research methodology for the F&G and Fulda partnership follows the sequence that was detailed in chapter 4. It follows the same research procedure conducted in the SPT and Presmit alliance. After the initial approach and agreement with the Chief Executive, the program followed three main activities; 1) Document research and in-depth interviews in order to develop a contextual framework for the study of the strategic tensions between the alliance partners and to develop an in-depth understanding of the approach to strategic management of the alliance venture. 2) In-depth interviews for the purpose of studying how four key alliance tensions (time, relationship, structure and benefits) were governed. 3) Attending board meetings to study in depth the governance process of internal alliance tensions. There were seven senior managers interviewed (see table 5.7) over a period of eighteen months, interviews were conducted in three parts. The first interview followed an inductive approach with open ended questions about the various aspects of strategic issues and tensions between the alliance partners. The second and third interview collected responses to closed ended questions from the tensions survey instrument gathering data on the calibration of the psychological, structural, behavioural and performance tensions. Respondents also described the governance processes used for managing these tensions.

The unit of analysis for this study was perceptions by the managers of:

1) Alliance partners strategy, including strategic intent, market position, 'current state of play', the nature of the strategic tensions and likely sources for tensions.

2) The relative competitive position and brand equity of both alliance partners from an industry perspective. This enabled one manager to provide multiple reports about the strategies, sources of tensions in various in the supply chain.

Table 5.2.1 Informants profile

Position	Product	Title
Fulda	Tyres and Tubes	Goodyear Director Sales Fulda General Manufacturer Manager Fulda Marketing Director Automotive Tyres
F & G Imports	Tyres and Tubes	General Manager F&G Imports Chief Financial Officer Director Imports and Sales Manager Logistics

Following the rationale set out in table 5.2.2 the F&G Imports (F&G) and Fulda alliance is classified as a cooperative long term joint venture. Fulda Tyre a large German Tyre Manufacturer and the majority equity partner, F&G Imports an Australian SME (Small and Medium Enterprise) a tyre, rubber and machinery importer and distributor combine in a marketing and distribution alliance. The alliance is subject to a long term defined agreement to import and distribute a range of Fulda automotive car and truck tyres in Australia. The alliance agreement term is a 5-year term with another 5-year renewable option agreement.

Table 5.2.2 Alliance Structures and the Internal Tensions

	Short	Term	Long	Term
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	Cell 1 *Arms length contracts** *not an alliance	Cell 2 Joint Marketing Joint R&D **Ansett/Air New Zealand**	Cell 3 Licensing Joint production **CUNA & CUSCAL**	Cell 4 Joint Venture Minority equity alliances **Presmit/ South Pacific Tyres**
Cooperative	Cell 5 Product Bundling Funded Research Shared Distribution **HBOSS & WCC**	Cell 6 Joint Bidding Joint R&D Joint Marketing **TPG Logistics / News Corporation (AWAS)**	Cell 7 Dealership Franchising Licensing Joint Production Long Term Sources Open Architecture Alliance\ **CRI Canada and CELERO**	Cell 8 Joint Venture Minority equity alliances **F&G / Fulda**

Adapted from Das and Teng 'Instabilities of Strategic Alliances an Internal Tension Perspective' (2000b:54) *'Organisational Science'*

The overall research objective in this case study is whether and how a collaborative relationship (vertical supply chain relationship), 1) may alter alliance conditions, 2) influence the dynamics of internal tensions and 3) may influence perceived alliance contribution.

5.2.2 *Alliance Structure and Strategic Intent*

The second alliance site for the follow up study investigates how Fulda, a large German tyre manufacturer and the majority equity partner, F&G Imports a SME (Small and Medium Enterprise) tyre and machinery importer combine in marketing and distribution alliance. The alliance is a business equity venture that is experiencing rapid growth. The individual's partners had different strategic agendas for forming the alliance. F& G strategic intent for the venture was to diversify its premium product range and to allow it to compete head on with Michelin and grow its working capital base by securing an additional line of credit. Fulda's strategic intent is to use the alliance as an entry vehicle targeting the premium market segment of the Australian and South East Asian market place dominated by Michelin tyres.

The F&G and Fulda alliances involve joint activities without the creation of a new corporate entity. The need for scale efficiency, joint optimization and speedy decision making influenced the alliance structure. The exclusive Fulda distribution agreement by F&G Imports ensured that the partners had product market commonality however were not direct competitors. The bargaining power of both partners and having first mover advantage relative to other industry participants shaped the structure of the alliance agreement; the organizational design focus was on value creation opportunities through s vertical collaboration. The operational and strategic scopes within which the partners will collaborate; was carefully discussed and the configuration and evaluation of contributions were designed in the context of the potential value created for both partners. The marketing strategy was carefully defined in the agreement. Positioning of products agreed upon however distribution and pricing policies was the sole domain of F&G management team.

5.2.3 *Alliance Goals and Objectives*

There had been a significant trend by consumers at that time (1980's) towards smaller more sophisticated motor vehicles stimulated by consumer concerns with safety and price of fuel. The introduction of radial tyre technology and its long wear qualities effectively reduced demand for tyres however the shift by consumers created opportunities for growth for radial tyres at the expense of conventional bias belted tyres. F&G had been unable to source high quality products to compete with against Michelin whereas Fulda had been unsuccessful entering the Australian market place because it was perceived as too expensive, too technically sophisticated for locally produced cars and too fragile for the conditions encountered on Australian roads.

5.2.4 *Alliance Partners Corporate Perspectives*

- *Fulda*

The reduction in import tariffs since 1983 presented Fulda Reifen (Fulda) an opportunity to enter the Australian Market place. Radial tyres technological innovation, falling tariff barriers and a strong domestic demand for replacement allowed Japanese, Korean manufacturers to enter product segments in the Australian market formerly dominated by Goodyear, Dunlop and Firestone. Tyre wholesaling (after market) not unlike retailing is a fragmented industry. The wholesale market is largely occupied by five Australian tyre manufacturers owned wholesale operations; several Japanese manufactures owned import and distribution centres and a number of large state based independent distributors. These independent operators predominately imported and wholesaled 'no name brand tyres. Sourced from China, Eastern Europe, Malaysia tyre manufacturing plants were largely based in emerging economies. In additional independents wholesaled a broad range of house brands sourced from global manufacturers leveraging the advantages associated with a low price strategy. Many of these house brands e.g., Kelly, Armstrong, Ceat imported for the Australian market place, are 'house brands were originally produced for major retailing chains like Wall Mart in the USA, Tesco in the UK, QuickFit in Europe by major manufactures like Goodyear, Michelin, Pirelli. Price wars in these markets and a downturn in sales and resulted in cancelled contracts for the manufacturing of 'in house' brands. This posed a major dilemma for large manufacturers who resorted to exporting their 'excess capacity' targeting 'emerging markets' thereby destabilizing global wholesale markets.

The Australian Tyre manufacturers and their American and English parenting firms dominated the domestic market place and pursued a strategy largely build around retail loyalty programs. Japanese and Korean manufacturers who originally formed alliance partnerships with the strategic intent to acquire technological know how from their alliance partner were rapidly gaining market share at the expense of the local producers . Founded in 1900 Fulda is one of Germany's leading tyre brands for over 100 years and has a reputation as being at the forefront of tyre technology, innovation and performance. Fulda products are produced in 13 factories in Europe, producing 10.000.000 tyres annually. Employing around 1800 people in Europe and enjoys 10 % market share in Germany where the original production site itself produces more than 7 million Tyres annually.

- *Fulda's Corporate Challenge*

In 1978 Fulda became a subsidiary company of Goodyear Corporation. Fulda's was a strategic acquisition for Goodyear, Fulda a high technology tyres manufacturer is perceived in the market place as a premium high tech brand. An export strategy was developed by Fulda to counter the growing market share enjoyed by Michelin in the premium market segment. It was strategically important that the Fulda brand was perceived as an independent brand particularly as the Goodyear brand was perceived to be engaged in a price leader strategy and a number of Goodyear tyre products had been besieged with technical problems.

- *F&G Imports*

F & G Imports (F&G) established in 1980, had formed a number of strategic supply chain relationships with international manufactures of 'high tech' radial tyres in Germany Sweden, Japan and Italy, and accessed stocks of surplus 'in house' brands direct from low cost manufacturers in North America, China, Thailand and Korea. The majority of these suppliers had agreed to offer extended financial trading terms largely because F&G had a reputation for offering an effective distribution channel for international manufacturers. A number of these companies had on previous occasions experienced difficulties accessing the Australian market place.

F&G small capital base, high revenues, industry knowledge and broad client base made the firm an ideal target for an acquisition. The proprietors' however had a clear vision and strategy. The firm' was largely focused on a premium broad product strategy which included 1) national distribution of high tech imported radial automotive car and truck tyres; 2) International distribution of a broad range of premium brands in various segments in the after tyre replacement market, 3) national and international supplier of technological advanced tyre manufacturing equipment, 4) national distribution of remanufactured premium rubber.

- *F&G Corporate Challenge*

F&G business strategy was to expand nationally, leveraging the resources of an equity investor in order to fund its national and international expansion and secure additional distribution agreements. Its suppliers and customers valuing a relationship with a supply chain partner with a capacity for national distribution. F&G had unsuccessfully attempted to secure national distribution for Michelin Tyres and was now looking to enter into an agreement with another global manufacturer with a credible premium brand product.

5.2.5 *Alliance Negotiation*

Goodyear's South East Asian Director for Automotive Tyre products and the Australian Director considered a number of marketing and distribution options available to them in order to counter the premium market domination by Michelin Tyres in Australia. Marketing and distributing Fulda through any one of three companies owned retail chains was evaluated and subsequently rejected. It was decided that an independent distributor which had no previous strong affiliations with its own brands or any of its key competitors (i.e. Michelin) would present a desirable option.

5.2.6 *Alliance Agreement*

Fulda and Goodyear executives approached F&G and the parties entered into negotiation for an alliance joint venture. F&G agreed to an equity venture as a means to secure capital for further expansion and Fulda secured F&G as a long term distribution channel. Their previous alliance experience aided both firms to design an acceptable alliance agreement and management structure.

Goodyear Sales Director commented that:

> *"Our previous alliance experience guided the structure and dynamics of the alliance and was a positive force in our relationship and avoided major alliance disagreements or tensions."*

F&G insisted that the management of the joint venture should act independently. The alliance formation process had important implications for the subsequent dynamics of sources of convergence and divergence.

F&G Imports Finance Director observed:

"... Both partners will need to maintain a strong interdependent relationship ensuring that they share similar goals and are equitable rewarded to ensure that this alliance venture is to be successful ..."

The F&G and Fulda alliances agreement included several mechanisms of control with the aim to maximizing synergy, efficiency and maintaining strategic alignment. The processes that supported optimizing the value chain, achieving time to market, and measuring progress and effectiveness, were scheduled to be reviewed at management meetings held twice a year attended by line managers from Fulda. Excessive control however was avoided as the supervisory board acted only as advisors to F&G.

A specific goal set for the 'supervisory board' was to examine high profile and high impact strategic issues in the alliance relationship from the perspective of each partner to assess what one would do in their place and then determine what one could do to assist the partner to help oneself. These governance arrangements played an important part in the alliance partners' relationship and willingness to enter into innovative value creation projects. The individual parents' firms' strategic agenda's (strategic intent) positively influenced the dynamics of alliance tensions. The design of the alliance agreement ensured that each partner's private benefits were not significantly independent from the common benefits available to both partners. The case study data suggests that when the risks associated with alignment was perceived as low the flexibility between partners, focus on value creation (common benefits) and long term orientation increased (see figure 5.3).

5.2.7 *Alliance Partners Collective Strengths*

The collaboration combined the strength of the two firms. The Directors of F&G and Fulda shared a similar cultural and business background. The relationship between partners was very professional and result focused. The Australian's partner's resource contributions to the alliance include its distribution network, infrastructure, technical expertise and knowledge of the domestic wholesale and retail market. The German partner's contribution to the alliance was its extensive product range of high performance radial car and truck tyres. The complementary resources and their alignments created a competitive advantage for the partners that could not be attained by one firm alone. Being too dependent on either partner for resources was unlikely and perceived as a low risks factor. The strategic alliance value creation relationships here are very different as their transactions involve joint, bilateral co-ordination of plans and activities. From a corporate governance perspective the partners' organizations maintain their independence; and the coordinating mechanisms include negotiation and a broad interchange of information. The Fulda management team is based in Germany and there is no significant involvement by Goodyear Australia. The relationship is a vertical supply chain relationship there are no obvious market overlaps between the parenting organisations. F&G management and Fulda share a similar organisational culture and marketing philosophy. There appear to be no significant political and social institutional tensions within and between the collaborating partners.

Fulda and F&G Imports shared similar goals. A challenge for Fulda as an organisation was how well they could adopt their product range to the Australian market environment and customer needs.

F& G senior manager observed:

> *"We are confident Fulda will respond positively to our marketing and technical requirements the overall synergy between us is very high. "*

5.2.8 *Alliance Performance*

There is a common vision of how the alliance will collectively build a competitive advantage The alliance partners understand each others competencies and how their independent and internal corporate and or functional strategies may conflict or compliment each other. Both partners have an understanding of each others strategic intent, motives and culture. There appeared to be high levels of cooperation and no apparent opportunistic behaviour by either alliance partner. In the highly competitive tyre industry the dynamics of alliance tensions in competitive (horizontal) alliances differ from collaborative (vertical) alliances. The original estimates set by the partners was that F&G import would need to import 8000 car tyres annually and 1000 light and heavy duty truck tyres to be a profitable venture in its first year of the alliance agreement. This target was reached within the first 6 months of operation and F&G

was pressuring production managers at the Fulda factories to increase shipments of products to Australia.

5.2.9 *Alliance Operation*

The alliance can best be described as a vertical supply chain relationship. The strategy specifically focused on premium market segments. The market commonality between Fulda i.e. the strategic importance of the Australian market to the alliance and the partners individually and the role of the partnering firm to each other in the market as complimentors was an important factor. The risk by both partners that alliance conditions would not meet an alliance partners' expectation (normative ideal conditions for collaboration) was perceived to be low. The communication systems and processes between the alliance partners were effective. Compatible operating, and reporting systems between the partners ensured that the perceived risk of uncertainly was low. Both resource fit and strategic fit existed between the partners. The structure of the alliance agreement and F&G operations closely aligned with Fulda's operations. This ensured an uninterrupted and continuous pipe line of containers arriving on a weekly basis. The transfer price of products was fixed and negotiated in Australian currency agreement once a year.

The long-term alliance agreement also discouraged opportunistic behaviour among the strategic alliance partners and assisted F&G to enter into fixed price commercial agreements with large fleet operators and government departments. These high volume fleet operators used a cost per kilometre when evaluating and entering supply agreements rather than cost per unit. This approach was more cost effective for large fleet operators and tended to favour high technology premium brands like Michelin and Fulda.

5.2.10 *Alliance Conditions*

Within six months some tensions emerged between the partners. A number of competitors had responded to Fulda's market entry by offering their dealers to subsidise 'in house marketing campaigns' and offered further special loyalty and volume discounts. F&G pressured Fulda for additional marketing support and a broader product range designed to meet local demands especially in the fast growing off road segment. Fulda was unable to respond to these demands, 1) only a small proportion of the promotional and marketing literature was available in English, 2) capacity for producing tyres for export in the off road tyre segment was limited from September to February each year due to seasonal demands of the European winter season.

Fulda Marketing Director, Automotive Tyres commented that,

> *"... they have become less willing to be flexible. Could be the fault of both of us as we became more rigid in looking after our interest therefore a review is likely... "*

The F&G General Manager and the Chief Financial Officer visited Fulda's head office in Germany and reviewed the alliance agreement. As a result F&G credit lines were extended enabling the joint venture to place orders with the Fulda factory up to 12 months ahead without having to secure the order with a letter of credit. It was agreed that F&G would be responsible for producing their own marketing requirements and in response received a fixed marketing budget of 3.5% of annual revenues.

F&G General manager observed that,

> *"We have become more confident in challenging them and surprisingly it has improved our relationship.... "*

5.2.11 Emergence of Structural Tensions

F&G argued the case for aligning the product range with Australian market requirements. Fulda sales directors and their CEO strongly opposed this suggestion they argued that central to the future success of the joint venture is that F&G source products outside the Fulda European range from the Goodyear American and Dunlop English product range. The success of the Fulda business model is based around Original Equipment Manufacturers (OEM) like Audi and Mercedes, Fulda's focuses its flexibility and its capacity to respond to the needs of the OEM target market. Meeting the needs of the technically demanding clients ensured that Fulda's tyre technology was leading edge. Alternative technologies developed for the OEM market had significant flow on effects for the new tyre 'replacement market' segment. Not only do replacement tyres produced for 'late model" command a premium price are technically more sophisticated but are cheaper to produce as they consume less oil in the production process.

After 6 months of negotiation Fulda increased export quotas of car tyres however truck tyre allocations were not increased. At that time the waste removal industry was revolutionised by the use of 'Otto' refuse bins and Mercedes trucks designed for a waste collection by a single/driver operator. This system increased the demand for premium truck tyre products. Demands from F&G customers for Fulda truck tyres lead the CEO again to request Fulda to increase in their allocation. F&G directors explained that they would need to enter into negotiations with Michelin if quotas were not increased. Fulda strongly disagreed at first however after the supervisory board met in Sydney additional quotas were allocated to F&G.

5.2.12 Emergence of Psychological Tensions

The directors were pleased with the joint ventures first twelve months financial performance. Nevertheless they believed that performance could be further improved if quotas would be increased and Fulda would commit to more long term marketing and promotional initiatives. The supervisory board agreed and suggested that F&G should be given more flexibility and responsibility for direction of its marketing initiatives.

An F&G manager observed:

> *" .... We never get around to asking for greater discounts from Fulda, we are flat out getting supplies, interestingly price is not a issue with the customer at this stage as Fulda is way ahead of Michelin in mileage ... ".*

Margins for F&G on Fulda tyres were about 40% higher than any other brands. At the end of the joint ventures' first year of trading Fulda increased its export allocations to F&G and extended its unsecured lines of credit tom the joint venture by 20%.

A Fulda manager commented:

"We are amazed with the volume and product mix sold into the Australian market. The good mix of product sold is a win- win situation, we can utilize all our factories and hence we can increase our volume, we are confident in the long term possibilities of the Australian market".

5.2.13 Emergence of Relationship Tensions

Four years into the agreement, Pacific Dunlop entered into a strategic alliance with Goodyear to manage Goodyear's operations in Australia. Soon thereafter they approached Goodyear Ohio (USA) and Fulda (Germany) and were granted a joint distribution agreement. The F&G directors were uncomfortable with the joint distribution system and expressed reservations about the wisdom of the decision.

An F&G manager commented:

" There needs to be a recognition by this will be another case of one growing at the expense of other and we are not in that game ".

A Senior Fulda manager commented that:

"... this arrangement clearly is a misunderstanding by your people, F&G are our sole distributors and they [Dunlop] must be sourcing these products from how do you say – gray markets- they need to negotiate with you first if they wish to distribute Fulda in Australia. "

5.2.14 Alliance Evolution

As the relationship has become more successful in achieving the partners' individual strategic goals, the alliance has also become stable. A noticeable change in the alliance conditions are alignment and dependency and the 'variation' in the dynamics of internal tensions between the partners particularly the adoption of a longer time perspective and commitment and a greater focus common benefits.

5.2.15 Origins of Alliance Tensions

There are some perceived risks in planning for the future, first F&G remains concerned about the supply issues in a fast growing market place. After the demise of Pacific Dunlop some uncertainty remains about Goodyear's strategic intent. Fulda's hands off approach to managing the brand in Australia ironically has caused F&G managers to be concerned about Fulda's commitment to the Australian market.

5.2.16 Discussion

It can be argued that complementary objectives and strategic intent is the key to the value created by alliances equally; a stable alliance is one where partners collaborate and value is created. In this alliance the partnering companies focused on the key value drivers, efficiency, complementarities, lock-in and innovation. The nature and availability of resources in an alliance however are critical to the performance of the collaboration. The characteristics of the committed resources by the partners were complementary nevertheless there is the risk that the partners may loose their mutual dependence. On the other hand the likelihood of a partner being held hostage inside the alliance in order to achieve their own objectives seems remote in this alliance. The tight control over the resources aimed to limit surplus or waste of resources which in turn positively influence the alliance to achieve its objectives.

Table 5.2.3 F&G and Fulda Alliance Tensions

Case	*Alliance*	*Alliance Relationship*	*Time Short v Long*	*Structural Flexibility v Rigidity*	*Psychological Collaboration v Competition*	*Relationship Private v Common*	*Overall Tension Level*	*Evolution / Outcome*
2	F&G / Fulda	Cooperative	Long	Medium Flexible	Medium Collaboration	Balanced Common	Low	Cooperation (ongoing)

The data in this longitudinal study suggests that governing an alliance with the objectives of reducing (financial) risk, accessing knowledge and entering new markets were all positively correlated to the value created by this alliance (see table 5.2.3).

The contribution of the alliance to the individual partners was particularly strong from the middle to current life stage of the alliance. Two key internal tensions (structure and time) have high correlations with the level of partner satisfaction with the value appropriated from an alliance (see table 5.2.4).

There is considerable evidence that industry dynamics do shape the dynamics of the alliancing environment. All managers interviewed report that they believe that structure, supply chain position and the partners' strategic intent for the joint venture had greater influenced in the emergence and dynamics of tensions between partners than pure industry dynamics.

Table 5.2.4 F&G Internal Tensions & Contribution

F&G Alliance		Alliance Contribution Study		
		Start	Middle	Current
Tensions	Time	Medium term focus	Medium/long term focus	Long term focus
	Structural	Rigid	Rigid	Medium flexibility
	Psychological	Cooperation	Medium level of cooperation	Medium level of cooperation
	Relationship	Balanced	Balanced	Balanced
	Contribution	23.5%	27.9%	29.5%

The research finding confirmed that the emergence of internal alliance tensions as the product of the variance between partner's strategic intent for alliance conditions (perceived normative collaborative conditions), actual alliance conditions and perceived risk.

The research findings in this case support the proposition that the overall tension levels and sub-systemic dialectic tensions (i.e. short term versus long term; flexibility versus rigidity; collaboration versus competition; common versus private benefits) evolve over time and reconstitute relationships and shape the evolutionary trajectory of an alliance. The governance process of alliance resources, in the context of the value creation process and perceived risk, is a key strategic element that influences internal tensions and alliance evolution.

5.2.17 Conclusion

The successful introduction of the Fulda brand by F&G and rapidly growing market share and revenue flows from the alliance continue to contribute positively to the other areas of the individuals' partners' business activities. Will a collaborative relationship (vertical supply chain relationship) alter alliance conditions? There appears to be evidence to suggest that the dynamics of tension are different from those in a competitive alliance relationship. The overall balance of tensions tends to be in greater equilibrium and tension levels lower than those in a competitive alliance relationship. There appears to be little difference in the focus by alliance partners on either common or private benefits. The psychological dimensions of short term version long term however has a high correlation with all the tension dimensions suggesting that psychological commitment to a time dimension by partners are important determinants of the balance and intensity of the structural and behavioural tensions.

The governance of this collaborative relationship required constant operational, strategic and environmental monitoring by the partners senior managers and involved constant communication and regular interventions by the senior management teams when the strategic goals of either partners firms were not aligned. This study's findings contextualised the dynamics of internal sources in a vertical relationship at a different point in the supply chain. The study confirmed that there is a high correlation between alliance tensions and outcomes. However whether a vertical alliance relationship influences perceived alliance contribution is not clear from this study. The insights gained from this study on the alliance value creation process and impact on the performance of the partnering organization presented this researcher with an additional dilemma; what are the potential implications for managerial complexity and alliance processes given a different industry setting?' To address the concerns of generalizability beyond a specific industry boundary and the specificity of the interorganisational relationship required a broader scoped investigation.

5.3 Case Study 3: Airline Services Industry –Ansett and Air New Zealand

5.3.1 *Research Site*

Case 3 is a study of a competitive alliance relationship (cell C2 –in Table 5.3.1) between Ansett and Air New Zealand in a marketing and maintenance alliance. The two airlines code share passengers in the Star Alliance Network and share maintenance and service facilities. The research problem focuses on how an industry environment influences the complexity of managing internal tensions between partners in a competitive alliance relationship Table 5.3.1 – Alliance Structures and the Internal Tensions

	Short	Term	Long	Term
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	Cell 1 *Arms length contracts** *not an alliance	Cell 2 Joint Marketing Joint R&D **Ansett/Air New Zealand**	Cell 3 Licensing Joint production **CUNA & Cascal**	Cell 4 Joint Venture Minority equity alliances **Presmit/ South Pacific Tyres**
Cooperative	Cell 5 Product Bundling Funded Research Shared Distribution **HBOSS & WCC**	Cell 6 Joint Bidding Joint R&D Joint Marketing **TPG Logistics / News Corporation (AWAS)**	Cell 7 Dealership Franchising Licensing Joint Production Long Term Sources Open Architecture Alliance\ **CRI Canada and CELE**	Cell 8 Joint Venture Minority equity alliances **F&G / Fulda**

Adapted from Das and Teng 'Instabilities of Strategic Alliances: An Internal tension Perspective' (200:54) *Organization Science*

The study involved multiple site visits to Melbourne, Sydney and Tamworth during various stages of the alliance operation. Respondents to the interviews were the companies' senior managers and alliance managers who were surveyed over a period of eighteen months. I adopted this multi-respondents approach as it allowed a check of inter-respondent reliability and, thereby, the overall reliability of the data. The Primary data was gathered through several rounds of face-to-face interviews. For the study to be comprehensive, interviews were conducted longitudinally. The objective of the interviews and observations is to seek out information on the various levels of tensions at different points in the alliance life cycle (see also chapter 4).

5.3.2 *Alliance Structure and Strategic Intent*

Both Ansett and Air New Zealand were in pursuit of economies scale and scope that are available from multi-hub operating systems. The strategic intent of the alliance is to increase market share and reduce operating costs by consolidating aircraft maintenance between the partners. The alliance strategy is also designed to response to customer preference for a single carrier service. Intense price discounting in the Australian market, tough competition by low cost operator Virgin Blue and full service airline Qantas were presenting major competitive challenges to both Ansett and Air New Zealand.

5.3.3 *Alliance Goals and Objectives*

The global airline industry was moving towards consolidation and competition between alliance networks. The Star and One World alliance networks, accounted for 80.3% of international passengers entering the Australian market in the financial year 1997-98. The alliance partners' aim was to attract more passengers, by the merging of frequent flyer schemes and to heighten market power for the airline partners.

5.3.4 *Alliance Partners Corporate Perspectives*

During the 1980's Ansett had been market leader, but in the deregulated 1990s, it had evolved into a high-cost airline, and needed capital to renew its aircraft fleet. In 1995, an "open skies" agreement was signed between Australia and New Zealand, de-regulating traffic between the two countries, and Air New Zealand acquired a 50% stake in Ansett when it bought TNT 50% sake in the airline (Hill, Jones and Galvin 2005). News Corporation however retained sole responsibility for the management of Ansett.

5.3.5 *Alliance Negotiation*

Ansett's senior management team argued for flexible arrangements between the alliance partners to enhance the capacity of their respective airlines to capitalise on market trends with greater speed and efficiency through increased frequency of flights and a larger route network. Air New Zealand argued the case for greater coordination of activities, services and facilities between alliance partners, higher volumes of traffic would be generated.

5.3.6 *Alliance Agreement*

The agreement facilitated the alliance partners to combined their resources and increase their competitive leverage over Qantas and Singapore Airlines. The partners had agreed to code share as part of the Star Alliance network. Operationally it was agreed that there was to be a rationalisation and consolidation of aircraft frame and engine maintenance operations. A joint and coordinated fleet acquisition strategy was envisioned as a consequence of the agreement.

5.3.7 *Alliance Partners Collective Strengths*

Air New Zealand senior managers argued for more rigidity, especially given its equity investment. The strategic goals of the alliance where to generate commitment, align the partners' interests, and deter opportunistic behaviour. The Ansett and Air New Zealand alliance contextualises an alliance were potentially both partners stood to gain significant advantages from the collaboration however;

An Air New Zealand executive commented that

> *"There were differing views on commercial issues"*

As both firms reported little or no contribution from their alliance an increase in rivalry over time became evident. The focus by the partners on their own goals (private benefits) and the opportunistic behaviour by News Corporation were responsible for creating alliance conditions typified by low levels of commitment by the partnering firms and a low level of mutual forbearance

A senior Ansett executive commented that there was a

> *"Lack of interest on our part, and greed on their part"*

5.3.8 *Alliance Performance*

Ansett in 1999 was one year into a three-year business restructuring plan earned A$156.8 million (US$100 million) in the year ended June 30 and was focusing on achieving a 10% profit margin over three years. The group posting a 4.6% margin in 1998/99, compared with breakeven two years previous and 0.8% in 1997-1998. The 1999 result represented a 6% return on assets. Like its rival Qantas, the airline had been enjoying strong growth within Australia. The Australian economy grew 4.4% in the year ended June 30, which had boosted Ansett's domestic earnings by $90 million. Full-year profit included a A$52.8 million pre-tax gain from asset sales, including its Ansett Air Freight business and its stake in credit card company Diners Club. Staff numbers within the airline business fell by 4%, mostly due to voluntary redundancies and natural attrition. Ansett's CEO Rod Eddington attributed the improved operating profit result as a blend of increased revenue, improved efficiencies and firm cost control.

An Air New Zealand engineer commented

> *"The continuous disputes between us and them, has resulted in no further projects either now or futures"*

5.3.9 *Alliance Operation*

In 2000 Ansett and Air New Zealand both faced a tough market because of rising jet fuel prices, the year 2000 date change and the introduction of a 10% goods and services tax in Australia. Air New Zealand needed capital to replenish the fleet but the major hurdle was the New Zealand Government opposition to increasing foreign ownership of its national carrier. The New Zealand Government delayed, then rejected Singapore's proposal. Similarly News Corporation had refused to inject additional capital into Ansett so it could update its fleet. In what was already a difficult and competitive market place Ansett faced significant operational issues and cost inefficiencies that was attributable to its diverse and aging fleet of aircraft. A legacy from former part owner TNT's Peter Able's entrepreneurial aircraft acquisition strategy.

5.3.10 *Alliance Conditions*

Implementing collaborative strategies presented the alliance partners with organizational instabilities and strategic challenges. Ansett senior management team perceived that the alliance could increase Air New Zealand's competitive edge over the Ansett. Both partners were equally intent on internalising the other's skills resulting in distrust and conflict that threaten the very survival of both airlines. Equity is usually an effective antidote to dissolution however Ansett's senior managers arrogant corporate culture refused to acknowledge their colleagues from Air New Zealand as partners. This evolved into significant tensions and lack of communication between the embattled partners. Critical strategic issues threatening the alliance survival ranged from conflicting objectives to failure to align service and flight standards proved to be an insurmountable hurdles.

5.3.11 *Emergent of Structural Tensions*

The lack of available resources; differential bargaining power; and changing market conditions influenced the emergence of internal tensions and lead to alliance instability. The turnaround strategy employed by CEO, Rod Eddington focused on cost reduction. Engineering and flight operations headed by Trevor Jenkins were particular targeted areas that accounted for significant cost savings. Six months later however Ansett's reputation was seriously damaged with a series of maintenance and safety lapses in its ageing fleet that grounded its 767s and had left passengers stranded. Ansett's announcement that it was to expand its international operations generated additional tension between the partners.

5.3.12 *Emergence of Psychological Tensions*

The apparent lack of resources and the chronic state of the Ansett fleet placed the long term future of the airline itself and the alliance under considerable doubt particularly among the Ansett senior managers. The acquisition of TNT's shares by Air New Zealand earlier had fuelled speculations about Ansett's long term future. It was now widely speculated that Air New Zealand and Ansett would ultimately be acquired by rival, Singapore Airlines. The perceived short term orientation by Ansett's strategy exemplified by Eddington's turnaround strategy tended to encourage opportunistic behaviour among the strategic alliance partners.

5.3.13 *Emergence of Relationship Tensions*

Air New Zealand executives did not understand their Ansett's operational rationale, culture, and strategic intent, and this lead to increased rivalry between the partners. The lack of accurate records relating to Ansett's route profitability, for example created great concerns with Air New Zealand's board as they claimed that they did not have a clear picture available to them of the economic state, nor the commercial state of the airline.

A senior New Zealand Manager observed

> *".. It took us a long time to work out just what the economic and commercial state of the airline was."*

The lack of satisfaction by the alliance partners with the relationship was evident by their lack of commitment to the relationship. Air New Zealand was more concerned about network and maintenance synergies and improved access to distribution channels, whereas Ansett was expecting a capital injection. As cooperation was lacking, opportunistic behaviour become the norm between the alliance partners.

An Ansett manager commented that

> *"We need their financial backing on a long-term basis"*

5.3.14 *Emergence of Evolutionary Tensions*

The strained relationship between the partners was exemplified by a process of accelerating imbalance amongst the internal competing forces. The alliance had already been characterised by initial imbalances between the partners and as the alliance evolved Ansett management became reluctant to share their maintenance resources with their alliance partner fearing that this would make them vulnerable to a merger or acquisition.

5.3.15 *Origins of Alliance Tensions*

The competitive dynamics of the airline industry and the perceived urgency by Air New Zealand's to form the alliance was cited as the reason for the company paying a premium price. The senior management team at Ansett however on the other hand were apprehensive about the alliance that was perceived as a 'Troyon Horse' for a possible merger with Air New Zealand. This gave rise to considerable tensions fuelled by the attitude of senior Ansett managers towards their counterparts in Air New Zealand whom they regarded, according to a senior Ansett maintenance and operations manager, as "our poor simple cousins from the south who spend most of their time with their backside in the fridge".

Management's attitude and the pervading arrogant 'Ansett culture" was prominent at joint management and strategy sessions were participating Air New Zealand's staff were 'frozen out' of the discussion and decision making processes affecting the alliance partners. The alliance was dominated by competition between the partners, and characterised by loose, flexible structural arrangements, scarce resources and governed by a short-term time orientation, severely limited or negated any benefits that could have been realized.

5.3.16 *Discussion*

The airline alliance was characterised by competition, rigidity, and short-term orientation. During the three years of the alliance there is evidence that a process of accelerating imbalance amongst the internal competing forces in the alliance evolved. In the early stages of the alliance the gap in the tensions scores was high. Individual scores for cooperation, rigidity, short-term orientation rated slightly higher. In the second year of the study the gap in the tensions scores had increased significantly. Individual scores for cooperation short-term orientation and rigidity rated significantly higher. Ultimately relations between the partners became so strained that the board of Air New Zealand moved to acquire News Corporation remaining 50% interest in Ansett. Following a A$500 million bid from Singapore Airlines, held a pre-emptive right over News Corp.'s Ansett stake News Corporation successfully negotiated a premium price from Air New Zealand, $580 million in cash and the deal was consummated by Air New Zealand without doing a fiduciary due diligence. Retrospectively Air New Zealand's board offered the explanation that they were aware they paid too much for Ansett, and even though they were aware of the expensive nature of the ageing Ansett fleet the board of Air New Zealand the board claimed that they were largely unaware of the impecunious maintenance practices that occurred under News Corp, and had been misled about the overall profitability of Ansett.

The lack of commitment was predicated on the inability by senior managers to maintain forbearance and manage conflict between their leadership teams. Another interesting finding is that the lack of interdependence between the alliance partners was associated with more frequent use of coercive strategies, higher levels of residual conflict, and poor evaluations of their partners' performance.

Table 5. 3.2 Ansett and Air New Zealand Alliance – Internal Strategic Tensions

Collaborative alliance		Overall Alliance Tensions – Low		
		Start	**Middle**	**Current**
Tensions	**Time**	Short term focus	Short term focus	Short term focus
	Structural	Rigidity	Rigidity	Rigidity
	Psychological	Medium level of cooperation	Low level of cooperation	Competition
	Relationship	Balanced	Private Benefits	Private Benefits

The prevailing alliance conditions are competitive; focused on the partners own goals (private benefits). The leadership teams specifically those drawn from the Ansett senior management team did not interact or collaborate well. The lack of reciprocity and high levels of rigidity caused the partners to use coercion to influence the decision making processes in the alliance (see table 5.3.2.). The symmetry in the alliance was perceived by both partners to be poor and the risk for planning for the future to be very high given the lack of available resources and uncertainty existing in both organisations. The diverse composition of the Ansett fleet of aircraft, the unique operational scheduling and aircraft maintenance procedures adopted proved to be a real challenge for the partners. To integrate the partners diverse systems proved to be a major challenge.

Table 5.3.3 Origins of Internal Alliance Tensions in Value Creation and Value Appropriation in Ansett & Air New Zealand Alliance

Strategic Fit / Perceived Risk	**Symmetry** Profits, costs, shares and decision rights equally distributed to partners **Low**	**Entropy** Compatible systems **Low**	**Symbioses** Interdependent Relationship **Low**	**Homology** Organisational, Structural & Resource Fit **Low**
Risk Planning for the Future (risk perceived to be high)	**SYP** Strategic Internal Tension Psychological **Short-term**	EP Dialectic Tension Concentration **centralized**	SP Dialectic Tension Progression . **Replication**	HP Dialectic Tension Positioning **Global**
Risk Maintaining Flexibility (perceived to be high)	SYF Dialectic Tension Rent **Individualism**	**EF** Strategic Internal Tension Structural **Rigid**	SF Dialectic Tension Systems **Closed**	HF Dialectic Tension Utilization . **Exploitation**
Risk Managing Collaboration (perceived to be high)	SYM Dialectic Tension Evaluation **Vigilance**	EM Dialectic Tension Growth **Contraction**	**EM** Strategic Internal Tension Behavioural . **Competition**	HM Dialectic Tension Expectation **Ambiguity**
Risk in Finding Fit (perceived to be high)	SYFF Dialectic Tension Command **Control**	EFF Dialectic Tension Design **Emergence**	EFF Dialectic Tension Adaptation **Redesign**	**HFF** Strategic Internal Tension Alignment Private

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In an attempt to make the 'system' work rigid procedures were adopted by the partners allowing little flexibility or responsiveness by the two airlines to any contingencies. The lack of symmetry and entropy in relationship was also evident in the low levels of interdependencies (symbioses) between the partners. The lack of structural, resource and cultural fit between the organisations predicated a focus by both airlines management team to focus on their own goals and agendas.

The instability of the alliance and the eventual evolution of the alliance into an acquisition given the indicators were predictable. A diagnosis of the alliance is illustrated in table 5.3.3. The alliance symmetry i.e. decision rights and cost sharing is perceived to be unbalanced and the risk of planning for the future is perceived to be high in this alliance. The relationship is contextualised by a short term time focus, slow communication and centralised decision (all decisions pertaining to the alliance has to be referred back to their respective head offices) and overall the strategic and organisational fit were seen to be poor.

The lack of entropy and risk of not being able to be responsive and flexible is perceived as being high given the individualistic leadership style particularly of the Ansett CEO Rod Eddington. The lack of resources had a significant impact on the alliance system. These remained rigid and closed looped systems as there were no sufficient funds available for these to be adapted to integrate both partners' processes. The lacks of resources also were evident in the prevailing culture of the alliance where the partners exploited each others resources and knowledge.

The partners' interdependency and commitment to the alliance was low. Managers of both airlines were very distrustful of each other; there was competition between them for market share and resources. Overall the levels of compatibility of the systems were contracting and a great deal of uncertainty reigned among staff of both airlines whether to and how to operationalise the alliance in their area of responsibility. Strategic, culturally and organisational Air New Zealand and Ansett were a poor fit given their historic lack of resources and poor performance. The alliance was a union of two under resourced, poorly structured and competitively frail positioned airlines.

If the Ansett and Air New Zealand alliance had any chance of long-term success certain key ingredients should have been present and managed effectively. These include strategic symmetry; compatible systems (entropy); complementary capabilities (symbioses); shared expectations (homology); commitment and trust. It is for that reason that effective collaboration required a shift in managements thinking and is difficult to achieve. In the Ansett and Air New Zealand alliance these difficulties included conflict in balancing individual partners and the alliances interests; possible creation of future competitors; skill depreciation; increased costs; the difficulty in assigning costs; lengthy purchasing decisions; problems with motivating staff and consumer dissatisfaction.

5.4 Case Study 4: Airline Service Industry – TPG Logistics and News Corporation

The fourth alliance site is AWAS a joint venture aircraft marketing and leasing company. The venture partners were TPG (logistics) and News Corporation (publishers). The study examines governance structure and how equity and bargaining power may influence internal alliance tensions.

5.4.1 *Research Site*

The TPG (Logistics) and News Corporation alliance joint venture was selected as the fourth research site following the rationale for alliance structures and internal tensions set out in chapter 4, the alliance partners relationship in this joint venture can be best described as a cooperative, short term rigid relationship and is located in Cell 6 of the Das and Teng classification of alliance structures and Internal Tensions as shown in table 5.4.1.

TPG parent firm 'Royal Dutch Post' acquired its 50% share in the aviation marketing venture AWAS when it acquired TNT's European operations. TPG senior management team decided that AWAS had little strategic synergies with its core business and its strategic focus was the divestment of its share in the equity alliance. This investigation details analysis from internal and external firm documents, survey of staff and interviews with senior managers from AWAS over a period of one year.

Table 5.4.1 Alliance Structures and the Internal Tensions

	Short	Term	Long	Term
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	Cell 1 *Arms length contracts** *not an alliance	Cell 2 Joint Marketing Joint R&D **Ansett/Air New Zealand**	Cell 3 Licensing Joint production	Cell 4 Joint Venture Minority equity alliances **Presmit/ South Pacific Tyres**
Cooperative	Cell 5 Product Bundling Funded Research Shared Distribution	Cell 6 Joint Bidding Joint R&D Joint Marketing **TPG Logistics** **News Corporation** **(AWAS)**	Cell 7 Dealership Franchising Licensing Joint Production Long Term Sources Open Architecture Alliance\	Cell 8 Joint Venture Minority equity alliances **F&G / Fulda**

Adapted from Das and Teng 'Instabilities of Strategic Alliances an Internal Tension Perspective' (2000:54) *Organization Science*

5.4.2 *Alliance Structure and Strategic Intent*

The airline industry (assisted by deregulation in the US) rapidly expanded in the mid 1980's and the requirement for large capital outlays by the airlines to upgrade and expand their fleets placed a drain on the financial resources of all but the large and secure airlines. Banks were becoming concerned with the debt levels and finance leases were becoming increasingly difficult to secure. It was during this period that the operating lease found favour with a large number of airlines (including some of the secure airlines) in that the operating lease was an off balance sheet entry and could be treated as purely an operating expense. AWAS, in deciding to take a strategic position in this new industry, placed forward orders for some 170 aircraft of various types with deliveries spanning a period of 15 years. The majority of these orders were with the Boeing Commercial Airplane Company Inc. ("Boeing") with the remainder coming from the McDonnell Douglas Aircraft Corporation and Airbus Industries. In taking this position AWAS became the third largest aircraft operating lessor within a few short and highly profitable years.

5.4.3 *Alliance Goals and Objectives*

AWAS valued its portfolio at $2.4 billion with more than 230 owned aircraft and approximately a further 100 aircraft under its management. Its target market were major international and regional airlines its client list included over 70 lessees in 45 countries, The company has strong asset backing and high visibility of earnings from cash flows, both of which provide market downside protection (see Table 5.14). As a specialized finance company its aircraft investment portfolio had an attractive risk-reward profile with the potential to realize attractive returns irrespective of the strength of the aircraft market.

The company was pursuing a differentiated strategy from its competitors by focusing equally on maximizing returns from aircraft leasing and aircraft trading. Its growth strategy however was capital intensive requiring a 'strong order book' for new aircraft with its suppliers' aircraft builders Airbus and Boeing and jet engine builders GE Electric, Rolls Royce and Pratt Minter. Lead times for the manufacturing and delivery of aircraft and jet engines ranges from 6 months to 36 months. The aircraft leasing industry is relatively liquid since there are a large number of transactions in most types every year. The value of each type of transaction can be readily determined since the revenue potential and operating costs, and thus earning power, of the airplane can be calculated with considerable accuracy. Discounting this earning power over the expected life of the asset gives a base value; the actual market price will range above or below this value depending on supply/demand conditions in the market generally and for that specific type.

Table 5.4.2 Typical Example of AWAS Lease Transaction

Cost of 737 – 8000	**US$35,000,000**
Sources of Funds for aircraft Purchase	$ 4,000,000
Equity	
Debt (via Bank Loan)	$31,000,000
Sources of cash for AWAS	
Security deposit from lessee (3 months lease payments)	$ 1,050,000
Initial 4 year lease@ $350,000 per month	$16,000,000
2 year extension @ $330,000 per month	$ 7,920,000
2 year extension @ $340,000 per month	....$ 8,160,000
2 year extension @ $300,000 per month	$ 7,200,000
Total	$41.130,000
Cost of Bank Debt (7 years @7.5%)	$ 40,300,000
Nett cash earned by lessor	$ 830,000
Estimated residual value of aircraft	$28,000,000
Total Return AWAS	$28,830,000

Source: AWAS Board Report 1999.

5.4.4 *Alliance Partners Corporate Perspectives*

Ansett Worldwide Aviation Service ("AWAS") was established as a joint venture between TNT Post Group and News Corporation Limited as part of their long term strategy to become a dominant force in the international aviation industry. This strategy included the purchase of a major shareholding in America West Airlines in the United States which, it was planned, would enter into a strategic alliance with Ansett to compete with Qantas across the Pacific. This was to have been put into effect when the Australian Government removed the restriction on the ability of Australian airlines other than Qantas to bid for bilateral traffic rights with countries operating their own airlines into Australia. The overall strategy failed due to problems both at America West and the reluctance by the Australian Government to expedite negotiations for traffic rights AWAS with America West as its first customer entered the aircraft leasing business.

5.4.5 *Alliance Negotiation*

AWAS strategy called for its fleet to be upgraded by ordering new planes. The lead time for ordering planes was usually 2 years. Orders needed to be placed as an aging fleet would call for a significant change in strategic direction. As TPG focused on divestment (private benefits) it decisions making framework favoured a short term perspective. This perspective was supported by the AWAS directors and thus limited future growth opportunities in AWAS traditional markets and/or pursuing growth opportunities that required additional investment of assets beyond their current resources (airframes and engine fleet).

5.4.6 *Alliance Agreement*

In 1997 Royal Dutch Post (KNP) acquired TNT Post Group and its shareholding various subsidiaries including AWAS. The task of the new CEO was to stabilise the organisation, restructure Customer Support and Engineering departments' thereby eliminating overlaps and prepare AWAS for an impending sale since KNP wanted to divest its interest in AWAS. There was now a great deal of uncertainty about the future of the joint venture however there appeared to be a unanimous attitude amongst the senior executives and staff that AWAS should be retained in its present structure.

The CEO argued that the viability of AWAS could be assured with a more aggressive approach to marketing the aircraft and when coupled with the adoption of a strategic position in relation to the supply of support services, the return on assets will be significantly greater than its competitors. Presentations to the AWAS board in support for the authority to place additional orders for new aircraft replacement purchases were unsuccessful.

A senior AWAS Executive commented that:

> *".... our presence in the market place is declining as other lessors (e.g. Boullion) are much more visibly active through new aircraft acquisitions"*

Another manager responded:

"“... The fact that the shareholders seem to have little interest one way or the other is a problem and so is the always present threat of the company being sold"

5.4.7 *Alliance Partners Collective Strengths*

AWAS was originally founded by Sir Peter Abeles in 1986 TNT and News Corporation both had extensive alliance experience and was engaged in a number of equity ventures with various degree of success. The alliance partners had a strong interdependent relationship. There were strong synergies between this joint venture and a number of Ansett and TNT operations. AWAS for example leased planes to Ansett and Ansett in turn carried airfreight for TNT. With the acquisition of TNT Post Group by the TPG this relationship changed.

5.4.8 *Alliance Performance*

Peter Abeles an entrepreneur and Rupert Murdock his financial backer both had a strong focus on performance and cash flow (table 5.4.3). A strong bottom line focus was now part of AWAS organisational culture.

Table 5.4.3 AWAS Financial Reports

INCOME STATEMENT	1998 US$	1999 US$
Total Revenues	470,597,000	465,516,000
Sales Margin	2,722,000	-
Dry Lease Margins	50,762,000	69,083,000
Wet Lease Margins	2,865.000	1,872,000
Interest Expense	106,687,000	113,203,000
Pre Tax Income	51,221,000	56,197,000

BALANCE SHEET	1998 US$	1999 US$
Cash	285,685,000	233,590,000
Aircraft	1,972,959,000	2,121,195,000
Borrowings	1,450,162,000	1,485,857,000
Equity	625,663,000	673,254,000
Debt / Equity ratio	2.32	2.21
Nett Equity	458,000,000	516,748,000
Return on Equity	12.27%	11.21%

5.4.9 *Alliance Operations*

The primary challenges for aircraft leasing include the risk of a catastrophic event and the cyclical nature of the industry. The aircraft leasing industry is highly cyclical with a typical up-cycle lasting 7-8 years, followed by 2-3 down years. This swing is similar to airline industry cycles but even more volatile, plus leasing lags the airline cycle by 12 to 18 months. The growth drivers for the aircraft leasing industry include:

- Sustained increase in travel as a result of falling air travel fares, and supportive policy changes and deregulation (especially, Asia and Eastern Europe).
- Rapid increase of Low Cost Carriers in Asia (primarily, India and China).
- General shift to leasing, with even traditional airlines working to balance their portfolios and reduce risk through leasing.
- Growing demand for wide-body aircrafts in the Middle East.

The aircraft leasing market can be segmented in three categories: new, used middle life (5 – 10 years old) and old planes (15 years and older). Aircraft leasing firms tend to focus on one segment only although there are a few exceptions where leasing firm operate in several segments. Success in aircraft leasing depends on; buying power, which secures discounts from the aircraft manufacturers; favorable slot positions and flexibility to change the aircraft models on order; low cost sources of funding, preferably with access to favorable tax jurisdictions; Risk minimization through a broad global spread of customers; Investment in aircraft types that remain in demand and value; and strong management skills in areas such as relationship building with airlines and bank, remarketing skills and market awareness including anticipating repossessions.

5.4.10 *Alliance Conditions*

Considerable tensions emerged between the senior management team when the current CEO suddenly left the company. The expectation among the AWAS leadership team was that one of the current AWAS executives would be offered the position. This expectation did not materialise when the board announced the appointment of a new CEO recruited from TPG head office. This further increased tensions in the AWAS organisation particularly among its senior management team causing factions to form. It was widely accepted amongst the AWAS staff that the new CEO (who did not have any relevant industry experience) task was to sell AWAS. The ensuing turbulence caused significant organisational problems.

5.4.11 *Emergence of Structural Tensions*

The reluctance to commit new resources by the alliance partners to the joint venture resulted in significant staff disaffection and provoked threats by certain key senior alliance managers that they would consider leaving the AWAS organisation. The departure of any one of these senior managers would threaten the ongoing viability of the joint venture and adversely affect any potential sales opportunities of the joint venture to any interested parties. Some of the senior managers were concerned for their future career opportunities given their seniority and status within AWAS and they felt particularly vulnerable should the sale of the AWAS joint venture come to pass. In many instances the fear of what may happen in the future by a number of these senior executives caused them to become resentful, uncooperative and inflexible towards TPG and the new CEO.

An AWAS client observed:

"The senior management team needs to put the company's interests before themselves and their departments"

5.4.12 *Emergence of Psychological Tension*

In assessing the long term future of AWAS it is important to consider the attitude of the executives and staff who had been instrumental in turning an idea into a venture company delivering significant returns to the founding shareholders.

A senior AWAS manager observed that ...

".....we were once considered the jewel in the crown of TNT how things have changed".

The apparent indecision or slow decision making process lead to a great deal of frustration which led eventually to the departure of the CEO. The appointment of the new CEO disaffected the AWAS leadership team. The senior management team of AWAS had considerable bargaining power. The marketing director (personal contacts with key airline clients), the director of engineering (held a Chief Pilot's license) and finance director (proprietary knowledge of securitisation) where central to the business. Should either one resign it would seriously impact the business and deter any potential buyers.

An engineering executive agreed and added

"clearer direction...more consistent management decision making...more regular communications about the company's future from the CEO, and the authority of individual senior managers needs to be better defined as well as what are his [the CEO's]plans and objectives for the future"

5.4.13 *Emergence of Relationship Tensions*

Market liberalisation, the growth in demand for air travel and the entry of new low-cost regional carriers have helped the growth in demand as well as the leasing rates. This expected growth depends on key attributes for a leasing company: the right backers, overall company size, and skills. With more than 75% of the companies backed by big financial institutions, the industry has few independent players. The implications for an aging AWAS Aircraft fleet (see Table 5.4.5) is that industry evolution will require additional investments in upgrading its fleet. The current disaffection by and among the senior management team will have significant implications for AWAS.

Table 5.4.5 AWAS Aircraft fleet

Aircraft Type	**Asia**	**South America**	**North America**	**Europe**	**Middle East & Africa**	**Australia & Fiji**
B737-300	7	5	12	16	1	3
B767-300	1			8		
B737-500		3		3	1	
B757-200		2	8	5	1	
B767-200		1	1			
MD83		1	15			
A300-600R	4				1	
	12	12	36	32	4	3

5.4.14 *Emergence of Evolutionary Tensions*

It seemed that AWAS lacked a clear articulated organisational vision and as a result AWAS experienced problems in its organisational structures, technologies managerial processes and market focus. As a result AWAS was often faced with the problem of not being able to make clear and deliberate choice between different strategic positions. Organisational performance had suffered and customers experienced lengthy delays in the delivery of aircraft. In one incident an aircraft was delivered to a customer without a full set of galley carts. AWAS engineering department did not want to incur what was considered an unnecessary cost. Another serious issue developed; the breakdown of AWAS otherwise good standards of aircraft inspection

A senior engineering executive responded

"I think the biggest problem we face at the moment is that we've lost sight of who we are and what we're doing"

5.4.15 *Origins of Alliance Tensions*

The actual alliance conditions in the joint venture are enacted upon by; 1) the cyclical conditions of the airline industry, 2) the limited available resources and 3) the alliance partners' strategic goals and intent to divest the venture. The perceived gap by the AWAS directors and the senior management team between the normative ideal alliance conditions and the actual alliance conditions generated contextual concerns (strategic issues) eg, alignment of systems, resources fit etc and how these may influence alliance performance, how it might impact the sale of the venture and the contribution from operations and or sale to the either of the partnering firms.

5.4.16 *Discussion*

It was decided by the joint venture partners in order to expedite the sale process to offer a success fee on completion of the transaction to the leadership team. Table 4.3 illustrates the alliance tensions and how they evolved. The research findings suggests that overall tension levels and sub-systemic dialectic tensions (i.e. short term versus long term; flexibility versus rigidity; collaboration versus competition; common versus private benefits) evolve over time and reconstitute relationships and shape the evolutionary trajectory of an alliance (see table 5.4.6).

Table 5.4.6 AWAS Overview: – Evolution of Tensions and Outcomes

Year	**1998**	**1999**
Alliance	KNPT / News Corp	KNPT / News Corp
Relationship Type	Cooperative	Cooperative
Psychological Tension	Short Term	Short Term
Structural Tension	High Rigidity	High Rigidity
Behavioural Tension	High Collaboration	High Collaboration
Relationship Tension	Focus Common	Focus Private

Overall Tension Levels	Low	High
Evolution / Outcome	Cooperation	Reconstitution Sale

5.4.17 *Conclusion*

Morgan Stanley bought AWAS from former Ansett shareholders News Corp and TNT in 2000. Morgan Stanley changed the AWAS corporate identification and moved its headquarters to Seattle to distance the company from the Ansett collapse. The chief executive John J. Mack of the bank announced in January 2006, the sale of its 'non-core aircraft leasing business, to Terra Firma for $2.5 billion in cash plus assumption of liabilities (Morgan Stanley Press Release 2006). The bank was estimated to take a $1 billion loss on the sale, despite a recent recovery in the aircraft leasing industry (Durchslag 2006). This case study finding suggests that private agendas, equity and bargaining power by individual senior alliance managers can influence internal alliance tensions between partners. In the case of the AWAS joint venture certain senior managers influenced tensions by withholding or allocated resources and deliberately stimulated a process of accelerating tensions and significant imbalances in their configuration to favour certain outcomes (see table 5.4.7).

Table 5.4.7 KNPT & News Corporation Internal Strategic Tensions

Collaborative alliance		**Overall Alliance Tensions – Low**		
		Start	**Middle**	**Current**
Tensions	**Time**	Medium term focus	Long term focus	Short term focus
	Structural	High Flexibility	Medium Flexibility	High Rigidity
	Psychological	Medium level of cooperation	Medium level of cooperation	Low level of collaboration
	Relationship	Balanced	Balanced	Private

The prevailing alliance conditions are low levels of collaboration; focused on private benefits (divestment). It is interesting to note however that the lack of resources (the alliance partners refusing to allocate additional capital to order new planes) rather than industry structure had a greater degree of influence on alliance dynamics and tensions.

5.5 Case Study 5 Cuna Mutual Group (CMG) and CUSCAL Alliance

This study aims to clarify the nature of the underlying tensions in the evolution of strategic issues and the relationship between tensions and alliance performance.

5.5.1 *Research Site*

This alliance was selected as the fifth research site and investigates the origin and evolution of internal tensions between alliance partners in a joint venture Credit Union Services Corporation Australia Limited (CUSCAL) licensed Cuna Mutual Australia Holding Company Pty Ltd (CMG) to distribute insurance products to its credit union members. This alliance relationship can best be described as a competitive, long term and flexible collaborative arrangement (see cell 3 table 5.5.1.)

Table 5.5.1 Alliance Structures and the Internal Tensions

	Short	**Term**	**Long**	**Term**
	Flexible	**Rigid**	**Rigid**	**Rigid**
Competitive	**Cell 1** ***Arms length contracts**** ***not an alliance**	**Cell 2** **Joint Marketing** **Joint R&D** **Ansett/Air New Zealand**	**Cell 3** **Licensing** **Joint production** **CUNA & CUSCAL**	**Cell 4** **Joint Venture** **Minority equity alliances** **Presmit/ South Pacific Tyres**
Cooperative	**Cell 5** **Product Bundling** **Funded Research** **Shared Distribution** **HBOSS & WCC**	**Cell 6** **Joint Bidding** **Joint R&D** **Joint Marketing** **TPG Logistics / News Corporation (AWAS)**	**Cell 7** **Dealership** **Franchising** **Licensing** **Joint Production** **Long Term Sources** **Open Architecture Alliance** **CRI Canada and CELE**	**Cell 8** **Joint Venture** **Minority equity alliances** **F&G / Fulda**

Adapted from Das and Teng 'Instabilities of Strategic Alliances an Internal Tension Perspective' (2000:54). *Organization Science*

5.5.2 *Alliance Structure and Strategic Intent*

The CMG & CUSCAL license agreement was a flexible arrangement between the partners and gave CMG exclusive access to the credit union sector in Australia via CUSCAL's router system. This mode of access provided CMG with an important competitive advantage and enabled CMG to further develop their expertise as a provider of insurance services to credit unions. The advantage of having access to the router system was that it gave credit union sales staff online access to CMG online interactive insurance data. This enabled credit union staff to instantly quote rates and complete an insurance transaction with a credit union customer from their own point of sale terminals and from its their main menu. Credit Union staff could also quote and sell other insurance products from CMG competitors however. this was less convenient for the operators as they would have to "back out" of their main menu and launch another software program. Consequently most operators would usually consult the CMG data base and recommend the CMG insurance products.

5.5.3 *Alliance Goals and Objectives*

An increasingly complex regulatory regime plus significant growth in membership and transaction volumes, Credit Unions demanded a great deal of technology assistance from their insurance underwriters. Along with product quality and service quality, the ability to provide systems and technology support had become a major criterion for selecting or retaining an underwriter. The CMG and CUSCAL alliance was designed to meet the growing demands from the credit union sector in Australia.

5.5.4 *Alliance Partners Corporate Perspectives*

Cuna Mutual Australia Limited (CMG) was formed as a joint venture company by Credit Union Services Corporation Australia Limited (CUSCAL) and CUNA Mutual Australia Holding Company Pty Ltd. Established in 1969 in Australia the company provides general and life insurance products and services to a number of financial institutions, including 90% of Australia's credit unions. CUNA's strategy is to build long-term business partnerships. CUNA invests heavily in information technology and new product development in order to maintain and grow its market share.

CUSCAL on the other hand provided technology services to 85% of credit unions in Australia. It operates a Router Network that it established in 1994 which electronically links it to affiliated credit unions via IDPCs (Independent, Data Processing Centres). Through this network, credit unions have access to an IT system which automates their savings, investments, loans processing, general ledger, insurance administration, direct entry, member checking, and Credit Union data management functions (CUSCAL 2007).

5.5.5 *Alliance Negotiation*

CUSCAL's was seeking to broaden its customer and revenue base by offering an extensive portfolio of products and services, and aimed to deliver them at market-competitive rates to a range of specialist financial institutions. CUSCAL's service package was to be complemented by its alliance with CMG to provide insurance products using the CUSCAL router system to the Australia's financial community.

5.5.6 *Alliance Agreement*

The Cuna Mutual Group in Australia entered into the alliance with CUSCAL (the Australian industry association formed to represent all Credit Unions) as the preferred carrier for loan protection and bond & package and as joint carrier for consumer credit insurance, motor vehicle and householders Insurance. Despite intense competition in the market for retail financial services, credit unions continue to perform well and Australia's 284 Credit Unions and its 3.3 million members provide a fertile base for future expansion.

5.5.7 *Alliance Partners Collective Strengths*

The alliance partners had extensive experience in the financial services industry and their key strengths were that they were able to provide comprehensive IT and management solutions to the Credit Union sector. In North America for example CUNA was the national trade association serving credit unions; ninety percent of America's credit unions were affiliated with CUNA. This was complimented by

CUSCAL's product and service offering spanned capital and liquidity management and transactional banking services such as payments, cards and EFT acquiring.

5.5.8 *Alliance Performance*

During 1996 CMG undertook structural changes and major reengineering initiatives in order to improve operational effectiveness. Procedures and systems for the sale, servicing and pricing of Personal insurance were overhauled. The management information systems were being upgraded for accurate product analysis and underwriting control. As a result of these efforts plus the implementation of a monthly review process for technology and back office resource allocation improvements significant progress was being made.

5.5.9 *Alliance Operation*

Notwithstanding these efforts CMG operational problems in the areas of "underwriting", "back office" and "technology delivery systems" were perceived by some credit unions (particularly the 20 largest) as a significant deterrent to change from their current suppliers. Significant investments in information technology had been sanctioned by John Barrington to solve these issues. Despite these large investments in information technology systems, CMG operational and back office problems continued to deteriorate rapidly. This was compounded further by the considerable tensions and resentment towards the IT department and its manager by CMG senior management team, in particularly those whose departments such as marketing, underwriting etc had been deprived of funds in favour of the IT department.

5.5.10 *Alliance Conditions*

John Barrington the Australian CEO of CUNA planned to lobby for additional capital from its US parent for funding further technology upgrades in the Australian operation. During Barrington's tenure as CEO the Information Technology budget had increased from 4% of revenue to 11% of revenue this contrasted with an industry average spend of 3% per annum. The US parent did not agree with Barrington's strategy and were concerned where he had positioned CMG in the Australian market place. Head office in the US had assumed that its Australian subsidiary like itself had positioned itself as the premier national trade association serving credit unions. This position however was occupied by CUSCAL, who had built its reputation on delivering high levels of service to credit unions in Australia.

Relationship between CMG and CUSCAL senior management team became increasingly strained and difficult as CMG operational problems seemed to escalate. CUSCAL changed its distribution strategy and embarked on developing an alliance partnership with NCUIS a Broker/Insurance Network Services that potentially could open the credit union industry to new entrants including major insurance companies such as NRMA, G10 and AMP. This shift in CUSCAL's strategy posed a significant risk for CMG. This was further compounded when as a result of the CUSCAL technology strategy CMG was unable to implement delivery systems for personal lines insurance using the CUSCAL gateway. The strained relationship with CUSCAL was also impacting other operational areas and compromising CMG ability to meet credit unions needs.

5.5.11 *Emergence of Structural Tensions*

The change in the strategic agenda of one of the partners (CUSCAL) impacted the strategic fit between the alliance partners. Choosing to open its router system away from an exclusive licensing arrangement to non exclusive competitive channel alliance altered the structure, processes and the evolution of the alliance.

5.5.12 *Emergence of Psychological Tensions*

The advantages of having exclusive access to the router system provided CMG with considerable cost advantages. These advantages however served to cover up the inefficiencies in the CMG systems. Having to compete with insurance rivals who also had access to the CUSCAL router system brought into question the long term feasibility of the alliance. Developing alternative web based systems would have been an appropriate defence strategy however CMG systems were largely non – aligned and in many cases dysfunctional. The lack of industry experience by the CEO was seen by some of his senior managers as a major negative factor.

A senior CMG manager commented:

> *"This is a case of too many fires on too many fronts with an inexperienced CEO who is being held hostage by his IT manager ...*

5.5.13 *Emergence of Relationship Tensions*

The relationship tension contextualises the dimension for CMG of the risk of dependency on its alliance partner. The decision making processes in this context for CMG should have been addressed when planning for the future need for innovation. .

5.5.14 *Discussion*

Strategic alliance success is dependent on compatibility of the strategic directions of the parent organisations, and on the mental models or mindsets of the key managers involved. The study findings confirmed that the conditions and state of the tensions is the key to understanding the transition from one alliance stage to another e.g. in some alliances tensions remain stable and individual firm performance is rated by the senior managers as satisfactory or good whilst in others tensions diverge and the collaborative venture are reformulated or terminated. The disharmony within the CMG organisation particularly amongst its senior managers had a significant bearing on the evolution of the alliance.

A CMG manager suggested:

> *"The money we are blowing away on IT is amazing but we need to solve the back office problem – we have no idea on our exposure."*

The ability of an alliance manager to adapt to changing conditions is an important component of alliance longevity. It is clearly evident in the case that CMG success was reliant on exclusive access to CUSCAL router system. The ability of an alliance manager to adapt to changing conditions is an important component of alliance longevity.

A CMG Manager observed:

"Making decisions and resolving issues at appropriate levels would have seen a different outcome".

What happens when the balance between the different competing forces shifts towards the dominance of one force or the other in a collaborative alliance relationship? The CMG and CUSCAL alliance relationship was dominated by competition between the partners and characterised by loose flexible structural arrangements governed by a short-term time orientation and resembles a traditional marketplace type of relationship. Consequently this negated the benefits of the alliance partnership.

5.5.15 *Conclusion*

The change in strategic agenda of an alliance partner can adversely impact the strategic alignment and fit between alliance partners. It is evident in this case that CMG internal strategic issues contributed to the tension dynamics and the evolution of the alliance. The unsuccessful outsourcing strategy by CMG for the development of Banking, Loan Origination, Reporting and Imaging software made the company vulnerable to strategic moves by its competitors. The new alliance conditions however, lower entry barriers existed as CUSCAL's opened its router network to CMG competitors. It was CMG inability to adjust to the new alliance conditions which were largely attributable to problems with its own information technology platform that lead to heightened tensions between the partners.

Consumer expectations in the Credit Union industry are influenced by experiences in unrelated industries and competition is not limited by domestic boundaries. Competing within this environment is dependent on the development of a new strategic mindset that embraces knowledge, innovation and value. John Barrington's approach for developing an alternative independent router network was based upon developing a new strategic orientation whilst being able to maintain the alliance relationship with CASCAL. This transformation process demanded a better utilisation of the existing resources incumbent within CMS organisation. It had to be driven by information and knowledge to ensure synergies between CMS core competencies; customer aspirations and the overall need to deliver value.

Barrington's new strategic game plan was to shift away from Cuna's reliance on the CUSCAL router System towards leveraging Credit Union's customer knowledge so as to redefine the rules of the game by placing the emphasis on value. The "emphasis on value places the buyer, not the CUSCAL, at the centre of strategic thinking; emphasis on innovation would push CMG managers to go beyond incremental improvements into totally new ways of thinking and doing things (Kim & Mauborgne; 1999a). Developing an alternative router network required CMS customers (Credit Unions) to drive the definition of value. CMG must therefore not only identify, but also understand its customers and make them 'co-developers' of the value proposition. The larger the community of co-developers, the quicker problems and opportunities for improvement are identified (see Hamel, 2000a).

One could argue however that CMG did not possess the strategic know-how to understand their Credit Union customers and maximise the opportunities for growth beyond mere incrementalism. Perhaps there was a need for John Barrington and his leadership team to shows CMG managers how to integrate the information and knowledge acquired from the Credit Unions into collaborative knowledge management practice and apply it to CMG technology platform. This type of model creates the ideal environment for adaptation of a collaborative alliance culture and sanctions a responsive nature that fosters change and permits the organisation to flourish and evolve.

5.6 Case Study 6: Financial Services CRI Canada and Celero

In 2008, CRI Canada (CRIC) and Celero entered into a strategic partnership, to provide specific financial services to the geographically located central and mid west Canadian credit union sector. Celero is a regional technology software solution supplier and CRIC are an integrated insurance provider, technology supplier, financial services trainer and business consultants to the Canadian credit union sector.

Table 5.6.1 Alliance Structures and the Internal Tensions

	Short	Term	Long	Term
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	Cell 1 *Arms length contracts** *not an alliance	Cell 2 Joint Marketing Joint R&D **Ansett/Air New Zealand**	Cell 3 Licensing Joint production **CUNA & CUSCAL**	Cell 4 Joint Venture Minority equity alliances **Presmit/ South Pacific Tyres**
Cooperative	Cell 5 Product Bundling Funded Research Shared Distribution	Cell 6 Joint Bidding Joint R&D Joint Marketing **TPG Logistics / News Corporation (AWAS)**	Cell 7 Dealership Franchising Licensing Joint Production Long Term Sources Open Architecture Alliance\ **CRI Canada and CELERO**	Cell 8 Joint Venture Minority equity alliances **F&G / Fulda**

Adapted from Das and Teng 'Instabilities of Strategic Alliances' 1999 p54

5.6.1 *Research Site*

This alliance was selected as the sixth research site and investigates the origin and evolution of internal tensions between alliance partners in a joint venture. Specifically the study investigates whether a focus on common benefits by alliance partners moderate alliance tensions?

The alliance is a long term cooperative alliance venture and competes in the Canadian financial services market (see cell 7 table 5.21). The CRIC and Celero partnership is a non equity cooperative alliance, where the partners share technology, resources, and competencies to provide a range of financial support services including banking, insurance and system solutions to credit unions located in central Canada.

5.6.2 *Alliance Structure and Strategic Intent*

The objective of the alliance is to provide technology solutions and management support to credit unions located in the central and mid-west regions of Canada. The alliance aims to promote each partner's strategic and technological advantage in the credit unions sector by sharing specific resources, including markets, technologies, and people. Celero and CRIC are competitors in some parts of their business model including loans origination software. Celero intent is to be a leading provider of banking and technology solutions to Canadian credit unions. CRI Canada strategic intent is to leverage Celero's knowledge, skills and network resources to access 110 regional credit unions.

5.6.3 *Alliance Goals and Objectives*

The alliance goal is to offer an integrated suit of products to Credit Unions that include the Celero banking solution integrated with CRIC loans origination system, insurance products and training. The objectives of the partners include the endorsement of the Credit Unions Centrals (a collective of financial services regulatory administrators' and industry associations who are shareholders in Celero) promote the Celero and CRIC alliance partnership as first choice provider to their 110 credit union members.

5.6.4 *Alliance Partners Corporate Perspectives*

In 2003 three Canadian Credit Union Centrals (Manitoba, Saskatchewan, and Alberta) joined forces to launch a new technology company called Celero Solutions. The aim of the company was to expand their information technology capabilities. Since the launch the company experienced strong growth and evolved into a competitor that has provided comprehensive banking and technology solutions to financial institutions. The company has approximately 330 employees and is located in Calgary, Regina, Saskatoon and Winnipeg. CRI Canada established in 1988 has been focusing on the Canadian Credit Union market place. It has developed and delivers powerful, user friendly software solutions (Criterion, Prolender, PROBE, and Decision Assistant) and industry-leading credit insurance products.

CRI Canada's was acquired in 2005 by the world's second largest global insurance company AGON based in the Netherlands. CRIC mission statement is to provide value through strategic relationships working with credit unions to identify their long term needs for both technology and insurance solutions. CRI focus is to offer Credit

Unions complete account management, support, turn-key training and marketing solutions.

5.6.5 *Alliance Negotiation*

By 2008 Celero had entered into agreement with 120 credit unions to deliver a core banking system by 2010. In addition the company had also had made commitments to deliver an integrated robust Loan Offering Software product (LOS) that also offered a support and service team for Credit unions to utilize. Cuna Mutual through its insurance subsidiary Cumis had substantially funded the development of the LOS by Celero. At the end of 2007 however Celero found itself over budget and had to announce a delay in the implementation of their banking roll outs. They were also forced to downsize their entire IT develop team that had been working on their standard LOS offering. This had serious implications as it would leave Celero with no LOS solution to deliver to Credit Unions on roll out of their banking solution. This provided CRIC an opportunity for their LOS and negotiated to provide to Celero clients LOS through individual CRIC/Credit Union contracts the sale, onsite training and ongoing support of LOS. Celero asked that its partner agreed to refrain from actions that would either cause or seek to cause allocated personnel to leave the employment of the other party. CRIC in turn requested that it was to have access to Celero's technology and staff to create an interface package.

5.6.6 *Alliance Agreement*

Celero and CRIC agreed to co-market and co-brand CRI Canada's Product Suite (CCPS). Celero agreed to the development of the interface package adding the condition that at a time and place when Celero resources were not required elsewhere. CRIC also agreed to review its existing web hosting arrangements and to consider Celero's hosting service as a possible replacement.

5.6.7 *Alliance Partners Collective Strengths*

Celero is a commercial provider of technology services and their origins are embedded in the Credit Union industry. This has equipped the company with an in depth understanding of their Credit Union clients' challenges and opportunities. The company has a track record of creating strong partnerships and delivering lending technology which enhanced their customer's competitiveness.

The company also has advanced competencies in delivering reliable, innovative and cost-effective information technology solutions to credit unions. This understanding coupled with their focus on the financial services industry and primary focus on the needs of credit unions in the Canadian Prairie Provinces positions them strongly for offering a superior value proposition to these clients.

The focus of CRIC is developing and delivering powerful, user friendly software solutions, credit insurance products and offering credit unions integrated account management, support including turn-key training and marketing solutions. CRI Canada stated vision is to become the best in the world at leveraging the point-of-sale experience for credit unions and their members. For over the past 20 years CRI has focused on the Canadian Credit Union market place. As a subsidiary company of the world second largest insurance company AON, the local company has global access to modular insurance and innovative software products and solution packages. This also provides CRIC with resources and scale advantages over its main rival Cuna.

5.6.8 *Alliance Performance*

The alliance provides a basis for the two firms to deliver a proven, integrated financial solution product suite to their shared clients. Celero remains focused on developing and deployment of the core banking solutions package to its credit union clients and providing interfaces to ensure data can be accessed for the credit union to run their business. CRIC is focused on providing Celeron Credit Unions with LOS contracts the sale, onsite training and ongoing support of LOS.

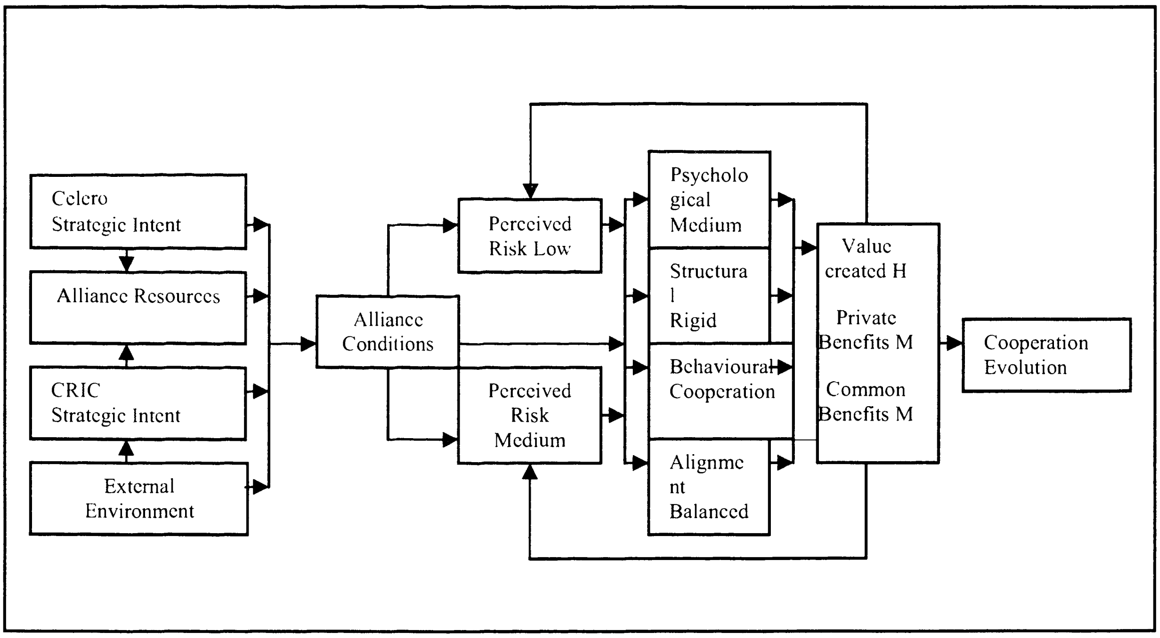
5.6.9 *Alliance Operation*

The alliance provides credit union clients with a range of integrated solutions for their business. These typically are integrated software and service product offerings including banking, LOS, imaging, data, reporting, regulatory and coaching. The partnership combines complementary resources and capabilities (credit union relationships, conversion plan, technology interfaces, intelligence to marketplace etc) that will enable both parties to grow and expand their businesses faster and more efficiently. CRI Canada provides leading edge LOS software that is interfaced to the Celero's core banking solution on the date of a credit union conversion to the Celeron solution.

5.6.10 *Alliance Conditions*

Alliance conditions for the Celero and CRI alliance are shaped by a dynamic financial services environment despite tough lending criteria and restricted availability of loan capita (see figure 5.6.2).

Figure 5.6.2 Celero & CRI Alliance Condition



These conditions are largely attributable to the 'prime mortgage crises' in the USA however the housing market activity in many regions in Canada remained strong and the Credit Unions were experiencing solid growth. Some of the resources are complementary. Synergising these resources and combining the available expertise of the partners ensure that alliance conditions are conducive for the successful design and development of financial software products to support a variety of credit union business models. CRIC access to its parent AGON global insurance and knowledge networks provide it with a unique cost effective platform from which to develop and launch sophisticated leading edge solutions.

- *CRIC Strategic Intent*

To leverage the Celero alliance relationship to access their 49 credit union members that are located in central region of Canada and introduce CRIC full range of insurance, training and support services.

- *Celero Strategic Intent*

To leverage CRIC knowledge and LOS products to role out its core banking solutions package to its credit union clients by 2010.

- *CRIC Input & Resources Allocated*

Non equity investment however brand reputation and expertise invested as leading edge technology provider to credit union and access to parent company's modular insurance technology solutions

- *Celero Input & Resources Allocated*

A non equity investment so no additional resources available for the development of Celero own LOS however will require technology investment in development of interface and joint marketing of CRIC Loan Origination Software solutions.

- *Common Benefits*

To promote each partner's strategic and technological product offering to credit unions sector and sharing specific knowledge resources, including markets, technologies, and people.

- *CRIC Private Benefits*

The aim is too conserve CRIC resources and boost productivity. Not having to develop their own sales force and technology road map, CRI Canada (CRIC) will be able to concentrate on developing innovative solutions for its core business (insurance) and developing direct relationship with Celero's shared clients.

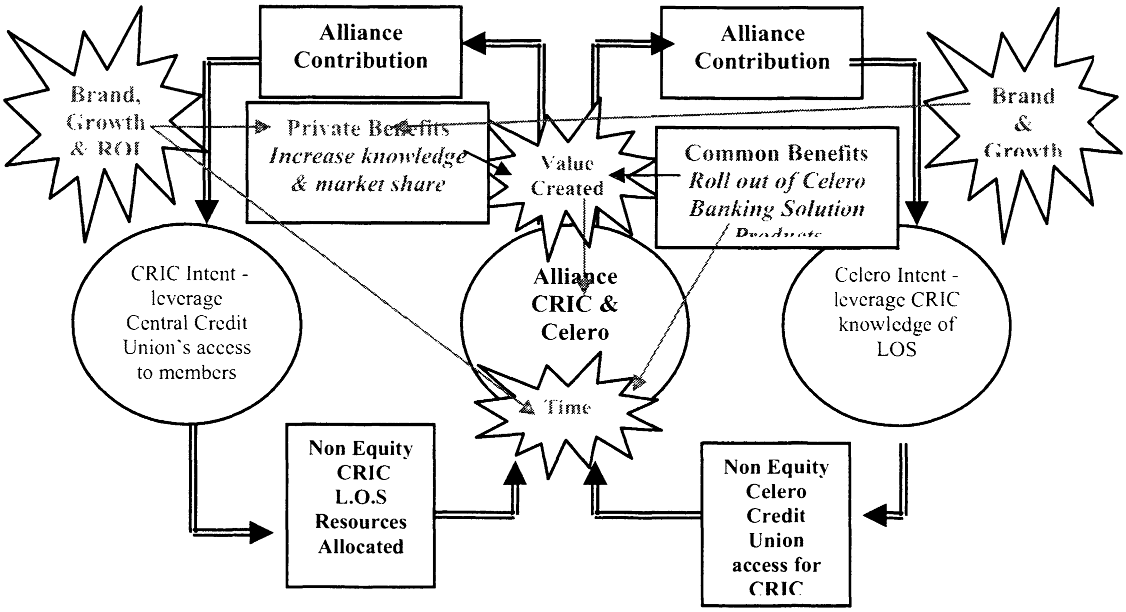
- *Celero Private benefits*

Access to CRC technology of LOS and increase market entry with Celero software solution and association with CRC brand awareness

- *Alliance Tensions*

Strategic tensions between alliance partners can lead either one or both firms to deviate from what they perceive as optimal collaborative behaviour. CRIC and Celero commitment and their behaviour patterns towards each other will shape the conditions of the alliance. Alliance commitment is reflected by the magnitude of opportunities and benefits available within the scope of the alliance. If the opportunities for either firm to apply knowledge acquired in the course of the alliance to operations and business opportunities outside the scope of the alliance exceeds the magnitude of the opportunities within the scope of the alliance this may influence the stability and the commitment of alliance partners to the strategic alliance.

FIGURE 5.6.1 Value Creation Process in CRIC & Celero Alliance: Common and Private Benefits



5.6.11 *Emergence of Structural Tensions*

The alliance partners' system compatibility and fit is sound, systems are built around a gate way interface and both partners have access to its source code. The gate way will prevent unauthorised changes to the communicate system and will ensure changes by either alliance partner's software is reflected in the others (see fig xx). There are is however some perceived risks that have raised to low tone tensions. The systems are rigid and Celero is concerned about it's the ability to unpack CRIC software solutions should they wish to terminate the LOS agreement.

5.6.12 *Emergence of Psychological Tensions*

The Symmetry between the partners is good there is an agreed flat fee commission structure between the alliance partners and CRIC enters a direct contract with credit union client for the provision and support of the LOS. There are some tensions forming around the psychological time dimensions. CRIC perceives a medium term horizon. The President of CRI Canada perceives that the possibility of Celero developing and introducing their own independent LOS solution as a medium risk given 1) that Celero focus is being the provider of banking solutions to credit unions. 2) Celero's lack of technological progress in LOS even after a $Can2000.000 investment. Nevertheless there are tensions developing as both partners will need to make investment decisions that are influenced by the length of the alliance agreement.

5.6.13 *Emergence of Relationship Tensions*

The alliance partners are not direct competitors although interdependency is low as investment in asset specific resources is low. The alliance partners' cooperation level is medium as there are some levels of concerns by CRIC that their LOS software might become seen by some credit unions as a commodity rather than a differentiation buddled LOS solution.

5.6.14 *Emergence of Evolutionary Tensions*

The alliance is still very early in its life cycle however there are tensions developing although at a very low level. CRIC has some concerned that the alliance might only be stop gap operations until Celero develop their own LOS capabilities. Celero has some concern that CRIC interest is confined to leverage the alliance to have access to its credit union members (see table 5.6.3).

Table 5.6.3 Origins of Internal Alliance Tensions in Value Creation and Value Appropriation in Commercial Organisations

Strategic Fit / Perceived Risk	**Symmetry** Profits, costs, shares and decision rights equally distributed to partners ***Good fit*** *Agreed flat fee commission structure & CRIC direct contract with credit union client*	**Entropy** Compatible Systems ***Good fit*** *Systems are built around gate way and access to source code*	**Symbioses** Interdependent Relationship ***Medium fit*** *Some overlap in business model*	**Homology** Organisational, Structural & Resource Fit ***Good fit*** *Same target market & culture and resource fit*
Risk Planning for the Future **Low** Some risk Knowledge transfer	**SYP Strategic Internal Tension Psychological** **Medium/Long**			
Risk Maintaining Flexibility Low Risk gate way interface prevent unauthorised communicate system changes		**EF Strategic Internal Tension Structural** **H** **Rigid**		
Risk in Managing Collaboration Medium not direct competitors although interdependency is low as investment in asset specific resources is low			**EM Strategic Internal Tension Behavioural** **M** **Cooperation**	
Risk in Finding Fit Low Risk Celero build own LRO software Low Risk Celero unable to unbundled CRIC software solutions				**HFF Strategic Internal Tension Alignment** Balanced

5.6.15 *Origins of Alliance Tensions*

There are two major areas for potential sources of alliance tensions. The first is that there is some overlap in the partners' business models and the lack of asset specific investment may have implications for the long term relationship. The second is Celero dependency on CRIC LOS at present is high as no alternative viable solution is available. CRIC dependency on Celero and its parents Credit Centrals providing access to its network of credit union access is high at present. An unresolved issue and source for future tensions are the psychological time dimension short term versus long term and behavioural tensions competition versus cooperation between the partners.

5.6.16 *Discussion*

The process of knowledge creation, innovation and wealth creation are not necessarily synonymous or synergistic as is demonstrated in the relationship between CRIC and Celero. The dynamics and nature of this alliance, the overlap in business models and the generation of and diffusion of knowledge and the practical application of the LOS necessarily involves divergence. The resultant organizational tensions and conflicts are both embedded and emergent at the alliance and at the individual firm level. The nature of these paradoxical forces are such that one set of forces and dynamics are necessary for the creation of knowledge and innovation and differing forces and dynamics introduce the very structure that transforms this new knowledge into wealth. The erosion or convergence of these differences or the isolation of these tensions may destabilise the alliance relationship or ultimately may lead to the conclusion the firm or the alliance.

5.6.17 *Conclusion*

Does a focus on common benefits by alliance partners moderate alliance tensions? The data in this case suggests that partners' strategic intent and their goals for the alliance will provide the contextualisation and the alignment of common and private benefits. It is the alignment between a partner's goal for the alliance and the common benefits associated with collaboration that will shape the alliancing conditions. Cooperation between the alliance partners ensures the smooth working relationship needed to meet the objectives of the alliance. Cooperation is the pursuit of mutual interests and common benefits in the alliance. In the CRIC and Celero alliance private and common benefits are interlinked and tensions levels are low. But what will happen when Celero's LOS becomes available how will its strategic intent for the alliance alter? Evidenced presented in previous cases suggests that should either partner strategic intent for the alliance alter it will influence the emergence and dynamics of alliance tensions.

5.7 Case Study 7 – Halifax/Bank of Scotland and West Coast Capital

> *"The life of collaborators are contingent on a coevolving external environment and cannot be understood independently of it"*
>
> *(Koza and Lewin, 1998:262)*

5.7.1 *Research Site*

Halifax Bank of Scotland (HBOSS) and West Coast Capital (WCC) are the seventh alliance partnership selected for field research. Following the rationale for site selection set out in chapter 3, the HBOSS and WCC alliance is classified as a product bundling alliance located in cell 5 of classification of alliance typology as shown in table 5.7.1.

Table 5.7.1 – Alliance Structures and the Internal Tensions

	Short	Term	Long	Term
	Flexible	**Rigid**	**Flexible**	**Rigid**
Competitive	Cell 1 *Arms length contracts** *not an alliance	Cell 2 Joint Marketing Joint R&D **Ansett/Air New Zealand**	Cell 3 Licensing Joint production **CUNA & Cascal**	Cell 4 Joint Venture Minority equity alliances **Presmit/ South Pacific Tyres**
Cooperative	Cell 5 Product Bundling Funded Research Shared Distribution **HBOSS & WCC**	Cell 6 Joint Bidding Joint R&D Joint Marketing **TPG Logistics / News Corporation (AWAS)**	Cell 7 Dealership Franchising Licensing Joint Production Long Term Sources Open Architecture Alliance\ **CRI Canada and CELERON**	Cell 8 Joint Venture Minority equity alliances **F&G / Fulda**

Adapted from Das and Teng 'Instabilities of Strategic Alliances: An Internal Tension Perspective' (2000:54) *Organization Science*

The specific research question for this research site was "How does alliance experience influence value creation in an alliance?" The research methodology adopted for the HBOSS and WCC alliance after the initial approach to senior executives followed two main line of activity:

Document research and in depth interviews for the purpose of developing a background and contextual framework for the study of the origins of strategic tensions

Document research and in-depth interviews for the purpose of studying of how strategic tensions influence the dynamics of the alliance.

Six managers were interviewed over a period of eighteen months. Interviews were conducted in three parts. The first interview followed an inductive approach were questions were asked about various aspects of the alliance and the industry. The second interview collected responses on strategic tensions, their origins and governance. The third interview respondents identified the influence strategic tensions exercised on the value creation process.

5.7.2 *Alliance Structure and Strategic Intent*

In 2006 West Coast Capital (WCC) a private equity firm and Bank of Scotland Joint Ventures (HBOS) specialising in asset financing formed a 50/50 joint venture company Castle Bidco to acquire Crest Nicholson a listed UK house builder. Crest Nicholson (Crest) had shown relatively modest historic performance in the volume house builder sector had been the subject of takeover speculation since Heron International built a 23.3% stake and formally made a take over bid in May 2005. This was greeted with some cynicism in financial markets as it was considered as attempt to draw other private equity or trade buyers to bid rather than a credible bid in itself. In November 2006 Bidco moved to acquire Heron's 23.3% stake. This stake was successfully acquired at 585p per share. Bidco subsequently offered 620p per share in cash plus the Crest dividend. This was accepted by the board, reflecting a 28% premium over the adjusted share price estimated by Rothschild, this included the takeover premium within the share price caused by market speculation. The acquisition price valued Crest at an Enterprise Value of £1,094m.

The Castle Bidco alliance forms part of a strategy by the Bank of Scotland to build a portfolio of joint venture stakes in asset backed businesses with strong growth potential. Halifax and Bank of Scotland (HBOS) merged in 2001, with some 22 million customers, assets of over £540 billion; it is the United Kingdom's largest mortgage and savings provider. West Coast Capital strategy is to take a proactive role in the identification, investment and management of its target deals.

5.7.3 *Alliance Goals and Objectives*

The strategic objectives of the company include becoming a leading player in the European institutional and retail markets. The Crest transaction would secure the acquisition of a leading national house builder (largest by volume), currently developing 3,300 units pa, which would mark a significant step towards fulfilling their business plan's express intention to grow exposure in this sector.

5.7.4 *Alliance Partners Corporate Perspectives*

West Coast Capital **(WCC)** was founded by Sir Tom Hunter a Scottish businessman, entrepreneur and philanthropist and Jim McMahon in 2001 funded principally by the proceeds received on the sale of Sports Division to JJB Sports in 1998 for £290m. West Coast Capital has three Partners: two founding partners Sir Tom Hunter and Jim McMahon; and Paul Davidson all of whom have extensive networks of contacts within the entrepreneurial communities. Hunter was listed on the Sunday Times Rich List 2005 as the 2nd richest man in Scotland, with an estimated wealth of £678m. In the Sunday Times Rich List 2006, he was ranked as the richest man in Scotland, with an estimated wealth of £780m. In 2005 Hunter received a Knighthood for "services to Philanthropy and to Entrepreneurship in Scotland"

HBOSS Asset Management business manages 62 billion of assets. The business has been created from the combination of Clerical Medical Investment Management, Halifax Investment Management and the investment business of Equitable Life. Clerical Medical Investment Management Limited, which had been incorporated in 1987, was re-branded Insight Investment. In January 2003, Insight acquired Rothschild Asset Management Limited. Insight Investment is now one of the UK's largest asset managers with over £98.6 billion in assets under management (as at 31December 2006).

Crest is the 10th largest volume house builder by profit in England, with an average selling price in 2006 of £200,000. Crest is recognised as a leading sustainable developer. Accreditations relating to their expertise in regeneration include: Your New Homes' 2006 – Winner of Best urban regeneration development; What House – 2005 Bronze Best Volume House builder Award and; The 2005 Regeneration Awards – Best Regeneration Developer of the Year. Through continuing to improve ethical, social and environmental governance Crest achieved joint top position in the WWF sustainable housing league table, exceeding the UK Government's target of 60% of their homes being built on previously used land by more than 20% in 2005. In the same year, almost a quarter of their homes built were affordable homes, for social housing.

Crest operates predominantly in the South and South East (54%) but also the South West (18%), Midlands (15%) and East (13%). The business is operated through regional business units and individual management teams can focus and respond to regional variations in Crests target markets. Crest's management is strong having developed good management processes within the business. Each Regional Division operates as a standalone business incentivised on margin, profitability and land buying thereby encouraging entrepreneurship in product type to best fit each regional market. Crest generates nominal profits from commercial (7% of total profit) and land sales (8%) and is primarily a house builder with a strong reputation for residential build, design quality and innovation.

Crest 2006 operating margin of 14.4% are below the listed industry average of 17% and is attributed to the high volume developments undertaken within the 'affordable and regeneration housing operations'. Crest has experienced a small decline in its revenues – 2002-2006 (£696m to £69lm) however its unit sales grew from 1,899 units to 2,946 units. Company accounts from 2002-2006 showed a modest performance from Crest with four- year CAGR of 5% per annum and a slight fall in operating margin from l4.7% in 2004 to l4.4% in 2006. Cash generation was strong with land able to be sold to generate short term cash flow. Land bank – Crest has a strong short term land bank of 15,800 plots representing 4.8 years of supply, which is ahead of other listed house builders with the industry average of 4.2 years (Merrill Lynch). The estimated value of the land bank in April 2007 was £800m and represented a capital gain of £85m.over the original acquisition price. The house building market was characterised by strong market fundamentals these included, continued under supply (especially in the South East region of England where Crest's business is focused), a low interest rate environment and high levels of employment.

As a result of shareholder pressure from previous takeover speculation in the financial markets and its relative under-performance in its industry the sector, management has implemented a business improvement initiative with a goal to reduce the company's cost base by 2009. The strategic plan called for the cost savings to be reinvested in its land acquisitions program and to be reflected in improved operating margin. Forecast in the strategic plan are underpinned by the forward sales of 53% previously announced in the year end financial results.

Construction is the biggest sector employer and a major contributor to GDP and Gross Capital Formation in Europe. In most countries, economic recovery positively influences construction activity, particularly new housing sector. The sector is significantly influenced by public regulations and public investments which affects the stability of the industry. Directly or indirectly construction activities significantly impact the environment. The industry is highly regulated with respect to environment, labor safety requirements and construction materials used.

The protection of human health and the environment is mentioned in many national building codes. Loss or deterioration of open landscape and habitats, change in micro climates, loss of surface water, vegetation, emissions and energy consumption from the use of works, construction waste all needs to be controlled. Contemporary sustainability criteria embraces a wide range of activities from the whole life cycle of a building, using existing built assets, designing for minimum waste and energy use throughout the life cycle, avoiding pollution, adding to bio diversity, conserving water resources, respecting people and communities. At local and regional levels, urban and spatial planning has an impact on business expansion. The demand for construction for example is influenced by country specific measures such as subsidies, home loan grants, tax incentives etc.

The housing construction sector is composed of many micro enterprises and few large companies. Consolidation among the large companies is a recent trend which has witnessed the emergence of a few large firms dealing with project management who outsource building work to subcontractors' mainly small or micro enterprises. In 2003, the majority of employed workers in the construction industry were medium skilled workers (45%), and low skilled workers (41%). The qualification of personnel is an important factor for productivity of the construction sector, especially at management level. The globalisation of construction activities is important for large firms exporting management and planning concepts, managerial and engineering skills. It is often difficult however to set up joint ventures with local partners due to the constraints put on capital shares and the employment of local staff.

In 2005 in the United Kingdom the housing construction market was performing ahead of expectation and supported by strong fundamentals including rising employment, a low interest rate environment and an undersupply of ready for sale housing stock coupled with increased household formation. Despite the fears that higher interest rates would constrain housing demand, in light of the continued supply constraints house prices continued to increase by 4% in 2007. Following the interest rate rise, most builders experienced no adverse effect on sales. The Council for Mortgage Lenders reporting the highest ever level of mortgage lending in January

2006 (f26.8bn), commenting that the market remained strong with the ratio of completed sales to stock of available property rising to 42.8% – the highest ratio in two years and a strong indicator of a buoyant market.

Crest business strategy centers on creating sustainable communities that generate a community spirit with large amounts of open space, essential amenities and incorporate a practical infrastructure that does not rely on the use of a car. Such principles are embedded in their product design. Crest reputation for design quality and sustainable development is key in obtaining major development contracts such as the recently announced development contract from the London Development Agency to develop Gallions Park, a Docklands zero carbon residential scheme in partnership with BioRegional Quintain and Southern Housing.

5.7.5 *Alliance Negotiation*

The key questions that the senior alliance managers asked themselves when assessing the feasibility of the Castle Bidco alliance whether the alliance would increase their collective strengths, if it would have the potential to generate conflicts between the partners, and whether it would help sustain symmetrical relations between WCC and HBOS.

5.7.6 *Alliance Agreement*

The alliance agreement calls for the profits, costs and decision rights to be equally distributed amongst the alliance partners. WCC and BOS will both receive equity /structuring fee, which equates in part to the profit made on the initial stake. The alliance is a source of legitimacy for the alliance partners in the tough finance industry and conflict are avoided was ever possible.

A WCC executive commented ….

> *"Our management team realized the importance of strategic partnerships and the value it brings to our credibility in the market place and also to attract more willing partners. …..need to be perceived as a partner-friendly company".*

5.7.7 *Alliance Partners Collective Strengths*

The structural and strategic fit between WCC and HBOSS are closely aligned. The joint venture combines the management expertise of West Coast Capital with the banking expertise of British largest lender Bank of Scotland. Since 2003, WCC has participated in joint venture deals with a value of GBP 4. Billion

HBOSS senior analyst commented that:

> *"...their organisation has the expertise in the markets in which we're working."*

The ability of the leadership team to interact with their counterpart and adapt was highly significant for the success of the alliance. WCC leadership team consisted of, Tom Hunter, Jim McHanon and Paul Davidson. HBOSS team was lead by Douglas Ferrans, Chief Executive, Asset Management, Michael Deakin and. Gary Mairs. The multi channel communications occurs at many levels and can be formal and informal. The venture partners have a strong interdependent relationship, having partnered in similar business ventures previously.

A HBOSS manager commented that:

> *"It is a requirement around here to make the alliance work successfully, these are life long connections, and the next deal is always dependent on how successful you are in the present one..."*

5.7.8 *Alliance Performance*

Broker reports forecast Crest earnings to improve 18% in 2007, one of the strongest growth performances in its peer group, driven by both margin improvements and unit sale volume growth. Internal conflicts and tensions between partners "constrain efficient decision making and drain organisational energies" (Das and Teng 2003b:300). In the Castle Bidco alliance there is little evidence of conflict between the partners and the perceived risk associated with the venture is low and consequently the overall tension levels between the partners is low (see table 7.2). Internal tensions are predominately balanced or medium.

When asked to comment how previous alliance experience influenced the performance of the venture a senior HBOSS manager commented:

> *"Real benefits that can be achieved in an alliance, we look for partners that have different strength in different areas than we have, however we also have developed a greater awareness of our own capacity ... "*

5.7.9 *Alliance Operations*

West Coast Capital and HBOS are alliance partners in a number of substantial equity deals; in 2005 the partners acquired and de-listed the retirement home specialist McCarthy & Stone for GBP1.1 billion. West Coast Capital has a number of alliance relationships with leading business advisers and entrepreneurs who provide strategic management support to invested businesses WCC acquires as they grow to become dominant players in their sectors.

5.7.10 *Alliance Conditions*

Synergy between the alliance partners was high. There were some concerns about global economic conditions and the prospect of a higher interest regime and a slowing economy. Collective strength of the alliance partners were perceived to be complementary aligned

HBOSS Executive c ommented:

> *"Again the benefits drive behaviour. We see longer term benefits which outweigh the 'pain' of working with another organization."*

- Perceived Risks – Low

A rising interest environment and speculation since Heron International built a 23.3% stake and formally bid in May 2005, that this was considered an attempt to draw other private equity or trade buyers to bid rather than a credible bid in itself.

HBOSS analyst commented that:

"An equity upside case has been run again assuming flat HPI in the first three years and then assuming 5 HPII cost inflation. This results in an exit EBITDA in Year 5 of £190m base case (f166m) and increases our equity return to 37%.

- Uncertainty – Medium

Crest Nicholson (Crest) had shown relatively modest historic performance in the volume house builder sector and as such has been the subject of takeover speculation since Heron International ("Heron") built a 23.3% stake and formally bid in May 2005. This was considered an attempt to draw other private equity or trade buyers to bid rather than a credible bid in itself. (see box EU in table 5.7.2)

- Power – Low

The risk of either partner abusing their power was perceived to be low given the collaborative culture and the high levels of interaction between the partners.

Table 5.7.2 Origins of Tensions in Value Creation and Value Appropriation in Castle Bidco Alliance Organisations

Strategic Fit / Perceived Risk	**Symbioses** Interdependent Relationship *High*	**Homology** Organisational, structural & Cultural Fit *High*	**Entropy** Multi channel communication and compatible systems *High*	**Symmetry** Profits, costs, shares and decision rights equally distributed to partners **High**
Dependence *Low*	**SD Strategic Internal Tension Psychological** **Balanced Long-term**	HD Dialectic Tension Concentration Balanced Centralisation	ED Dialectic Tension Progression Medium Innovation	SYD Dialectic Tension Positioning Medium Expansion
Alignment *Low*	SA Dialectic Tension Rent Med Collectivism	**HA Strategic Internal Tension** **Structural** **Med Flexibility**	EA Dialectic Tension Systems Med Open	SYA Dialectic Tension Utilization Med Exploration
Uncertainty *Low – Medium*	SU Dialectic Tension **Focus** Low ambiguity	HU Dialectic Tension **Growth** Balanced Expansion	**EU Strategic Internal Tension Behavioural** **Balanced Cooperation**	SYU Dialectic Tension **Focus** Balanced Vigilance/Trust
Power *Low*	SP Dialectic Tension Command Balanced Autonomy	HP Dialectic Tension Design Balanced Planning	EP Dialectic Tension **Adaptation** Balanced Compromise	**SYP Strategic Internal Tension Relationship** **Balanced Common**

- Dependence – Low

The venture was perceived to have a low risk of dependency. The mobility of its assets (for example, Crest had one and half years of "ready to release" land), a strong conversion track record with tight land controls and systems in place which provided a strong debt cover and a relatively low exit barrier for either partner.

A HBOSS Executive commented:

> *"Each person is still responsible to their own shareholders, and the alliance does not have a life of its own."*

5.7.11 *Emergence of Alliance Tensions*

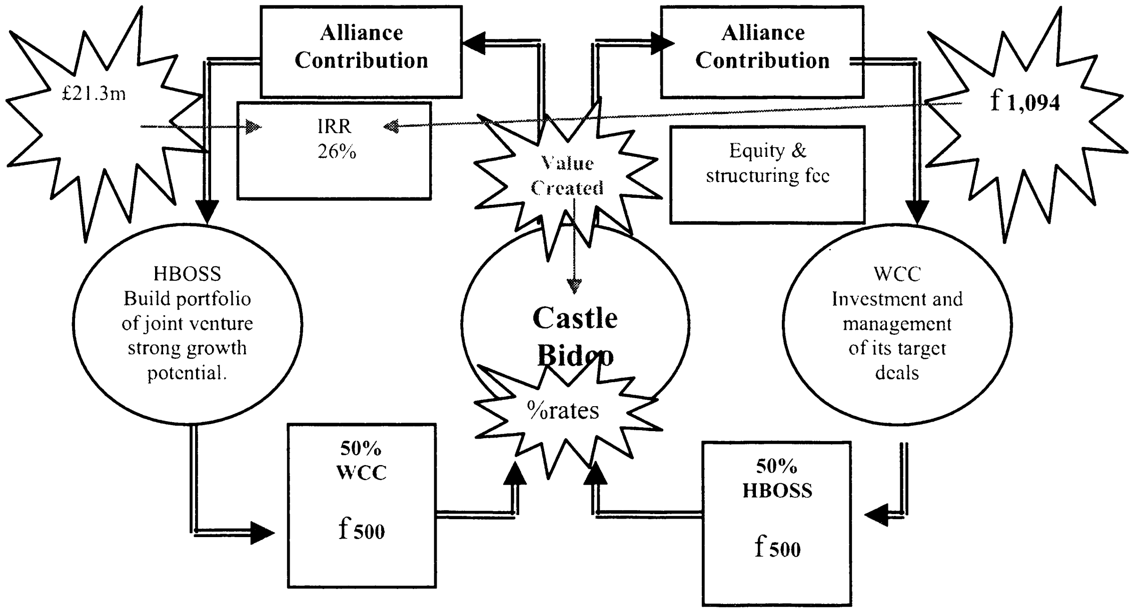
The high priority issues for the joint venture largely rest outside the Castle Bidco venture, the impact of high energy prices, and uncertainty in currency markets and the crises in the banking sector. Nevertheless the natural hedge that the land bank provides in times of economic uncertainty combined with the alliance experience of WCC and HBOSS. Nevertheless alliance conditions will shift over time and will impact the dynamics of the converging and diverging forces in the alliance.

Tension between the partners (see figure 5.7.1) was low as the potential value to be appropriated by each alliance partner from the Crest acquisition aligned with the strategic intent of each partner, express intention to grow exposure in this sector. The venture was governed towards long term cooperation.

A WCC manager commented:

> *"... but going by the continuing success, must definitely be long-term."*

Figure 5.7.1 Value Creation Process in Alliances: Common and Private Benefits



Whilst there was a perceived risk to cost of funds assumed at 5.75%., and an easing of house price growth, the partners based their assumption on a house building market that was still supported by strong market fundamentals, continued under supply (especially in the South East where Crest's business is focused), a low interest rate environment and high levels of employment.

5.7.12 *Discussion*

The level of tensions between alliance partners because of their prior alliance experience is relatively lower than those where partners have no prior alliance experience. The alliance partners' relationship is complementary where WCC is the provider of management and entrepreneurial expertise and HBOSS acts as the deal maker providing financial support in capital raising and securitisation. There is a high degree of strategic fit between the alliance partners. However both firms have extensive networks and are strong independent brand names and players in their own respective markets. WCC and HBOS corporate resources enable either firm to find alternative alliance partners and the perceived risk of dependency by each partner is low. Conversely the alliance partners' strategic fit, corporate scopes of operations and expertise become more significant as business models increase in complexity and the partners commit to a long term relationship rather than opportunistically focus on short term goals available within the alliance.

Table 5.7.3 WCC & HBOSS Internal Strategic Tensions

Collaborative alliance		Overall Alliance Tensions – Low		
		Start	**Middle**	**Current**
Tensions	**Time**	Medium term focus	Long term focus	Long term focus
	Structural	High Flexibility	Medium Flexibility	Medium Flexible
	Psychological	Medium level of cooperation	Medium level of cooperation	Medium level of cooperation
	Relationship	Balanced	Balanced	Balanced

The prevailing alliance conditions are collaborative; focused on common benefits and the partnering firms and leadership team specifically enjoys good open communication. The reciprocity/flexibility practiced and aversion to use threat of coercion or greed encourages the alliance partners to cooperate with each other and focus on common benefits (see table 5.7.3)

In this alliance the benefits (value created) of the Castle Bidco alliance was high. The bulk of the Crest operations and land bank are focused on the South and South East markets. Housing demand in the South East is historically strong with the average house now £240,624, still the highest in the UK with the South West average house price breaking through the £200,000 barrier in December 2006. The estimated value of the Crest land bank net of all land creditors provided 110% senior debt cover and 96% senior/mezzanine cover. Cost savings from conversion of the Crest Group from public to private were estimated these savings to be significant. Evidence in the case supports the theory where partners are satisfied with the value contributed to their firm alliance tensions are in equilibrium.

For each alliance partner, the common benefits i.e. the acquisition of Crest and each partner's private benefit achievement of their company's objective are dimensions of alliance performance. Private benefits (strategic objectives) for WCC includes becoming a leading player in the European institutional and retail markets West Coast Capital provides strategic management support to invested businesses and WCC acquires them as they grow to become dominant players in their sectors. For HBOSS the Castle Bidco alliance forms part of its strategy to achieve its goal, to build a portfolio of joint venture stakes in asset backed businesses with strong growth potential.

5.7.13 *Conclusion*

The tyre industry was the setting for the first of two investigations. Case one was the study of a competitive relationship, while the second case is a collaborative alliance. In case one the study investigated alliance structure and collaborative processes in a joint venture equity alliance in the automotive tyre industry. The purpose of this investigation was is to examine how differences between the alliance partner's resources and structures influenced the dynamics of converging and diverging forces in the alliance. Findings from this study suggest that strategic intent and resource allocation influenced the emergence and dynamics of strategic tensions. In case 2 the research focus was the same industry however at a different stage of the value chain (manufacturer and importer/distributor) and explored the partnering firms objectives, strategic intent and the dynamics of converging and diverging forces in the alliance. The strategic alliance between F&G and Fulda was a non competitive equity alliance. Research findings in this case support the proposition that the overall tension levels and sub-systemic dialectic tensions evolved over time and reconstitute relationships and shape the evolutionary trajectory of an alliance. The governance process of alliance resources, in the context of the value creation process and perceived risk, is a key strategic element that influences internal tensions and alliance evolution.

The next two case studies occur in the Airline and Airline Financing Services Industry. Case three was a study of a competitive alliance relationship between Ansett and Air New Zealand in a marketing and maintenance alliance. The research problem focused on how an industry environment influenced the complexity of managing internal tensions between partners in a competitive alliance relationship. The study findings suggest that the cyclical nature of the industry contributed to the complexity of managing alliance tensions. The research confirms that the parent firms of the alliance partners' strategic rationale for participating in the alliance, the allocation of resources and the subsequent refusal to invest in additional alliance specific assets gave rise to the emergence and the dynamics of alliance tensions. Case 4 reported on the investigation of a joint venture marketing alliance in the aircraft leasing industry. The partners decided to divest the joint venture. The key tensions are value creation (common benefits) by the joint venture and private benefits ie maximising return to the parent firms of the alliance partners and the joint venture senior managers. The findings of the research suggest that the lack of resources (the alliance partners refusing to allocate additional capital to order new planes) rather than industry structure had a greater degree of influence on alliance dynamics and tensions.

The next two investigations occur in the Financial Services industry. Case five reports on a product bundling alliance between two financial service organisations. Lack of resources and lack of competencies in key business area were key drivers in the demise of this alliance. Case six reports on the investigation of a strategic alliance on the Canadian credit union industry. The data in this case suggests that partners' strategic intent and their goals for the alliance will provide the contextualisation and the alignment of common and private benefits. It is the alignment between a partner's goal for the alliance and the common benefits associated with collaboration that will shape the alliancing conditions.

Case seven reports on a macro investigation of an entrepreneurial alliance between two financial service organisations, one an international investment bank HBOS.and the other a venture capitalist WCC. The investigation focuses on long term product bundling venture, the value creation and value appropriation process in the collaborative alliance. Evidence in the case supports the theory where partners are satisfied with the value contributed to their firm alliance tensions are in equilibrium.

Findings of this research show that the governance structure and the purpose of an alliance influence the partnership towards emphasising certain tensions rather than others. The findings suggest whilst economic forces, industry rivalry and customer purchasing patterns do explain differentials in both the structure and vigour of alliance tensions, the effects of the two organizational-level variables in the context of strategic management behaviour, strategic intent and fit are greater than those of the environmental level variables economic, industry and nationality of partners. The type of industry in which a firm competes in and its technological environment does not significantly change the structure of internal strategic tensions. This result could indicate that the evolution of strategic alliances is largely determined by the strategic agenda and organizational volatility of the partnering firms in which the alliance is embedded in. Not only are the partners firm's capabilities important, but how the firms are strategically related is important to ensure the fit of a strategic alliance. The central role of head offices in many of these relationships is central to influencing the dynamics of internal tensions and consequently alliance performance and evolution. The majority of alliance managers that participated in the study perceived that the alliance made a positive contribution to their individual organization although the level of contribution was perceived to decline as the alliance matured.

Chapter 6 Discussion of Findings

6.1 Overview

This dissertation set out to understand the phenomenon of strategic tensions between alliance partners' and its effects on the value creation and appropriation processes. The emphasis of this research is the dynamics between internal alliance tensions and individual partner satisfaction with the value created by the alliance to their firm. Data from industries with different characteristics were collected to examine the effect of industry and firm factors on the countervailing forces that simultaneously push an alliance together and pull it apart. This chapter discusses the findings of the research studies that explored the theoretical model, as well as the directions of future research, and management implications of this research.

6.2 Introduction

The theoretical contribution of this research is the development of an in-depth mid-range theory of how countervailing forces (internal alliance tensions) may impact the value creation process in an alliance. This theory will be tested through an examination of the research findings and the evaluation of the propositions developed involving internal tensions in dyadic alliances. The seven cases were chosen on the bases of analytical sampling rather than statistical sampling which is a commonly adopted method in quantitative research studies (Glaser and Strauss 1967, Yin 1994; Eisenhardt 1989). Measuring alliance performance in terms of the partners' satisfaction with the alliance (Mjoen and Tallman, 1997), the research focus is the relational dynamics between the partners' corporate centre and the senior managers responsible for the alliance strategy. There were clear indications that the strategic internal tensions as proposed by Das and Teng (2001) and de Rond (2003) existed in the alliances studied.

The primary research question for this thesis was how internal tensions between partners influence alliance performance and the value appropriated by individual partners. To answer this question, it was necessary to understand the origins and drivers of internal tensions in an alliance. The pilot study reported in Chapter 3 provided a methodology for exploring the origin and drivers of internal tensions in an alliance and built a basic understanding of the tension phenomenon in the context which it is embedded. Interview questions were structured to capture data on how industry factors may influence the dynamics of internal tensions and the changes in strategic tensions over time. The empirical results are supportive of the propositions and are substantiated by an earlier study by Hermens (2001).

6.3 Industry Environment and the Dynamics of Converging and Diverging Forces of an alliance

Insights gained from the literature review (see Chapter 2), as well as the data from respondents in the pilot study (see Chapter 3), enabled the development of the research framework Origination of Tensions in Value Creation and Value Appropriation in Commercial Organisations (see Chapter 3). The research model hypothesises that strategic tensions between alliancing partners emerge as partners assess the actual alliance conditions versus their strategic intent and evaluate the perceived risk factors. Four strategic internal tension areas are proposed in the model. These are: psychological (short / long term); structural (flexible / rigid); behavioural (cooperation / competition), and benefits (common / private). Of particular interest is whether a state of equilibrium among the countervailing forces promotes individual partner satisfaction with the value created by the alliance to their firm. It is proposed here that these strategic relational tensions are emergent and inherently dynamic, changing their character within the context of alliance members' interdependencies. Significantly both the data from the pilot study, and the information from the case studies, support a dynamic theory that alliance tensions are embedded in the interplay of alliance conditions and the strategic risks associated with collaboration (fit, flexibility, collaboration, and planning for the future) that may affect the interest of the constituent partner firms.

For the research data analysis, a process-oriented approach was adopted to uncover and monitor the four strategic tensions through the various stages of alliance development. The main studies involved the recording, analysis and interpretation of data drawn from as many sources as possible in an attempt to maximise the internal integrity of the research. This method aimed for a more dynamic and multi-dimensional perspective of internal alliance tensions and alliance contribution. I argue here that strategy process research should focus on how effective strategies are formulated and implemented.

The purpose of this approach was to investigate whether tensions within alliances are sensitive to industry factors, and how alliance structure may influence the dynamics of internal tensions. In the tyre industry, for example, alliance conditions over the past decade have been described as very dynamic and turbulent due to rapid globalisation, emerging technologies motivated by environmental concerns, escalating prices of oil and other raw materials, and frequent introduction of new tyre designs and product lines. In contrast, alliance relationships in the financial services and aircraft leasing industry appeared to be relatively stable, as evidenced by the length of the relationships reported in the case studies. The financial services industry is also relatively concentrated while the tyre industry is very fragmented.

Supply chain position and the nature of the alliance relationship (cooperative versus competitive) varied across the cases. The informants in the AWAS and HBOSS case were further upstream in the supply chain than the retailers in the Tyre and Credit union industries. Retailers are closest to consumer demand and experience more volatility and risk due to the design of their business models, compared to upstream firms. Collectively, differences in industry characteristics and position in the supply chain appear to account for the divergence in alliance conditions and the dynamics of the internal tensions. The volatility of the tyre industry, for example, brought perceived risk to the foreground for the retailers while the relative stability of the financial services industry puts perceived risks more in the background.

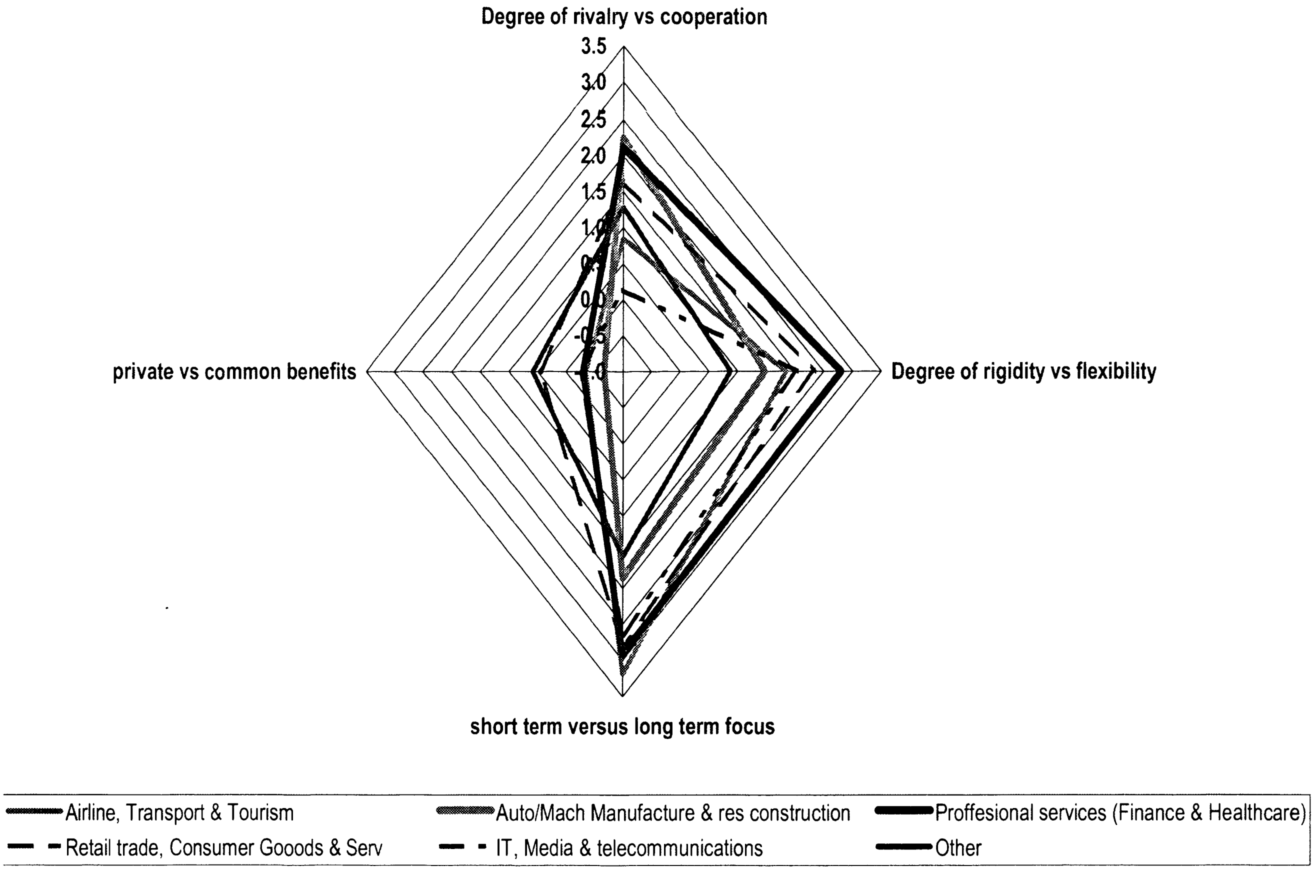
For respondents in the pilot study, managing perceived risk was highlighted as a key governance principal for senior managers. Informants suggested that strategic fit and perceived risk had the greatest impact on alliance tensions. Informants in the case based research, however, managing alliance resources as a key governance principal and supported a strong relationship between strategic fit, alliance tensions and alliance contribution. A plausible explanation for these divergent perspectives is that many of the informants in the pilot study reported forming strategic alliance relationships out of self interest, ie to access knowledge and resources to defend against a turbulent environment. Given this rationale, it can be argued that this is indicative of the nature of partners' commitment in alliances, contextualised in uncertainty, dependence, power and alignment. Nevertheless, these conflicting findings suggest the possibility of an interesting dimension in alliance relationships. Perhaps both interpretations are legitimate. Different alliances require differing success factors. A competitive alliance needs a different governance model than a cooperative alliance. Overall, informants agreed that many factors influenced and moderate the dynamics of alliance tensions, such as the external environment, complexity of resource contribution, alliance goals, and alliance experience.

The research design included the administration of a questionnaire (see Appendix 1) designed to measure managers bias in decision making, i.e. the degree of competition versus cooperation, flexibility versus rigidity, short term versus long term and private versus common benefits. Aggregate scores were taken as indicators of perceived levels of alliance conditions facing each of the fourteen alliance partners at three time periods. Key independent variables with high correlations with alliance contribution were cooperation/competition; flexibility/rigidity, short term/long term focus; common/private benefits and the method used to influence relationship.

Information from the pilot study and the data from the case research reflected high levels of volatility in tensions across industry sectors. For example, high levels of cooperation were reported in the automotive industry, and these were accompanied by low levels of flexibility. By comparison, cooperative alliances from the financial services sector experienced a much lower level of cooperation and higher levels of flexibility, and managers adopted a longer time focus than in the automotive industry. Tension dynamics differed in competitive alliances in the same industries. Competitive alliances in the automotive industry experience lower levels of cooperation, lower levels of flexibility and a shorter term focus than collaborative alliances in that industry, whereas competitive alliances in the financial services sector experience higher levels of cooperation, higher levels of flexibility and adopted a longer time focus than cooperative alliances in both industry sectors (see figure 6.1).

The data from the both the pilot study and the case studies indicate that the external environment, resources (characteristics and availability), and the firms strategic intent, shape the alliance environment. Perceived risk associated with implementing the alliance strategy and the anticipated contribution of the alliance, lead senior managers to emphasising certain tensions rather than others. The case study data suggest that whilst economic forces, industry rivalry and firm factors do explain differences in the vigour of alliance tensions, the effects of the two organizational-level variables on strategic management behaviour, strategic intent and alliance conditions/fit, are greater than those of the environmental level variables. The type of industry in which a firm competes in and its technological environment does change the intensity or the tensions. Interestingly, however, it does not significantly change the structure of internal strategic tensions. This result could indicate that the evolution of strategic alliances is largely determined by the strategic agenda and organizational volatility of the partnering firms in which the alliance is embedded. Not only are the partners firm's capabilities important, but also important is how the firms are strategically related, to ensure the fit of a strategic alliance.

Figure 6.1 Tensions by Industry



Relational commitment is highest when all of the members are strategically (highly) dependent on their alliance partners to achieve goals and few alternatives are available. For example, in the early stages of the CUNA and CUSCAL alliance partners commitment is high.

For CUNA the alliance with CUSCAL offered a unique distribution channel that provided access to a captive market segment that is low in price sensitivity but has a high service orientation. CUSCAL's clients, 'home buyers with approved finance' needed insurance to secure their mortgage loan. The alliance with Cuna provided CUSCAL clients with a fast 'one stop shop' integrative solution. This integrative insurance solution presented CUNA with a competitive advantage and an additional highly profitable source of revenue. The alliance presented CUNA with an opportunity to focus on their competencies servicing clients from credit unions and expand their product range protected from direct competition by the router system. CUNA developed a highly cost effective marketing strategy by focusing on building relationship with their customers in a segment of the market with a 'low churn rate'. When CUSCAL perceived a more attractive market opportunity and open the router network to CUNA's competitors' relational commitment tensions between the partners emerged as the gap between the perceived normative ideal and actual alliance conditions diverged. Compatibility can range from low to high and can be improved or diminish during an alliance relationship. The case research gave evidence that a change in the other partner's strategic agenda negatively impacted alliance conditions and alliance contribution to a partner's firm. The research findings confirms that strategic fit and interdependence between alliance partners and their parenting firm promotes symmetry ie, encourages a non coercive decision making and governance environment.

The survey among 234 alliance managers confirmed that relationship between alliance structure and internal tensions dimensions was high (see table 6.1). Joint ventures generally embed partner firms deeply in the alliance through their equity investment and were designed for a long term perspective, were more rigid in their relationship structure, and the focus on private versus common benefit was balanced. Overall tension levels were the highest in this form of alliance structure and were attributed to the high exit barriers that a joint venture presents to alliance partners.

These findings support Das and Teng's (2000b) proposed relationship between internal tensions and structure. The outcome of the Presmit and SPT alliance joint venture is consistent with these scholars' proposition that alliance types that are skewed towards cooperation, rigidity, and long term orientation are more likely to be terminated through mergers.

Table 6.1 Alliance Structure and the Internal Tensions

Structure	- 7 = competition 0 = balanced + 7= cooperation	- 7 =flexibility 0 = balanced +7 = rigidity	-7 = short term 0 = balanced +7 = long term	-7 = private 0 = balanced +7 = long term
Cooperative	**1.3**	**1.9**	**2.5**	**0.1**
Joint Venture	**1.7**	**2.3**	**2.7**	**-.1**
Competitive	**3.1**	**2.1**	**1.6**	**-2.8**

N = 234

An interesting finding was that in competitive alliances the levels of cooperation are higher than those in joint ventures and cooperative alliances. On the other hand, there is a stronger focus on shorter time dimensions, and a higher focus on private benefits, than in other alliance structures. This finding can be understood as the value creation and value appropriation processes occurring in a much more fluid environment of high levels of flexibility, short time horizons, and to offset diverging force of short term and focus on private benefits.

6.4 Research Propositions and Research Questions Reviewed

This section will review research question one and propositions developed for the risk dimensions of an alliance, taking into consideration evidence from the pilot study and the seven case studies of this thesis. Detailed examination of the data for each proposition is contained in the case studies presented in Chapter 5.

6.4.1 *How does an Alliance Firm's Strategic Intent Influence the Emergence of Internal Tensions between Partners in a Competitive Alliance Relationship'*

Both the pilot study as well as the results of the case study analysis, supports a strong relationship between alliance conditions/strategic fit, perceived risks, and alliance performance. Respondents in the pilot study describe strategic tensions in terms of its effect on alliance commitment, whereas informants in the case studies located the effect on contribution to their firm. The case study research found that strategic intent (purpose) of an alliance relationship moderates the effect on the perceived risks and the tension dynamics between the partners. Where there is a perceived divergence of strategic intent between alliance partners, or where there is a perceived risk of being controlled or stifled in entrepreneurial endeavours, there generally is reluctance by senior decision makers to commit to a strong interdependent relationship.

The research confirmed that the relationship between strategic intent, alliance conditions, and perceived risk give rise to tensions between the partners. Resource allocations and decision-making processes that are focused on attaining private benefits for the individual partners firm, rather than common benefits, reenergise tensions between partners. Alternatively, an emphasis by a partner on maintaining their own independent organisational culture promotes a psychological tenson between the partners, i.e. a lack of long-term commitment to an interdependent relationship.

6.4.2 *Propositions Reviewed: Internal Tensions and Strategic Intent*

Specific propositions developed on alliance tensions were as follows:

> ***P1a*** –the divergence of strategic intent between the parenting firms in a competitive equity joint venture will be inversely related to the difference between the level of cooperation and the level of competition between the alliance partners.
>
> ***P1b*** – alliance symmetry will be positively related to cooperation and common benefits.

P1c – the levels of rigidity and cooperation will be positively related when the strategic intent of the partners is to have a long term orientation.

P1a

This proposition is confirmed. It is clearly demonstrated in the case studies that the divergence in strategic intent between Presmit and SPT negatively impacted upon the symbioses between the partners. This behavioural phenomenon was particularly evidenced at the board level and in the joint venture's marketing and organisational decisions making process. The divergence of partners' strategic intent became evident in Presmit directors expressed concerns of being exploited. This led to an increase in the tension levels as both partners became more circumspect in their decision-making processes and adopted more formal processes. Presmit had contributed the majority of alliance specific assets and feared that SPT would take advantage because of Presmit's investment in the alliance. Presmit in turn attempted to coerce their partner to make a significant investment specific to the alliance by handing over the SPT under performing retail stores to the alliance venture, thus creating a pool of mutual hostages. It is significant that when an alliance partner use of influence becomes more overt, then the degree of flexibility between partners also tends to reduce. The more closely aligned the partners' strategic intent, the less inclined alliance partners are to exert their coercive power. Generally, the data support the notion that alliance partners will be more likely to cooperate with each other if some flexibility (forebearance) is adopted in processes and systems.

P1b

There is support for this proposition. It is clear from the case studies that the lower the perceived threat of greed or use of power, the more likely partners are to cooperate with each other and focus on common benefits. In other words, it is less likely that a partner will use their power to influence resource allocation to promote their private benefits rather than focus on common benefits. Power in alliances relationship can be classified in two dimensions; perceived and actual. For example, SPT's organisational size and its integrated position in the supply chain (manufacturing, distribution wholesale and retail) were perceived by Presmit directors as powerful, the case study data also reveals that in alliances where the risks associated with alignment was perceived as low (e.g. Fulda/F&G; CRI/Celero & HBOSS/WCC), there were increased levels of flexibility between partners, focus on value creation (common benefits) and long term orientation.

P1c

There is confirmation of this proposition. The case research data confirmed that where alliance partners have the strategic intent of forming a long term relationship (see Chapter 5, CUNA/CASCAL; Presmit/Tyre Marketers, HBOSS & WCC), they are more predisposed to cooperate with each other. Informants in the pilot study identified that long term goal orientation, more rigid processes and systems and cooperation act as convergent forces in an alliance. Rivalry between alliance partners, on the other hand, and a reluctance to invest or allocate resources in long term projects or assets, negatively impacts partners' collective strengths and performance (value creation and appropriation).

6.4.3 *What are the Dynamics between Internal Tensions and Partner Satisfaction with the Value Created by the Alliance?*

The research data indicated that the overall level of contribution (perceived value created) of an alliance to the individual alliance firms decreased over time. Often this resulted in either alliance partner seeking to influence alliance performance by adopting various approaches. For example, as the contribution of the alliance diminishes to their firm, the partners will favour a focus on short-term objectives and their willingness to be cooperative and flexible tends to decrease. This increased the degree of rivalry. The partners then became less interested in promoting or expanding the activities of the alliance and often sought to influence price and marketing related decisions by using more overt forms of influence. Generally, it was perceived that more overt use of power increased the level of influence a partner exercised on an alliance. However, the majority of informants indicated that high value appropriation from an alliance was achieved by applying a low key (covert) type of influence. This may be not so surprising given the earlier finding that as one partner increased its use of overt power than the other partner tended to attempt to do the same.

In the longitudinal case research phase of this study, governing an alliance with the objectives of reducing risk, accessing knowledge and entering new markets, were all positively correlated to alliance contribution. The correlation was particularly strong from the middle to current life stage of the alliance. A significant finding from this research is that two key internal tensions (structure and time) have high correlations with the level of partner satisfaction with the value appropriated from an alliance (see table 6.2).

Table 6.2 ***Collaborative*** **Alliances: (contribution vs. core tensions)**

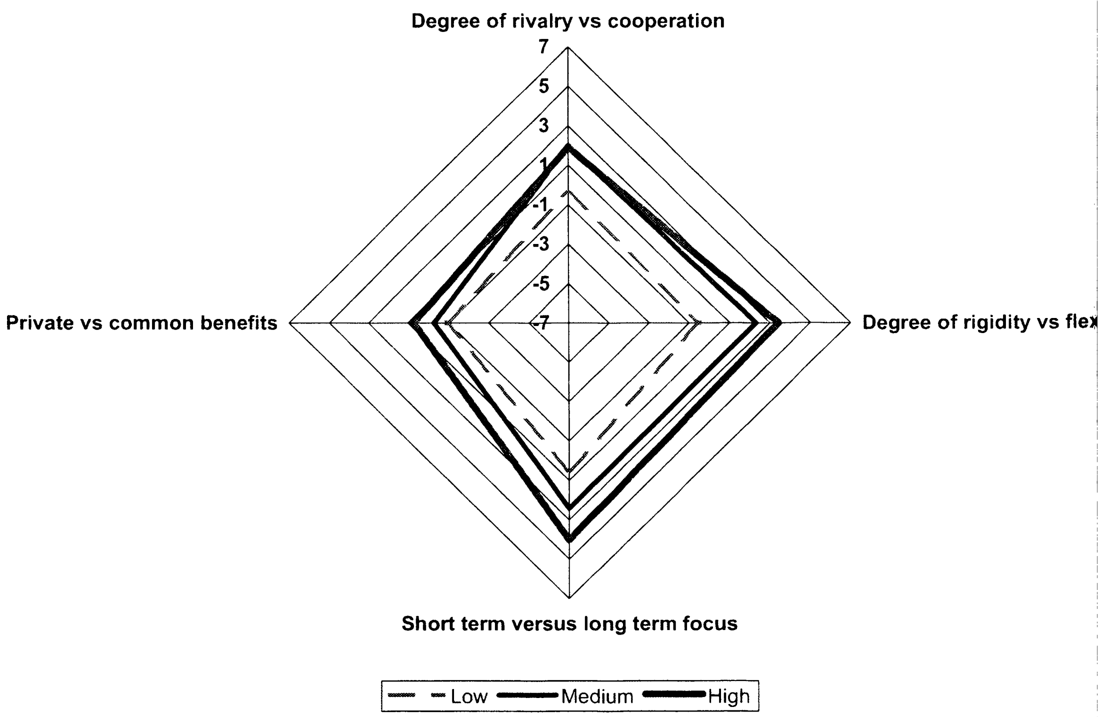
	COLLABORATIVE ALLIANCE	ALLIANCE CONTRIBUTION		
		LOW	MEDIUM	HIGH
Tensions	TIME	Short-term focus	Medium-term focus	Long-term focus
	STRUCTURAL	Ridged	Some flexibility	Flexible
	PSYCHOLOGICAL	Competition	Medium level of cooperation	Medium level of cooperation
	RELATIONSHIP	Balanced	Balanced	Balanced

The data indicates that the psychological tension, (collaboration vs. cooperation) is a deciding factor for alliances with high or medium level of value appropriated from the alliance. On the other hand, higher degrees of rivalry results in low levels of value creation.

A surprising finding arose when the data was categorized by tension dimension versus measures of value appropriated. It becomes obvious that the relationship tension (private and common benefit) does not vary significantly relative to the value appropriated by an alliance partner (see Figure 6.2).

This may suggests that no matter whether a firm perceives that they appropriated a high degree or low degree of value from an alliance, alliance partners still tend to adopt a balanced perspective in their decision making process and consider both s private and common benefits. Another finding was that firms who appropriated high value from their competitive alliance relationship experienced higher levels of cooperation than those engaged in collaborative alliances. On the other hand, firms who experienced low level of contribution from their collaborative relationships tended to shift their focus from cooperation to rivalry.

Figure 6.2 Collaborative Alliances (contribution vs tensions)



Another observation was that those firms that appropriated high value from their alliance relationships increased their flexibility over time. Interestingly, competitive alliances scored high levels of flexibility as apposed to those in cooperative alliances (see Table 6.3).

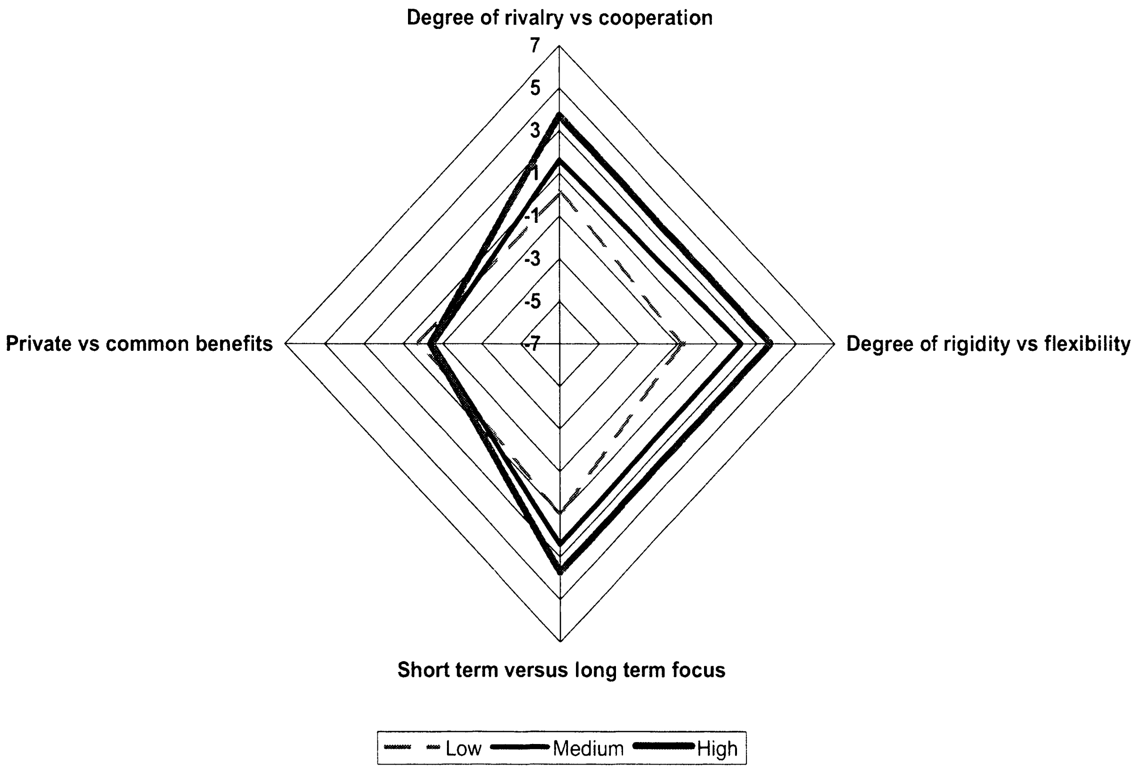
Table 6.3 *Competitive* **Alliances: contribution vs. core tensions**

COMPETITIVE ALLIANCE		ALLIANCE CONTRIBUTION: LOW	MEDIUM	HIGH
Tensions	TIME	Short-term focus	Medium-term focus	Long-term focus
	STRUCTURAL	Some rigidity	Some flexibility	Flexible
	PSYCHOLOGICAL	Competition	Medium level of cooperation	Medium level of cooperation
	RELATIONSHIP	Balanced	Balanced	Balanced

The data indicated that firms that extracted low levels of value from their relationship had their relationship becoming more rigid, particularly those in a competitive relationship. Interestingly, this may be explained by the fact that partners engaged in a competitive alliance perceive alliance conditions to be more volatile/uncertain and need to ensure that alliance conditions reflect high levels of cooperation and flexibility (forebearance) between partners to minimise perceive risks (threats) of uncertainty and alignment with a competitor.

On the other hand, firms that extracted high value from their alliance relationship increased their medium- to long-term perspective, particularly those who were in a collaborative relationship (see figure 6.3).

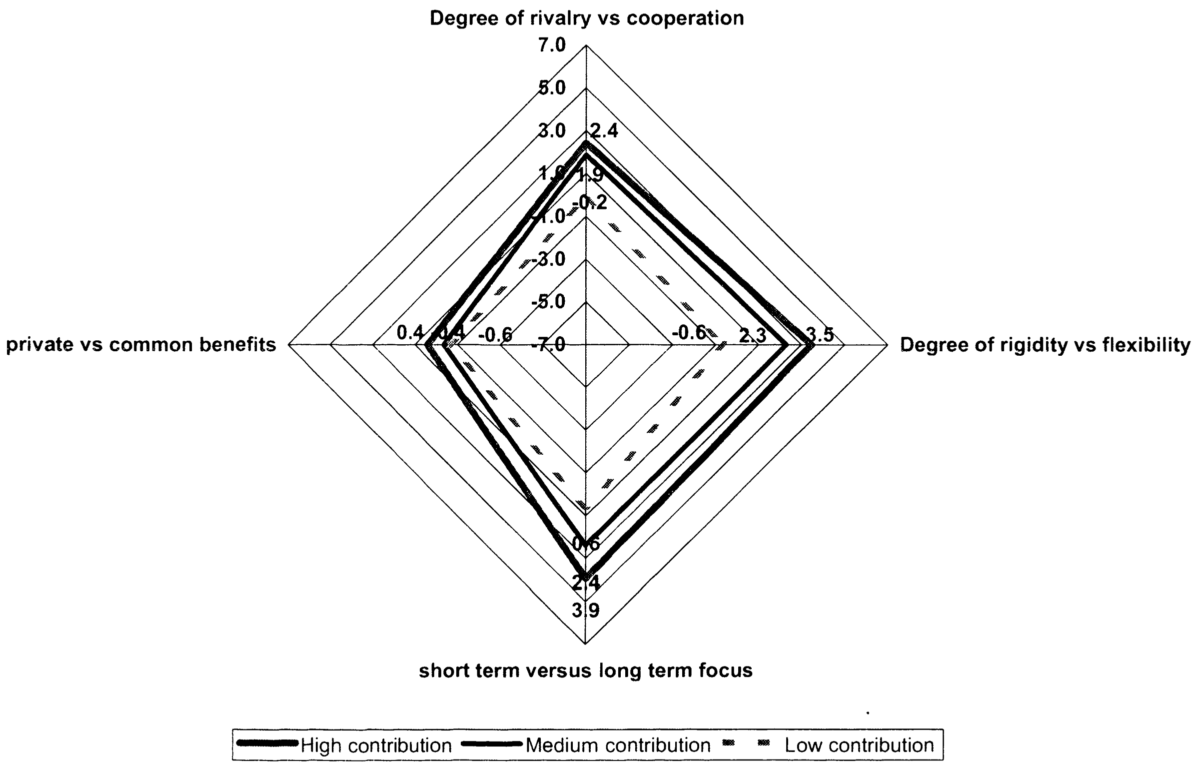
Figure 6.3 Competitive Alliances (contribution vs tensions)



There is strong evidence in the data that, in both cooperative and competitive relationships, when contribution (value appropriated) from the alliance increased then the partner's long-term focus and commitment to the relationship also increased. Ipso facto, if contribution decreases, the long-term focus and commitment to the relationship decreased and as anticipated, the degree of rivalry between partners increased.

As alliance contribution to an alliance partner's firm decrease, the degree of flexibility (forebearance towards each other) also decreased. Ipsi facto, if contribution increased then flexibility (forebearance towards each other) also increased. However, firms that reported high levels of value appropriated from the alliance relationship used low key levels of influence. As alliance partner focus on the long-term increased, they tended to exercise more influence on marketing decisions. These findings are consistent with recent studies by Teng and Das (2008). These scholars suggest that conflict is inevitable in alliance relationship and the management of conflict is dependent on member firms maintaining forebearance (a balanced perspective) through their interactions. Teng and Das (2008) propose that it is also essential that alliance partners establish appropriate governance structures to contain conflict and tension.

Figure 6.4 Alliance Contribution vs Core Tensions



6.4.4 *Propositions Reviewed: Internal Tensions and Value Creation*

This section will review the propositions developed for the contribution dimensions of an alliance, taking into consideration evidence from the pilot study and the seven case studies which form part of this research thesis. Detailed examination of the data for each proposition is contained in the case studies presented in Chapter 5.

Specific propositions developed involving alliance contribution were as follows:

P2a – alliance partners will be more likely to cooperate with each other if the perceived contribution (benefits) of the alliance to their firm is high.

P2b – alliance tensions are more likely to be in equilibrium where the partners are satisfied with the perceived value contributed to their firm (private benefits).

P2c – Both value creation (common benefits) and the value appropriated (private benefits) are dimensions of alliance performance.

P2a

There is confirmation of this proposition. The informants in the pilot study and the case based research confirmed a high association between cooperation and the contribution made by the alliance to their firm. Informants identified critical operational dimensions for cooperation as access to knowledge, flexibility (partners exercising forebearance), time dimensions (short /long term), focus on common benefits and methods used to influence, as key variables associated with positive alliance outcomes and continued cooperation. Highly significant was the finding that, as overall contribution to a partner's firm decreased, then rivalry/competition between partners' increased, short term and private benefit focus increased, and flexibility (forebearance) decreased. Per ipso facto where contribution/value appropriated increased, then flexibility and long term focus increased.

P2b

This proposition is confirmed. Overall there is a tendency towards equilibrium over time, the exception being a shift towards an increasingly long-term view reported by the respondents in the pilot study. Analysis of the case study data provided additional insights. There was a high inverse relationship in the data analysis between contribution and the levels of tension. High value appropriated by their firm from an alliance is reported by informants where alliance conditions are described as low tension levels and where equilibrium is perceived in the key relationship tension of private versus common benefits. However, in the context of three other key internal tensions, the data in the case studies clearly evidences that long term goals, medium levels of cooperation and flexibility (forebearance) are key dimensions for high alliance contribution.

P2c

This proposition is confirmed. Data from informants in the pilot and the case studies confirm that strategic fit, cooperation, flexibility, private and common benefits and long-term time focus, are positively related to alliance contribution. The case studies illustrate that the value appropriated by a partner (alliance contribution) may include both tangible and intangible benefits that are not always equally shared between partners. The unintended one way transfer of knowledge or technology from one alliance partner to another partner is an example of a partner appropriating greater value from the alliance than its partner.

6.4.5 *What Happens When the Balance between the Different Competing Forces shifts towards the Dominance of one Force or the other?*

The research tracked the origins and evolution of alliance tensions, through to performance and outcomes. The research findings suggest that the balance of converging and diverging forces acting on an alliance shift over time. These dynamic forces are embedded in the external and internal environment (economic conditions, industry dynamics, partners' resources and strategic intent) and contextualise alliance conditions. It is a partner's perception of alliance conditions and its perceived risks that shapes the evolutionary processes and dynamics of internal tensions and eventually outcomes.

The research findings suggest that overall tension levels and sub-systemic dialectic tensions (ie short term versus long term; flexibility versus rigidity; collaboration versus competition; common versus private benefits) evolved over time and reconstitute relationships and shape the evolutionary trajectory of an alliance. The case studies findings suggest a process of accelerating tensions and significant imbalances in their configuration will favour certain outcomes (see Table 6.2). A perceived lack of commitment to an alliance relationship influences alliance conditions. The dynamics of the alliance relationship between TNT and News Corporation changed dramatically when the focus of its alliance strategy changed to the divestment of its share in the alliance venture. The resultant increase in the perceived risks of the alliance venture meeting the TNT value appropriation goals was evidenced by its senior managers greater focus on short-term results and the CEO reluctance to commit to long-term capital projects (eg fleet expansion). The lack of goal alignment and strategic fit witnessed TNT greater emphasis on due process/rigidity, for example, relying on contracts and formal processes, and there was little forebearance between the partners. As tensions increased between the partners' communication decreased and was largely confined to reports presented at scheduled formal board and management meetings. The limited communication generated a great deal of uncertainty about the future of the venture and evidenced itself in the low levels of collaboration and cooperation between the partners. News Corporation's attempts to influence the decision making processes were perceived to be overt and having a focus solely on the benefits to News Corporation.

As the intensity and dynamics of internal tensions escalated the alliance venture became increasingly unstable (e.g. key senior managers signalling their intent to leave for 'greener pastures') and there were decreases in interdependencies and collective strengths, the performance of the venture deteriorated. The ultimate outcome of divesting the venture was significant losses to the alliance partners' parents firms. It can be argued the divergence of strategic intent between the partners lead to alliance conditions where one partner's decision focus was oriented towards a short-term time/planning focus, contextualised in high levels of rigidity, low levels of cooperation and a focus on private benefits. This increased the dynamics and intensity of the tensions and decreased interdependencies and collective strengths between the partners.

The case of Presmit & SPT (a competitive long term alliance venture) demonstrates a gradual divergence of strategic intent between the venture's partners. Informants reported that the degree of flexibility (forebearance) between the partners reduced over time. It also became evident that when one alliance partner's mode of influence became more overt (force/threats) the other alliance partner responded and also becomes less flexible. As the alliance evolved and partners continued to interact, meeting and exceeding financial goals became increasingly important and there was a greater focus on attaining private benefits. Collaboration and communication between the partners graually deteriorated over the life-span of the venture.

Table 6.4 Case Studies Overview: – Evolution of Tensions and Outcomes

Case	Alliance	Alliance Relationship	Focus Short vs Long	Structural Flexibility vs Rigidity	Psychological Collaboration vs Competition	Relationship Private vs Common	Overall Tension Level	Evolution / Outcome
1	Presmit / SPT	Competitive	Short	High Rigidity	Cooperation	Focus Private	Medium	Reconstitution (acquisition)
2	F&G / Fulda	Cooperative	Long	Medium Flexible	Medium Collaboration	Balanced Common	Low	Cooperation (ongoing)
3	Ansett / Air New Zealand	Competitive	Short	High Rigidity	Cooperation	Focus Private	Medium	Reconstitution (acquisition)
4	KNPT / News Corp	Cooperative	Short	High Rigidity	Low Collaboration	Focus Private	High	Divergence (Divestment)
5	CRI / Celero	Cooperative	Long	Medium Flexible	Medium Collaboration	Balanced Common	Low	Cooperation (ongoing)
6	CUNA / CASCAL	Competitive	Short	High Rigidity	low Collaboration	Focus Private	High	Divergence (Divestment)
7	HBOSS / WCC	Cooperative	Long	Rigid	High Collaboration	Balanced Common	Low	Cooperation (ongoing)

The instability in the alliance motivated SPT to exercise its majority voting power and influence the decision making process particularly in the area of resource commitment and strategy. The partners diverging strategic agendas manifested in medium tension levels between partners, a focus on private benefits, short-term orientation, high levels of competition and a high degree of rigidity.

Both the case studies and data from the pilot study suggest that when an alliance partner exercised more overt power to direct resources or attempted to influence the relationship, their alliance partner propensity to cooperate decreased. Similarly, when one partner used overt power to influence resource allocation or decisions the other partner tended to reciprocate and also adopting a less flexible decision framework and also applied a more overt form of influence. As alliance contribution decreases, partners focus on the short term increases. However, their level and degree of focus on common benefits remains relatively balanced, perhaps reflecting their prior alliancing experience and suggesting that a focus on common benefits is an essential element of alliance performance. As a partner moved towards a shorter term focus they also tended to use more overt forms of influence.

The case of the CUNA/CUSCAL alliance illustrated how alliance conditions alter when one of the partners (CUSCAL) strategic agenda altered. Its revised strategy incorporated plans to expand its alliance network by opening the router system to Cuna's competitors. This altered alliance conditions significantly. The gap between the actual alliance conditions and CUNA's perceived normative ideal alliance conditions diverged. Subsequently, CUNA perceived that its high dependency on CUSCAL router system a major risk factor. CUNA's senior management team perceived the alignment of Cuna's structure and system fit with CUSCAL as a major weakness. There was a reluctance to further invest in compatible systems as CUNA's management team was uncertain about how much of its market share that it accessed via the CUSCAL router system it could retain. Some of the senior management team was also critical of CUSCAL's use of power and control over the router system and they argued that CUSCAL's increasing use of overt forms of power to influence the relationship had negatively impacted the alliances symmetry. Tensions between the partners increased as CUNA perceived that CUSCAL focused on its own private benefits and in response CUNA focused on its own private benefits, adopted a short-term planning horizon when making decisions in regards to the alliance, invested in its own information technology system with the aim of circumventing CUSCAL router system. Alliance conditions in the latter stages can be described as a high level of uncertainty and tensions between the partners. The instability of the relationship was reflected in the key strategic alliance tension domains, a short-term time/planning focus, high levels of rigidity, low levels of cooperation and a focus on private benefits. The divergence of strategic intent and alliance conditions culminated some months later when the alliance venture was divested realising significant losses to the alliance partners' parenting firms.

Alliance partners often seemed to pressure employees dedicated to an alliance to focus on the partner's firm interest (private benefit) at the expense of the venture (common benefits). Differences between senior managers have implications for how the collaborating firms combine their resources in response to perceived opportunities and threats. These perceptual differences of uncertainty, dependency, power and strategic alignment, reflect differences between individuals and between the alliancing firms. The research suggests that symmetry and power form key tension dimension between alliance partners. Making separate organizations work as one and acting in the best interest of the two partners was a major challenge in most of the cases researched.

The role of the firm's CEO or senior manager in many of these relationships is central to influencing the dynamics of internal tensions and consequently alliance performance and evolution. The aim of the alliance governance process is to influences how the objectives of the alliance are shaped, how risk is monitored and evaluated, performance is optimized and both bilateral relationship and partners' autonomy is effectively maintained. The research confirmed that differences in intelligence, training and experience lead individuals and managers to come to very different conclusions about the complexity and risks of an alliance strategy or transaction.

6.4.6 *Propositions Reviewed: Internal Tensions and Alliance Evolution*

This section will review the propositions developed for the evolutionary dimensions of an alliance taking into consideration evidence from the pilot study and the seven case studies which form part of this research thesis. Detailed examination of the data for each proposition is contained in the case studies presented in Chapter 5 of this thesis.

Specific propositions developed on alliance tensions and evolutions were as follows:

> **3a** – an alliance is more likely to move towards continued cooperation when the value appropriated met or exceeded partners' objectives and tensions are in equilibrium.
>
> **3b** – an alliance is more likely to move towards a merger or acquisition when the value appropriated did not meet one or both partner's objectives and when there is a dominance of cooperation, rigidity and long-term orientation.

3c – An- alliance is more likely to move towards dissolution when the value appropriated did not meet one or both partner's objectives when there is a dominance of competition, flexibility and a short-term orientation.

P3a

This proposition is confirmed. Informants in the pilot study who perceived that the value their firm appropriated from the alliance met or exceeded their expectations, confirmed that tensions between the partners were low and there was a tendency towards equilibrium in tensions. The exception was a shift towards adopting an increasingly longer-term focus by the partners. Primarily low-key methods (overt) were used to influence decision making and resource allocations in alliances.

Data from the case research established a clear relationship between the level and dynamics of alliance tensions and evolution. Case study data particularly in collaborative alliances (F&G / Fulda; CRI/Celero; HBOSS/WCC) provided evidence that where value appropriation aligned with a partner's expectation, the relationship is governed towards continued cooperation and/or evolution. The tensions between the partners in these alliances were perceived to be low and the strategic dialectic tensions were in equilibrium

P3b

This proposition is confirmed. The data from the pilot study and case research (eg Presmit /Tyre Marketers; Ansett/Air New Zealand) confirmed that where value appropriation did not align with a partners strategic intent it was governed by the senior managers, with the objective for reconstitution (realignment). As the sum of tensions between the partners was medium and (perceived levels) of competition between partners was high, high levels of rigidity and a short-term focus prevailed within the alliance.

P3c

This proposition is confirmed. The data from the pilot study and case research (TNT / News Corporation) confirm that an alliance is likely to move towards divergence when the sum of tensions between partners is high. In these circumstances, alliance conditions can best be described as low levels of collaboration, high levels of rigidity, a focus on private benefits and a short-term time perspective.

The complexity of governing tension is evidenced in these research findings of the dynamics between internal tensions and:

- Risk – Alliance partner actions to increase its use of power (overt force/threats) in order to influence alliance processes were quickly reciprocated by the response of its partner who tended to do the same. These dynamics altered alliance conditions which decreased the degree of cooperation and flexibility/forebearance between the partners. Where an alliance partner increased it focus on short-term goals they also tended to exert more overt forms of influence over the alliance's decision making and resource allocation processes.

- Strategic Fit – As rivalry between partners increased their long-term focus decreased. As the size of a firm became larger than its partnering firm, then the level of rivalry increased.

- Contribution – As contribution increased, then cooperation and flexibility and long term focus also increased. However, if contribution decreased, then the degree of rivalry increased, flexibility between the partners decreased and there was a greater short-term focus and concentration on private benefits.

    - Common Benefits – If a partner increased its long-term focus and flexibility then the other partner firm reciprocated and both partners focus on common benefits increased.

    - Private Benefits – If one alliance partner reported that it benefited (appropriated value) from an alliance then the other partner had also reported that it had gained private benefits (appropriated value) from the alliance.

In summary, the process structure of strategic alliances in this thesis have been conceptualised, as dialectical systems comprised of a mix of contradictory forces of firm-characteristics – embeddedness, cooperation and long-term orientation – and market-characteristics – flexibility, competition and short-term orientation. This study's findings support the theory that alliance stability is determined by balancing multiple conflicting forces of firms and markets. The convergence or divergence of these tensions has the effect of destabilizing an alliance relationship. Alliance tensions are embedded in the interplay of alliance condition and the risks associated with planning horizons, goal alignment, structural and process adaptation. Alliances operate in a dynamic context, ensuring effective communication and coordination with the partners parenting firms will ensure that the collaborative venture can adjust and respond rapidly to any changing needs. Alliance managers must provide partners with estimates of performance however simple accounting data is not normally appropriate (see also Gulati, Khanna & Nohria, 1994).

Close attention should be paid to the behavioural tensions (equity and working relationship) since they determine the survival of joint ventures. These findings are consistent with findings by Büchel and Thuy (2001) that the effects of organizational-level tensions (variables) on strategic management behaviour, strategic intent and alliance conditions/fit, are greater than those of the environmental level tensions (variables). An individual partner's strategic intent guides alliance goal setting and long and short term strategies in pursuit of common and individual benefits (rents). It is argued here that goal alignment and the value created that will shape the alliance conditions. The degree of fit achieved determines alliance contribution (Bercovitz, Jap & Nickerson, 2006). Partners to an alliance have a propensity to act out of self interest (see also Sharma, 1998). Where partners are satisfied with the value contributed by the venture to their own firm it can be argued that internal alliance tensions' are in equilibrium.

The 'Value Creation Processes in Alliances: Common and Private Benefits' framework illustrates how significant imbalance between common and private benefits can result in alliance dissolution (organizational integration or segregation), and provides insights into the process through which balance may be restored, or deteriorate further (Das and Teng 1999). Gulati, Khanna, Nohria suggests "how the partners in an alliance view their joint venture can have much to do with its success or failure; (1994: 61). Alliance relationships that appear to be stable on the other hand can also be "the most vulnerable to decline and destruction (Anderson & Jap, 2005).

The formation of strategic alliances and strategic blocks reflect the intent to match or exceed the capabilities of other firms or networks (Garcia – Pont, 2006). The presence and the density of alliances potentially can influences industry dynamics and can impact an industry profitability and evolution.

Structural decisions impact most aspects of an alliance including control mechanisms (Das & Teng, 1996) and are among the most important decisions alliance partners make (Killing, 1998; Teece, 1992). An alliance governance system includes risk assessment in terms of allocating resources particularly in the context of investing in alliance specific assets. These decisions may induce or generate sub systemic dialectic tensions which ultimately may reconstitute the alliance partners' relationships with each other and other stakeholders.

6.5 Directions for Future Research

Theoretical and empirical contributions to the study of alliance evolution are limited (Das and Kumar 2008). This research responds to this call and aims to make a major theoretical and empirical contribution to the study of alliance governance and evolution. The main contribution of my research is to extend current theory by examining converging and diverging forces/tensions and their impact on alliance value creation through a dynamic model based in organisational learning and strategy theory. Specifically, the research aims to examine in what ways and under what circumstances does each tension individually or collectively translate into collaborative effectiveness, or alliance performance.

The governance process of alliance resources, in the context of the value creation process and perceived risk, is a key strategic element that influences internal tensions and alliance evolution. The alliance process model is useful as it provides a theoretical base that links internal strategic tensions to the evolution of alliances. The primary implication of the framework for future research is that alliance governance can not be studied without considering the origins and dynamics between internal alliance tensions and individual partner's strategic intent, risk profile and satisfaction with the value created by the alliance to their firm. Value appropriated by a partner from an alliance is contextualised in this research as the impact the alliance has on the performance of the firm or the parenting firm.

Limiting the qualitative research to seven in depth cases served the research purpose because the complexities of the constructs. Since these process elements are not accessible though traditional quantitative methods (Doz 1996; Arino and de la Torre 1998), a longitudinal case studies approach was followed to monitor the interactions between the partners. However the design simultaneously constrained the testing of the findings. It would have been useful to have data from a larger sample of firms within these industries. Future studies that would include larger data sets would provide the opportunity to explore and test the model at different points in the supply chain.

The research identified the origin of internal alliance tensions as the product of the variance between partner's strategic intent for alliance conditions (perceived normative collaborative conditions), actual alliance conditions and perceived risk. Future research needs to empirically examine the degree to which the individual tensions are determinants of alliance performance and the interrelationships of the tensions identified in the origin of tension framework As business models become more global it will be important to extend this research to cross cultural settings in order to examine differences in cultural influences on the origin and dynamics of internal alliance tensions.

6.6 Implications for Practice

If any alliance has any chance of long-term success certain key ingredients must be present and managed effectively. These include strategic symmetry, symbioses, homology, entropy and commitment. It is for that reason that effective collaboration requires a shift in management thinking and is difficult to achieve. Difficulties include conflict in balancing individual partners and the alliances interests; possible creation of future competitors; skill depreciation; increased costs; the difficulty in assigning costs; lengthy purchasing decisions; problems with motivating staff and potential consumer dissatisfaction. The resultant organizational tensions and conflicts are both embedded and emergent at the alliance and at the individual firm level.

There has been a great deal of research attention on designing and developing mechanisms to improve alliance performance and success (e.g. Das, 2005, Das & Teng, 2000b). Most recommendations, however, offer oversimplified solutions which deserve to be treated with a deal of scepticism (Das & Teng 2003a), others suggest structural and motivational solutions to achieve alliance stability (Zeng & Chen 2003). Das (2005) argues that as well intentioned as these recommendations may be, at their foundation lies the fear of being exploited by one's partner. This dissertation research finding challenges these assumptions.

No doubt conflict is inevitable in business (Das & Kumar 2008) and alliances can be viewed as a system of multiple interconnected tensions (Das &Teng, 2000b) the motivation to choose an alliance strategy is to leverage greater value from the relationship than the value a firm alone can achieve. In the majority of dyadic alliance relationships studied in this research, alliance partners adopted a balanced perspective to creating common value. Internal (inter partner) alliance tensions did not preclude value creation. The managerial challenge was to govern these tensions through an adaptable governance structure with formal and informal elements.

Collaboration and competition are intrinsic to strategic alliances. One of the key challenges that confront senior managers responsible for the governance of strategic alliances stem from how to share the benefits between the collaborating partners and or managing the conflicting priorities of their parent companies. This study contributes to an understanding of the origins of strategic tensions and the processes of how to govern internal tensions by directing resources that can improve a firm's chances for a profitable alliance relationship and achieving high performance. Despite the abundance of advice regarding the need for commitment, trust, legal contracts and appropriate alliance processes, partners to an alliance have a propensity to act out of self interest (see also Sharma, 1998).

Private benefits are more easily derived than are common benefits in a dyad alliance relationship. The economic factors of coordination cost and appropriation costs together with strategic and behavioral patterns, which are partner specific, are key determinants that influence the ability of an alliance to generate common benefits (see also Goerzen, 2007).

Factors influencing value creation process include availability of resources; differential bargaining power; type of alliance; alliance goals; stage of industry life cycle, and changing market conditions. Alliance outcomes can be linked to imbalances in dialectical forces. Imbalances are accelerated where the degree of dominance between alliance partners is most marked. A partner may seek to influence their dominance in an alliance in either and or both covert and overt forms within the inter-organisational construct to achieve desired outcomes. Dominant members of the alliance have the opportunity to use the dimensions of influence to achieve desired outcomes to greatest effect within the alliance framework.

Alliance members will tend to use different dimensions of influence according to the degree of stability within the alliance. Where there is a relatively high degree of tension equilibrium within the dialectic framework the influence over perception, covert will predominate. As the risk of achieving desired outcomes (private and or common benefits) are perceived to increase the 2nd dimension of influence is exercised (influence over decision process inclusion) and is most commonly used, particularly by the dominant member of the alliance. Alternatively if the equilibrium in the alliance moves toward market or hierarchy the most overt dimension of influence, the 3rd Stage (influence over decision outcome) is used. In this case the alliance may be approaching dissolution and the dominant member is maximizing outcomes in its favour. A strategic alliance is located somewhere between a market and hierarchy as an organizational form. Arguably, it is only viable when neither market nor hierarchy structures predominate. When market and hierarchy forces are in equilibrium, and cost/benefit trade-offs are equal, one can propose that alliances will be more stable and effective.

Designing a system for the governance of internal tensions needs to take into account the sources of the tensions, including partners' strategic intent, anticipated value appropriation goals, partners' risk profile and the complexity of resource contributions. This dissertation proposes a typology that recognises the sources of internal tensions. The typology is based on two dimensions, namely, normative ideal forms of collaboration and perceived risk. Tensions are most severe when private benefits (the opportunity for a firm to apply knowledge acquired in the course of the alliance to operations and business opportunities outside the scope of the alliance) exceed common benefits. Thus the ratio of private to common benefits is a factor that determines the stability of a strategic alliance venture (Khanna, Gulati and Nohria, 1998). These competitive tensions lead firms to deviate from what alliance theory may describe as optimal behaviour patterns. Assessing the source and evaluating dynamics of internal alliance tensions may provide insights into ways to strengthen alliance value creation processes. Achieving strategic fit amongst alliance partners is fundamentally important to competitive advantage and to the sustainability of that advantage.

Close attention should be paid to the behavioral tensions (equity and working relationship) since they determine the survival of joint ventures. These findings are consistent with findings by Büchel and Thuy (2001) that the effects of organizational-level tensions (variables) on strategic management behaviour, strategic intent and alliance conditions/fit, are greater than those of the environmental level tensions (variables).

I hope that the typology of internal strategic tensions presented in this thesis will enhance both the alliance tension research interests and the further development of effective guidelines for management practice. The management of strategic tensions has a new sense of urgency particularly with the growth in international strategic alliances that brings together firms from different cultural environments. I hope that the typology of internal strategic tensions presented in this thesis will enhance both the alliance tension research interests and the further development of effective guidelines for management practice.

6.7 Conclusions

Strategic alliances can be seen as systems in which the value created is determined by the balance of multiple internal tensions. A focus on "alliance tensions" enables one to develop propositions about these conflicting forces and their implications for value creation and alliance evolution. The framework suggests that significant imbalance will result in alliance dissolution (organizational integration or segregation), and provides insights into the process through which balance may be restored, or deteriorate further.

The objective in a strategic alliance is usually to maintain the collaborative relationship within the original rules of engagement, and prevent unplanned alliance dissolution (Das and Teng 1999). Factors influencing internal tensions and alliance stability include availability of resources; differential bargaining power; type of alliance; alliance goals; stage of industry life cycle, and changing market conditions. To maintain the collaborative relationship, alliance partners should balance these dialectical forces.

This research lays the foundation for an ongoing program of research into the dynamics between the governance of internal alliance tensions and individual partner satisfaction with the value created by the alliance to their firm. The research provides a different perspective on how the value creation and value appropriation processes may influence the dynamics of internal tensions and alliance performance. This perspective opens up new avenues of scholarly inquiry into the effect of internal tensions on alliance value creation and evolution, but also offers guidance to alliance managers responsible for the governance of alliance ventures.

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