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STRATEGIC ALLIANCES IN GLOBAL MARKETS

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INTRODUCTION

In the last two decades, strategic alliances became important sources of growth and competitive advantage thanks to several benefits that they provide such as accessing new and critical resources and capabilities, improving competitive position, effective and rapid entering in new the markets (Kogut, 1991; Ahuja, 2000, Kale & Singh, 2009). Strategic alliance has been seen as a response to market globalization and increasing uncertainty and complexity of the economic environment. Peter Drucker (1996) states that changes in corporate culture and in the way of doing business, accelerate growth of relationships based not on the ownership, but on partnership.

Firms need to find innovative answers for adapting their activities to the economic environment changes, where time and dynamic market-space are now considered as critical competitive factors (Brondoni 2005). Globalization has deeply changes the role of strategic alliances; it has led collaborative network logic between global firms. Global markets, characterized by hyper-competition, lead firms to adopt a “Market Driven Management” philosophy with a strong market orientation and a vision of competition based on collaborative network (Brondoni, 2010). In global markets, the fall of many borders, the intangible elements that outweigh the tangible one and the time that becomes a competitive factor, it develops a new system of relationships; in fact competition is now between alliance networks and no anymore between individual firms (Brondoni, 2010). Collaboration between firms is realized by the creation of specific information channels and flows inside the network (Brondoni, 2010). No firms can compete in the marketplace, as in the past, only with own its resources, knowledge and skills; global economy requires structured, widespread and highly interconnected organizations called network. These complex structures favor the management skills and relationships with co-makers and external partners (Brondoni, 2008).

Indeed, in situations of highly-intensive competition, the setting up of lines of cooperation represents typical strategic behavior by firms with a long-term view and global market vision. Traditional strategies, focused on merger and acquisition for implementing growth and diversification, have been place by variety forms of partnership (Bleeke & Ernst 1995). Global strategic alliances allow firms expand into global markets more easily, leveraging their core competencies and, moreover, acquiring from their partners knowledge about the local markets (Hitt et al., 2005).

The dissemination of corporate activities over different places and dynamic and competitive environment have made progressively more difficult for a single firm to hold and exploit all relevant resources to compete in the marketplace. As a result, many firms have undertaken plans to extend their activities on worldwide landscape, and mega-organizations such as global networks are created (Brondoni, 2008).

Strategic alliances are a way to operate together, towards a common goal without becoming a unified legal entity; in fact contrary to integrative agreements such merger & acquisition, firms through strategic alliance preserve their corporate identity after the formation.

In *the first chapter* of my research I highlight the main purpose of strategic alliances that is to combine the strengths of two or more firms for achieving mutual goals (Bleeke & Ernst, 1995). The term “*Strategic alliance*” refers to agreements characterized by commitment of two or more firms in order to achieve common goals and entail pool of resources and activities (Teece, 1992). Strategic alliances are cooperative strategies in which firms can combine their resource to create competitive advantage (Ireland et al; 2003). Cooperation between firms is considered as an important source of resource and learning (Kale et al., 2002). Only few firms have all the resources need to compete effectively in the current complex economic environment, so they seek to fill this gap through strategic alliances formation. Then, in this chapter I also highlight the “*alliances’ paradox nature*” represented by the fact that despite their strategic importance they still present a very low success rate (Killing, 1983; Lorange & Ross 1992; Bleeke & Ernst 1993; Parkhe, 1994; Faulkner, 1995). Although the growth rate has increased at 25% globally, in the recent years, strategic alliances tend to exhibit a high failure rates (Kale & Singh, 2001). An extensive review of the literature reveals that between 30%- 70% of alliances fail (Das & Teng, 1997; Parkhe, 1998; Kale & Singh, 2001); this high failure rate highlights firms’ difficulties in meeting alliance goals or in reaching strategic benefits that the alliance aims to provide. A large number of strategic alliances represent a failure, a destruction of value for firm engaged in them (Kale, Dyer, & Sing, 2002). So although in global markets, the number of strategic alliances continues to grow, they still have a very low success rate. This represents a paradox for firms (Kale, Dyer, & Sing, 2002). It seems that firms encounter some managing problems of their strategic alliances and in ensuring

sufficient success from them (Bleeke & Ernst, 1995). The high failure rate highlights the difficulties of attaining successful alliances and the fact that not all firms have the ability and the experience to maximize the potential value creation from their strategic alliance (Das & Teng, 2001). The main purpose of my research is identifying the way through which firms can address this paradox, investigating the main factors that lead strategic alliances toward success.

In *second chapter*, in order to show alliances' benefits and potential causes of failure, I provide three examples of global alliances. The first one, useful to explain the concept of alliance success and to show potential alliances' benefits, is represented by the alliance between "Toyota and PSA" (TPCA is considered a "global successful strategic alliance" because has been able to achieve mutual benefits for both firms involved, offering them new opportunities and creating new value together); the others two examples are represented by the alliances between "*Renault and Volvo*" and "*Daimler Benz and Chrysler*", both of them are useful to identify the potential causes of failure in order to understand the low success rate identifying key factors and showing how they have to be managed better for alliance success. The high rate of alliance failure evidences a gap between alliance formation and alliance management practices.

In *the third chapter*, in order to identify the key factors that influence formation and success of a strategic alliance, I choose the essential arguments of *-Transaction cost theory – Knowledge based view- Social exchange theory - Resource based view- Dynamic capability view and Alliance management capabilities*. Each theoretical perspective is useful to clarify why global firms decide to enter or form a strategic alliance and which are factors that lead to success.

In *the fourth chapter*, I show the importance of the success factors, identified in the previous chapter, in each phase of alliance lifecycle; in fact each one has its particular relevance in a specific phase of the alliance lifecycle. I start this chapter, providing an overview of alliance lifecycle's concept and a description of each phase; then I apply alliance success factors to the specific phase of alliance lifecycle, in which they have their specific relevance. In this chapter, I also provide an example of successful strategic alliance, the agreement between "*Ford and Mazda*" that is considered a case

of historic successful strategic alliance, able to achieve its success and to show an how firms have to manage cross-culturally alliance in global markets.

In the fifth chapter, I highlight the question concerning the heterogeneous alliance performance between global firms; some firms obtain success from their partnerships and others fail. It seems, in fact that while most firms have realized the importance of strategic alliances, only few of them have developed the skills to manage them well and lead them to success (Duysters & De Man, 2007). Previous studies on the subject, found that firms with greater alliance performances, are those firms with superior capabilities termed in literature as “*alliance management capabilities*” (Kale, Singh & Dyer, 2000; Anand & Khanna 2000) that will be the subject of the chapter, in which it will be clarified what they mean, identified their organizational characteristics, how firms develop these management skills and how they contribute to strategic alliance success. The issues of alliance success factors and alliance management capabilities will be analyze at the level of a single alliance between two or more firms and from a theoretical point of view, through the analysis of the existing literature on strategic alliance.

Chapter 1: Strategic alliances in global markets

1.1. Overview of strategic alliances in global markets

Over the past decades we witnessed the widespread phenomenon of strategic alliances, such as business practices to strengthen competitive position in global markets and to achieve new sources of competitive advantage. Strategic alliances help firms to enhance market power, enter new markets and access new critical resources (Kogut 1991; Ahuja 2000). Strategic alliance has been seen as a response to market globalization and increasing uncertainty and complexity in the economic environment. In global and over-supplied markets, competitive relationships increasingly tend to interweave with specific collaborative relations (Brondoni, 2003). Indeed, in situations of highly-intensive competition, the setting up of lines of cooperation represents typical strategic behavior by firms with a long-term view and global market vision. Traditional strategies, focused on merger and acquisition for implementing growth and diversification, have been place by variety forms of partnership (Bleeke & Ernst 1995). Strategic alliances are a way to operate together, towards a common goal without becoming a unified legal entity.

Firms can set competitive strategic alliances with a wide range of solutions of equity and non-equity alliances (Brondoni, 2003).

Peter Drucker (1996) states that changes in corporate culture and in the way of doing business, accelerate growth of relationships based not on the ownership, but on partnership.

Firms need to find innovative answers for adapting their activities to the economic environment changes, where time and dynamic market-space are now considered as critical competitive factors (Brondoni, 2005).

All these changes in competitive conditions, led a rapid development of strategic alliance phenomenon; in fact reasons behind strategic alliance formation have evolved quickly over the last few decades (Harbison & Pekar, 1998). In the 70's firms' focus was on the "*product performance*", so they created strategic alliances to acquire best raw materials at the lowest costs and with most recent technology. In the 80's the most important factor for firms becomes "*consolidation of competitive position*", so they used strategic alliance mainly to achieve economies of scale and scope. Instead in the

90's, collapsing barriers between many geographical markets and the blurring of borders between sector, brought "*competencies and capabilities*" in the center of firms' attention (Pellicelli, 2003). Firms focus their attention on learning objectives and capabilities development for improving innovation. The need to pursue multiple sources of competitive advantages, leads firms to the need of building collaborative relationships with governments, competitors, customers, suppliers etc. In the 1990's , there is a fast- growing and widespread perception that global competitive competition will be between teams of players aligned in strategic partnership (Bartlett & Ghoshal, 1999). In order to strength their own position, firms have to create and deploy intangible resources and combine them with the assets of the others firms. Strategic alliances are cooperative arrangements between firms, which allow them to improve their own competitive position and performance by sharing resources (Hitt, 2000). Due to competitive and uncertain business world, a lot of firms form alliances to survive. Alliances continue to grow in popularity in global markets (Gulati, 1998); they represent a cornerstones for firms in global markets, because allow them to realize strategic objectives otherwise difficult to achieve such as enhancing market power, accessing critical and needed resources and entering new markets (Kogut, 1991; Ahuja, 2000).

1.2. Strategic Alliances vs. M&A

Global firms, in order to expand their operations or develop new capabilities, could choose between alternative strategies such as strategic alliances or merger & acquisition (Yin & Shanley, 2008). During the 1990s these strategies represent organizational tools through which global firms could enter into new markets, enhance their capabilities or strengthen their market power (Hagedoorn & Duysters, 2002).

Firms by themselves have not all the resources and knowledge needed for competing in global markets; therefore they use strategies that allow them to cope with foreign competition, face global challenges and recognize and exploit new opportunities (Lin, Wang & Chen, 2009). Both M&A and Strategic alliance are important growth strategies which allow firms to achieve strategic benefits in global markets; often they are used as equivalent terms but they are different organizational forms that allow

firms to achieve differently their strategic goals such as expansion, growth, access critical and needed resources, and strengthen their own competitive position in global markets. It appears necessary to clarify the conceptualizations of these terminologies. Strategic alliances refer to several forms of inter-firms linkages ranging from joint venture to a variety of contractual agreements; they have to be distinguished from M&A, which involve the combination of all the assets of firms under common ownership (Hagedoorn & Duysters, 2002). In fact M&A can be defined as the combination of two or more firms into one new company (Roberts, 2012); this combination comprises both the merging of two more or less equal firms, as well as to acquisitions where a firm obtains majority ownership over another firm (Hagedoorn & Duysters, 2002). Particularly, *merger* is when two firms integrate their businesses to become one large unified entity (Napolitano, 2003); they generally operate with a new merged entity and brand. Therefore merger is the legal activity in which two or more firms combine and only one survive as a legal entity (Horne and John 2004); in such a case, no one firm rules over the other but usually both shares the control of the resultant firm. The outcome of merger's process is the creation of a new firm out of two or more firms of more or less equal stature, pooling all resources. On the other hand, acquisition is when one firm, generally the larger one, buys another firm that is the smaller one (Georgios, 2011). Acquisition is defined as a process in which one firm buys another firm; in many case the buying firm absorbs the bought one into the existing firm. Acquisitions can be carried out either to eliminate competition by absorbing the competing firms or to expand the corporate portfolio by retaining the acquired firm as an independent entity under the overall corporate management. This latter case is at the heart of many conglomerates. Therefore the strategies of M&A strategies act as market entry strategy, corporate portfolio expansion tool and a competitive defense mechanism.

Instead strategic alliance is the choice when firms decide to work together on a specific joint project for a defined period of time in order to achieve mutually beneficial goals (Mockler, 1998). Through strategic alliances, two or more firms pool together their resource, knowledge and capabilities in order to achieve common goals, which are difficult to obtain individually. Unlike merger strategy, strategic alliances do not imply the emergence of a new combined entity; in fact each partner, involved in the alliance,

preserve their individual identity but decide to ally and compete against competitors as a unified business force. Strategic alliance represents a way to operate together, towards a common goals, without becoming an unified legal entity; contrary to M&A, strategic alliances, after their formation, allow firms to preserve their own corporate identity. Alliances are less risky than a project of acquisition because they are flexible, co-operative and easier to walk away from. Differences between strategic alliances and M&A are in the levels of control, feasibility and risk. Level of control regards the extent by which one partner is influenced by the other; in fact M&A unlike alliances imply a controlling ownership interest whereas alliances do not (Yin & Shanley, 2008). Unlike to M&A, which encompasses many or almost all areas of business and for an unlimited period of time, strategic alliances include one or several joint activities and for a limited period of time (Iřoraitė, 2009); if firms realize synergic actions only in one business area, they choose to implement a strategic alliance, otherwise they consider the implementation of M&A strategies (Yin & Shanley, 2008). M&A are much riskier, more difficult and expensive to run. Alliances, unlikely M&A, have greater flexibility but they provide less control on joint resources; alliances are preferred in industry where large investments aren't needed or that undergo unpredictable periods of changes that make large investments too risky (Yin & Shanley, 2008). Firms in the choice of M&A vs strategic alliances consider three main aspects such as *level of market competition* (global firms engage themselves in M&A and strategic alliance for facing the competition; they believe that the consolidation with a market would allow them market presence and power to claim the leadership position. M&A offer a channel to increase scale and leverage the sheer size of the resulting organization in order to cope the strong pressure to cut costs. Therefore M&A are useful for increasing scale and reducing costs), *barriers to entry* (when firms decide to enter in a new market, they have to consider the level of entry barriers such as regulatory constraints, established competitors, highly volatile markets that does not justify initial entry investments; if they are very high firms decide to choose strategic alliances because allow them to leverage knowledge and resources through collaboration. On the other hand, if entry barriers are low firms choose to implement M&A, through which they can gain a very strong position in the market) and *synergies and resources* (are equal important for both choice because mergers and alliances work

efficiently if there is a high level of synergy between firms. Yin & Shanley (2008) argue that synergies could be in corporate culture, product portfolio, strategic goals, and supply chain or logistic systems; they allow firms to implement successful the purpose of a merger or an alliance. Similarly also for an acquisition an important factor is represented by the availability of financial resources). Fundamentally strategic alliance differ from M&A for the degree of ownership that M&A lead a majority or control interest whereas an alliance does not (Yin & Shanley, 2008); it means that global firms prefer centralized control of M&A to the flexibility and decentralized control of strategic alliance when unified ownership and control rights allows them the full exploitation of combined resources. M&A imply great investments (such as intangible, physical and human resources) and high governance costs. On the other hand, global firms choose strategic alliance when cooperation between partners is beneficial for both and when a centralized control will impact negatively cooperation; unlike M&A, they do not lead a full exploitation of joint resources but are easier in the case of exit. Another factor, through which firms choose between M&A or strategic alliance, is represented by the size of the assets needed by each part; in fact when the assets involved are substantial part of those held by each partner, for firms is riskier collaborating and so they choose M&A(Yin & Shanley, 2008).

Global firms, in choosing between M&A and strategic alliances, take account of two important factors such as environmental and firm-specific conditions (Hagedoorn & Duysters, 2002). Related to the environmental conditions, environments that require a great degree of learning and flexibility like high-tech industries, firms prefer strategic alliances (Hagedoorn & Duysters, 2002). According to Eisenhardt & Schoonhoven (1996) firms choose these flexible forms of organizational because in these industries new knowledge expires quickly and timely learning from partners are more appropriate than control through formal and hierarchical organization such as M&A. Differently in low- tech industries, which are characterized by little technological changes, firms choose M&A; they prefer formal and well institutionalized mode of organization and control because are considered the most appropriate for the external appropriation of innovative capabilities (Hagedoorn & Duysters, 2002). Therefore, alliances are preferred in high-tech industries because provide firms the required

flexibility and learning for acquiring innovative capabilities; instead in low-tech industries, characterized by less technological changes, firm preferred M&A.

Related to the firm- specific conditions in choosing between alliances and M&A, according to Hagedoorn & Duysters (2002) firms have to considered if the needed external source of innovative capabilities are related to their core business; in this case firms preferred M&A because they are able to generate, by definition, the needed level of control. Differently if the needed innovative capabilities do not affect the core business firms choose strategic alliance. The aim of this section is to show differences between alternative choices of growth strategies (Strategic alliances vs M&A), but the subject of my research is represented by global strategic alliances.

1.3. Strategic alliances in Western vs. Eastern culture

Globalization has deeply changes the role of strategic alliances; it has led collaborative network logic between global firms. Global markets, characterized by hyper-competition, lead firms to adopt a Market Driven Management, a management philosophy with a strong market orientation and a vision of competition based on collaborative network (Brondoni, 2010). In global markets the fall of many borders, the intangible elements that outweigh the tangible ones, the time and space that becomes competitive factors, lead a new system of relationships; in fact competition is now between alliance networks¹ and no anymore between individual firms (Brondoni, 2010). Collaboration between firms is realized by the creation of specific information channels and flows inside the network (Brondoni, 2010). No firms can compete in the marketplace, as in the past, only with own its resources, knowledge and skills; global economy requires structured, widespread and highly interconnected organizations called global network. These complex structures favor the management skills and relationships with co-makers and external partners (Brondoni, 2008). Global strategic alliances allow firms to develop a collaborative network with the other firms from different industrial and cultural backgrounds. Global networks are characterized by highly diversified cooperation models between global and local firms, in a system

¹ An alliance network is defined as firm's direct alliances and its indirect relationships (Tjemkes et al.,2012). Gulati(1999) states that firm's strategic actions are influenced by the social contest in which is embedded, which in turn is represented by the relationships with network's partners.

of inter- firm relationships that are coordinated on a global basis (Luethje, 2011). Globalization has quickly fostered the emergence of the Japanese's firms system and the growth of countries, located in the Far East, especially as South-Korea (Brondoni & Corniani, 2014). South-Korea has pursued its own growth strategy, based on global exports, relying on chaebols, which is an economic model based on close ties between multinationals, government and local partners (Brondoni & Corniani, 2014).

Japanese firms' economy is characterized by a system of both formal and informal relationships that involved also institutions and social system. According to Fujimoto (1991) Japanese firms businesses entering into durable partnership and comakership agreements with their suppliers, thus achieving high results in the design and product development because suppliers, who own distinctive design capabilities, are key-partners. Japanese network firms achieve great outcomes in terms of productivity through the JIT (just in time), which is an efficient logistics and inventory management system that makes it possible to convey information to each node on the network, with the aim to meet rapidly and readily the qualitative and quantitative production needs (Brondoni & Corniani, 2014). In this way, Japanese networks are adept to get effective answers and quick to adapt to demand's changes and minimize inventory management inefficiencies (Corniani, 2005). Japanese global networks are characterized by: 1) *vertical integration based on Keiretsu* (firms systems linked by relationships of reciprocity and sharing of resources. Keiretsu allows Japanese firms the developing spinnerets with global economies of scale).

2) *Corporate growth not based on outside M&A*. Furlan (2002) argues that Japanese firms avoid resorting to mergers and acquisitions of firms with different cultures and values. Instead in Japan global strategic alliance becomes the key link between firms and their environment. At the same time South-Korea, basing on Japanese networks' success, does not resort to merger or acquisition of firms with different culture. Asian firms, in particularly Japanese firms, thanks to the above listened features have greater domestic experience in cooperation than Western firms (in particularly European and American firms). Hamel (1990) suggests that Japanese firms gain more value (in terms of knowledge) from a global strategic alliance than Western firms. Firms, which benefits most from collaboration are those that are aware that *learning from the partners is paramount*; according to Hamel, Doz & Prahalad (1989) the firms which

are more alliance oriented (like Japanese firms) are those consider the alliance as a window on their partner's capabilities. A successful firm in a strategic alliance uses the collaboration for building new capabilities (also outside the formal agreement) and to diffuse new knowledge throughout their organizations. In lots of alliance between Japanese firms and Western firms, the Japanese ones emerged stronger than the Western partners because they made greater efforts to learn. Western firms (in particularly American and European firms) differently to Japanese ones, too often are moved to enter in a strategic alliance by the aim to avoid investments; they are more oriented to reduce costs and risks of entering in new business or markets than in acquiring new capabilities (Hamel, Doz & Prahalad, 1989). On the other hand, Japanese firms are moved by different aim; they are oriented to learning new skills and capabilities, in order to diffuse them throughout their organizations. Essentially Western firms see strategic alliances as a mean that provide shortcuts for improving their production efficiency and quality control; they want to regain competitiveness quickly and with minimum effort (Hamel, Doz & Prahalad, 1989). Therefore, Japanese firms gain more from strategic alliance than Western firms because they are more focused on learning than their partners; this greater learning effort is favored by the high level of absorptive capacity, owned by Japanese firms (Cohen & Levinthal, 1990). The importance of developing learning from the alliance will be discussed in the course of my research and viewed as a factor that leads firms toward success. Prahalad & Hamel (1990) consider learning and knowledge creation as a Japanese core competence. Absorptive capacity is defined as organizational routines and process that enhance firm's ability to acquire and access to external knowledge and to disseminate it internally (Zahra & George, 2002); it is a base condition for knowledge creation and transfer. In fact according to Cohen & Levinthal (1990) absorptive capacity is the ability to recognize valuable knowledge and use it for commercial end. The high level of absorptive capacity, owned by Japanese firms are favored by the regular rotation of employees among the different functions that promotes the learning, large investment in training and mentorship, workforce commitment and organizational cultures based on teamwork and continuous improvement (Lincoln, 2009). Therefore Japanese firms are better able to assimilate and absorb knowledge than the Western ones. Therefore, the fundamentally differences between Asian (in particularly Japanese firms) and

Western firms is in the way of viewing the alliance that makes the Japanese firms more alliance oriented; in fact Hamel, Doz & Prahalad (1989) ,on this aspect, provide us an example and they state that in a technology sharing alliances between Western and Japanese firms the first one view the partnership as a way to acquire a new technology differently the Japanese look at the alliance as a mean through which access the entire range of their partner's competencies in marketing and finance. The technology that Western firms gain from the alliance will be useful for three or five years, instead the learning developed by Japanese firms will endure longer. For Asian firms learning is the top; it doesn't mean that they don't aim to avoid financial risk (such as Western firms) but they considered the learning as the main driver of a strategic alliance. Another aspect, regarding the alliance between Western and Japanese firms is that the Asian firms learn more because ,within a strategic alliance, they contribute with difficult or unravel strength (such as their manufacturing excellence that is less transferable than most because is entwined in the firm's social fabric), instead too often Western firms contribute to the alliance with an easy to imitate technology; therefore Western firms' skills and capabilities are more vulnerable to transfer (Hamel, Doz & Prahalad, 1989).

1.4. Alliance paradox

The greatest change in corporate culture and in the way of doing business leads an accelerating growth of relationships, based not on ownership, but on partnership (Drucker, 1996). In the last two decades, strategic alliance became an important source of growth and competitive advantage thanks to its several benefits such as accessing new and critical resources and capabilities, improving competitive position, effective and rapid entering in new the markets (Kogut, 1991; Ahuja, 2000, Kale & Singh, 2009). Despite their strategic importance, alliances still present a very low success rate (Killing, 1983; Lorange & Ross 1992; Bleeke & Ernst 1993; Parkhe, 1994; Faulkner, 1995). Although the growth rate has increased at 25% globally, in the recent years, strategic alliances tend to exhibit a high failure rates (Kale & Singh, 2001). An extensive review of the literature reveals that between 30%- 70% of alliances fail (Das & Teng, 1997; Parkhe, 1998; Kale & Singh, 2001); this high failure rate highlights firms' difficulties in meeting alliance goals or in reaching strategic alliance benefits.

A large number of strategic alliances represent a failure, a destruction of value for firm engaged in them (Kale, Dyer, & Sing, 2002). So although in global markets, the number of strategic alliances continues to grow, they still have a very low success rate. This represents *a paradox* for firms (Kale, Dyer, & Sing, 2002); the nature of alliance paradox is expressed by the fact that on one hand, an increasing number of firms engage in strategic alliances for improving their competitive position and to the other hand alliances exhibit still a very low success rate. Firms need to enter in strategic alliances for several benefits that underline, but at the same time they face a lot of difficulties and problems to obtain success from them.

It seems that firms encounter some managing problems of their strategic alliances and in ensuring sufficient success from them (Bleeke & Ernst, 1995). The high failure rate highlights difficulties of attaining successful alliances and the fact that not all firms have the ability and the experience to maximize the potential value creation of their strategic alliance (Das & Teng, 2001).

The main purpose of my research is identifying the way through which firms can address this paradox, identifying the main drivers that lead strategic alliance toward success. The nature of strategic alliances, characterized by the presence of both competition that cooperation, exposes the partners to the vulnerability of many barriers both relational and structural that impact the success of the alliance. The mutual interdependence and the coexistence of cooperation and competition could be represented a source of conflict or a loss of information or technology, owned by the parties. My study aims to identify strategic intents behind alliance formation, key factors and activities in each phase of alliance lifecycle² and understand how they have to be managed better for alliance success. The high rate of alliance failure evidences a gap between alliance formation and alliance management practices.

² Strategic alliance development process can be explained through the concept of “lifecycle”, because alliances are composed by steps, through which alliance relationship emerges, grows and dissolve. Strategic alliance is similar to an entity that grows and develops in nature. Numerous studies in the literature (Lorange & Ross, 1993; Murray & Mahon, 1993; Ring & Van de Ven, 1994; Dussage & Garrette, 1998; Spekamn et. al., 1998) agree on the presence of some fundamental alliance life stages (Formation, Operation and Evaluation Phases), each one characterized by key factors and activities.

Furthermore in global markets, firms present a heterogeneous alliance performance; some firms obtain success from their partnerships and others fail. It seems, in fact that while most firms have realized the importance of strategic alliances, only few of them have developed the skills to manage them well and lead them to success (Duysters & De Man, 2007).

1.5. Research purposes

Over the past decades we witnessed the widespread phenomenon of strategic alliances in every type of industry; they allow firm to strengthen their competitive positions, to enhance efficiency, to acquire new and critical resources or competences and to enter quickly in new market (Kogut, 1991; Ahuja, 2000; Kale & Singh, 2001). Despite the strategic importance of alliances, the literary landscape is littered with failures (Harrigan, 1988; Lorange & Ross, 1992; Bleeke & Ernst, 1993; Faulkner, 1995). The reason, behind the high failure rate, is very often linked to the lack of familiarity that firms have with the dynamic nature of the collaborative relationships. Previous empirical studies, on the issue of alliances, revealed a failure rate of 50% (Kale, Dyer, Singh, 2002). Other studies have found that only 40% of alliances survive for about four years and only 15% for 10 years (Harrigan, 1988). As stated previously, alliances represent a paradox for firms (Kale & Singh, 2000), because on one hand firms encounter a lot of problems in managing their alliance but on the other hand they engage themselves in a growing number of alliances in order to enhance and strengthen its competitive position. My research aims to understand why, faced with such a high failure rate, more and more firms decide to enter or form strategic alliances. It appears necessary to identify what really underlies alliance success, success factors at each phase of alliance lifecycle, and how firms can manage them better; in fact alliance success depends on the presence of success factors, which are crucial in the alliance relationship evolution. I decide to use several economic prospects such as *Transaction cost theory*, *Knowledge based view*, *Social exchange theory*, *Resource based view*, *Dynamic capabilities view* and *Alliance management capabilities view*, to identify the reasons that lead firms to choose collaborative strategies, to describe different phases

of alliance lifecycle and identify which are critical factors that make the choice to ally a winning choice.

Furthermore, my research aims to highlight the issue related to the heterogeneous alliance success rate among firms and understand why some alliances achieved success and many others fail. Previous studies on the subject, found that firms with greater alliance performances, are those firms with superior alliances management capabilities (Kale, Singh & Dyer, 2000; Anand & Khanna 2000). According this point of view, having superior capabilities to manage alliances is a source of competitive advantage (Ireland et al., 2002) and so the source of alliance success, lies no longer in the relationship between the partners but in the alliance relationship management capabilities (Draulans et al., 2003) that have been termed in the literature as “alliance management capabilities”. Differences in alliance performance, among firms, are due to different level of alliance management capabilities. Therefore, in order to understand the heterogeneous alliance success rate among firms, it is necessary to clarify the meaning of the concept of alliance management capabilities, identify their organizational characteristics and understand how they contribute to the alliance success. Analyzing the existing literature on this issue, we find many definitions often conflicting; I will provide a clear and complete definition that integrates several points of view, existing at the time, on the concept of alliance management capability and show how firms develop these capabilities, considered superior compared to its competitors. The issues of alliance success factors and alliance management capabilities will be analyze at the level of a single alliance between two or more firms and from a theoretical point of view through the analysis of the existing literature on strategic alliance.

Chapter 2: Global Strategic Alliances: Benefits and Failure

2.1. Global Strategic Alliances

Strategic alliances are considered as important means to support business growth in global markets (Brondoni 2003).

Strategic alliances have been seen as response to the market globalization and to the increasing economic environment's uncertainty and complexity; in fact they are able to provide firms the possibility to bridge internal weaknesses (sharing costs, resources, knowledge and competences) and to cope the complexity of business environment (creating alliance with the actors of the environment as customers, competitors, suppliers etc.). In global markets several elements such as the fall of many borders, the intangible elements that outweigh the tangible ones, time and space that become competitive factors, lead a new system of relationships; in fact competition is now between alliance networks and no anymore between individual firms (Brondoni, 2010). Collaboration between firms is realized by the creation of specific information channels and flows inside the network (Brondoni, 2010). No firms can compete in the marketplace, as in the past, only with own its resources, knowledge and skills; global economy requires structured, widespread and highly interconnected organizations called global networks. These complex structures favor the management skills and relationships with co-makers and external partners (Brondoni, 2008).

Because of the reduction of products lifecycle, the need of new skills and resource and the markets globalization, firms increasingly depend on external partners, in order to strengthen its resource endowment, manage environmental uncertainty, access to foreign markets and enhance its competitiveness (Hoffmann 2007).

In Global markets interdependence and hyper-competition lead global firms to develop a management philosophy market oriented (market-driven management) in which "competitive customer value management" prevails, in a direct and continuous confrontation with competitors (Brondoni, 2010). A market-driven orientation therefore pushes firms to change market structure or players' behavior so as to improve their competitiveness, looking for new sources of value for customers or growth opportunities (Arrigo, 2012). Global markets create new frontiers for competition and radically change temporal and spatial competitive relationships; specifically those

linked, on the one hand, to time-based competition and, on the other, to the abandonment of closed domains deriving from particular physical or administrative spaces (a country, region, geographical area, etc.) (Lambin, 2000). In global markets firms adopt “*outside-in management*”, which allows them to tie with the external environment so that it can be anticipatory and responsive in satisfying customers better and first than competitors (Arrigo, 2012). Global strategic alliances allow firms expand into global markets more easily, leveraging their core competencies and, moreover, acquiring from their partners knowledge about the local markets (Hitt et al., 2005). The dissemination of corporate activities over different places of the competitive environment have made progressively more difficult for a single firm to hold and exploit all relevant resources to compete in the marketplace. As a result, many firms have undertaken plans to extend their activities on worldwide landscape, and mega-organizations with global networks are created (Brondoni, 2008)

Through global strategic alliances, firms are able to strengthen their own competitive position not only in the primary markets or in the current business, but also in new market and sectors, exploiting new forms of competitive advantage. Thus global firms are involved in a network of cooperative relationships with actors from a variety of industrial and cultural backgrounds. The purpose of strategic alliances is to combine the strengths of two or more firms for achieving mutual goals (Bleeke & Ernst, 1995). It is important to be aware of what really is a strategic alliance and so now we are going to present several alliance definitions from the previous literature on the theme. Strategic alliances are commonly defined as agreements between firms for reaching objectives of common interest (Mockler, 1998). Gulati (1998) argues that strategic alliances are voluntary arrangements between firms involving exchange, sharing or co-development of products or service.

In simple word, Das & Teng (1997) deal about alliances as inter-firm cooperative arrangements, aimed to achieve mutual strategic goals. Strategic alliances are cooperative strategies in which firms can combine their resource to create competitive advantage (Ireland et al; 2003). Cooperation between firms is considered as an important source of resource and learning (Kale et al., 2002). Only few firms have all the resources need to compete effectively in the current complex economic environment, so they seek to fill this gap through strategic alliances formation.

Creating a strategic alliance means that two or more firms (partners) share resources, know-how, benefits, costs, risks and control on joint activities, aimed to pursue common goals (Yoshino and Rangan, 1995). It's easy to understand that a strategic alliance is an intentional relationship between firms, which remain legally independent, subsequent to the formation of the alliance, involving exchange, sharing or co-development of resources, competences and capabilities (Gulati, 1998). Contrary to integrative agreements such merger & acquisition, firms through strategic alliance preserve their corporate identity, after the formation. The term "*Strategic alliance*" is referred to agreements characterized by the commitment of two or more firms in order to achieve common goals and entail pool of their resources and activities (Teece, 1992). According to Contractor & Lorange (1992), a strategic alliance is a long-term partnership between firms, in which each partner is committed to mutually share of resource, skills and capabilities for the achievement of common goals and for the development of joint activities. Faulkner (1995) defines strategic alliance as a particular relationships in which partner firms make substantial investments for the development of a long-term collaborative relationship and a common orientation.

Dussauge & Garrette (1999) refer to strategic alliance as a cooperative agreement between independent firms, which will manage a specific project with a determined duration in order to improve their competences; according this point of view strategic alliance allow its partners to pool resources and coordinate efforts in order to achieve results that could not obtain by acting alone. In simple words, a strategic alliance could be considered as a partnership, providing an important business opportunity to join forces for mutual benefits and sustained competitive advantage (Yi Wei 2007). The main scope of a strategic alliance is to achieve a better result than each would be able to achieve by going alone. The idea behind the formation of strategic alliances is the minimization of the risk and the maximization of opportunities. Combining the elements of the different definition, we can identify key features of strategic alliances:

1. *Long-term Relationship*: strategic alliance has to represent an ongoing relationship, allowing the partners the possibility to know each other and build trust, which facilitates resources exchange and mutual learning.
2. *Cooperation between firms to achieve common goals*: each partner must have strategic intent congruent and compatible with the others. Cooperating means that

firms feel they belong to the same project and that they sacrifice in the short time, their own personal interests, for the benefit of common goals in the long time.

3. *Availability and mutual commitment*: in sharing resources, knowledge and expertise with the partners. Strategic alliances are considered an important opportunity to promote mutual learning. Based on these characterizes, strategic alliance are formed to share resource, skills, capabilities and know-how to achieve goals that firms cannot obtain independently (Faulkner, 1995).

Therefore, strategic alliances are long-term, mutually beneficial agreement between two or more firms that share resources, capabilities and knowledge with the common objective to enhance their competitive position (Doz, 1992). Despite the different organizational forms that can take an alliance (which will be the subject of the next section), each kind of them should converge on several important aspects, such as: each firm should have goals compatible and congruent goals, each firms should have access to partner's resources and finally for each partner the strategic alliance should represent an important opportunity for learning (Hamel 1991; Lorange et al., 1992).

2.2. Types of Strategic Alliances

In global and over-supplied markets, competitive relationships increasingly tend to interweave with specific collaborative relationship. Firms can set competitive strategic alliances with a wide range of solutions of equity alliances and non-equity alliances (Brondoni, 2003).

Strategic Equity Alliances represent collaborative agreements, based on participation to venture capital. In this case, cooperative contracts are supplemented by equity investments. Equity alliances are characterized by a high level of interdependence and integration, where partners in the long-term share risks and benefits. The owner aspect implies direct control, which reduces the risk of opportunistic behaviors; it is considered as a kind of counter-measure to opportunistic hazard. Equity participation could be represented by a minority, majority or equal share. Minority equity implies less control but also less risks; instead majority participation implies more control and responsibility on alliance management but more investments and more risks. Equal

share implies the same risks and control on alliance management between partners involved in equity alliance.

Specific form of Strategic Equity Alliances are represented by:

- *International Joint Venture*: Collaborative agreements between two or more firms to create a new and legally independent entity, with the aim to undertake a specific project. Each partner has an equity stake in the individual business and shares revenues, expenses and profits. Hennart (1988) defines JV as a distinct corporate entity, in which partners commit the agreed resources and in which each of them participate with equity. It requires time consuming and financial resources and the need to design coordination; flexibility is minimal and the exit implies efforts and costs for firms involved but the risk of opportunistic behavior is less than the others alliance forms because of the situation of “mutual hostage” that encourages the alignment of partner’s scope and interest since neither want to lose their investments in specific assets (Kogut, 1988; Teece, 1987; Dyer, 1996). Therefore JV offers transparent costs and profit sharing, control, monitoring and long-term incentives.

Otherwise, *Strategic Non - Equity Alliances* are organized through alliance contracts, without any transfer of equity between partners (Pisano, 1989). Non- Equity Alliance, on one hand presents the advantage that it does not require a high level of integration and so partners can dissolve the relationship with minimal costs, but on the other hand partners have less protection against the risk of opportunistic behaviors. Non-Equity Alliances are not based on share-holding and provide several forms of contractual arrangements (Brondoni, 2003) such as:

- *R&D Partnerships*: agreements, through which firms pool together specific skills, capabilities and resources to share the cost of a particularly expensive research project, in order to introduce or develop innovations (Brondoni, 2003). Often, this kind of alliance regards a specific project and is preferred when the costs for researching innovations and the pressure of the short lifecycle of the products are high. Through resource sharing, partners reduce costs and time for joint- project development; indeed licensing allows partners to access to professional and specific skills and avoid costs duplication

- *Supply-Chain Partnership*: A lots of multinational firms set up long-term collaborative relationships with a select number of suppliers. Through this kind of ties, firms obtain a lot of benefits gained from just in time inventory management systems, which eliminate stocks by closely coordinating production times and supplier delivery times.
- *Co-production*: Firms work together, with the aim to realize a specific product. Each partner is specialized in producing specific parts of an asset or in developing processes that minimize costs. The outcome of joint- production will be a product with superior features.
- *Cooperative Marketing*: Agreements that allow firms to enter in national markets without making direct investments. Joint marketing strategies allow firms, from different countries, to introduce a product on a specific market for a given period of time.
- *Outsourcing*: External supply agreements adapted by firms in order to use other firms to perform several stages of its production process. These agreements were initially aimed at simple reducing production costs. In more recent times, however, they are also becoming a competition-related factor, involving suppliers' R&D capacities and expanding the operational framework to a network level.
- *Franchising*: The franchisor provide to a franchisee, through a contract, the possibility to use its own trademark, its sales system and other proprietary rights, in exchange for a return on sales (Brondoni, 2003). Franchisor allows franchisee to use its own brand- name identity in a specific geographic area, but he preserves control on price, marketing and service. The franchising contract is set for a specific period of time where the franchisee covers specific activities such as production, sale, instead franchisor is responsible for brand and marketing and training. The franchisee receives franchisor's sale system, assistance, equipment and advertising company, in turn pays a royalty for the buying rights. The franchisor's advantage is developing quickly its sale over a wide territory; instead franchise can operate with the brand name of a large organization (Pellicelli, 2003).

- *Licensing*: Through licensing contract a firm allows another one to use patented technologies or production process in turn for royalties or fee. This type of alliances is an agreement that allows firms to enter in new market without substantial investments, to test foreign market with a new product or acquiring specific know-how. (Brondoni, 2003). The advantage behind licensing contract is the fact that a firm with limited resource can enhance its own presence on multiple markets and recuperating capital investment quickly (Pellicelli, 2003). However, licensing entails some risks such as the licensee may become a competitor. The main risk is represented by the loss of control over the technology; to avoid this situation firms could create a cross- licensing agreement, which each partners exchange technology and expertise mutually.

In *Equity Alliances* partners commit the agreed upon skills and resources and hold an equity position; they are preferred especially when they alliance regards creation, transfer and exploitation of knowledge, because this kind of alliance allows partner to align strategic objectives and to have superior monitoring (Gulati & Singh, 1998); instead in *Non - Equity alliances* partners share only skills, competences and resource without equity participation. This last kind of strategic alliances, is less rigid than equity alliances, because is easier to revise and reorganize when unstable market conditions prevail but partners involved are less protection against the risks of opportunistic behavior. The choice of alliance governance form, depends on the level of control and risk that partners desired on their joint activity.

2.3. The strategic importance of alliances: “Alliance Benefits”

Strategic alliances are becoming more and more prominent in the global economy. In order to understand the widespread phenomenon of strategic alliance in the business world, we have to analyze motivations and goals; I want to answer the question: “*why strategic alliances have been the trend in the global markets?*”. This could be explained by both external and internal conditions of a firm; in fact, more and more firms use cooperative strategies because the external market conditions show a lake of internal resource and skills that they need to preserve their competitive position in the marketplace (Faulkner 2010). Therefore the main reason, behind the alliance formation,

is the need to fill a gap of resources and skills that firms are not able to develop internally in a faster and cost-effective way and that they can't buy on market because of its intangible nature (Contractor & Lorange 1988). The access to critical resources is the main but not the only reason, because motivations behind the formation of strategic alliances are several and concern: reduction of costs through pooling of resources, entry to new market, meeting government regulations to operate in a new host market, reduction of uncertainty etc. More in detail the reasons, which lead global firms to enter in a strategic alliance, can be listed as follows:

- Ease of market entry: in global markets, time is a critical competitive factor (Brondoni, 2005), so the firms have to be quick to seize the market opportunities before competitors. Strategic alliances provide firm the possibility to access faster to the critical resources and competences required to exploit a market opportunity and to be present simultaneously on several markets. Partnering with a firm, already existing in the marketplace can make the expansion easier and less stressful into unfamiliar territory for focal firms.
- Overcoming entry barriers: Forming an alliance with domestic firms, that are familiar with local environment, it helps firms to overcome legal, political and regulatory barriers to entry (Harrigan 1995). Partner's knowledge of local environment helps to reduce political risks and enhances the effectiveness of the efforts. Farther, a strategic alliance is a way to enter in a market that is protected by tariff and other barriers, or dominated by other firms with a particular competitive advantage. So choosing strategic partnership is a tool to overcome obstacles like entrenched competition and hostile.
- Raise entry barriers: Forming an alliance allows firms to join force and gain additional strength, so they may erect entry barriers for discouraging competitors to enter (Varadarajan & Cunningham, 1995).
- Risk- sharing: Through strategic alliances, firms can share with partners a lots of risks (Contractor & Lorange, 1988) such as *financial risk* (firms sharing production and marketing costs with partners, can limit their financial exposure), *country risk* (arising from political and economic instability of governments) and *innovation risk* (if firms develop a new technology, through

strategic alliances, they can share risks and costs, resources and knowledge, thereby reducing the probability of failure and the investment recovery period).

- Control on market uncertainty: Strategic alliances help firms to control market uncertainty. Partnering with a local firm, in order to enter in a new market, increases market familiarity and reduces uncertainty thanks to the knowledge acquired by partners.
- Reduce the threat of competition: Strategic alliances support the convergence of individual interests, so that current or potential competitors can become partners, avoiding a destructive conflict (Buckley,1996).
- Market modification structure: Strategic alliances can shape significantly market structure by creating new technology standards, raising barriers to entry and can alter the bases of competition by eroding the existing source of competitive advantage in an industry.
- Economies of scale: Strategic alliances allow firms can reduce high fixed costs, expanding the production volume. Firms collaborating can achieve economies of scale when the joint production exploits the potential of the plants of each partners or when the firms share the costs of research and development of new technology with the partners. Firms also achieve economies of scale, when they share the sales network of one of the partners or developed a new one together to ensure the continuity of supply. Another way to achieve cost advantage is decentralizing production activities, through collaboration with a partner that operates in geographical area where the cost of production factors is lower.
- Learning: Strategic alliance is seen as a tool that generates learning through exchange of know- how between partners and creation of new capabilities through the combination of skills and competencies owned by partners. Alliances provide firm several form of learning like how manage a successful alliance to achieve the desired objectives and how to create value through it (Doz, 1996). Learning is an important benefits from the alliance and appears as a dynamic capability to develop key skills (Ireland et al., 2002).

Therefore, strategic alliances are a *source of resources, learning and competitive advantage*. Alliances contribute to create value in different way like scale economies,

shared management of the risks, efficient market entry and learning from the partners, control of environment uncertainty reducing firm's dependence external resources, firm successful repositioning in dynamic market (Kogut, 1988; Das & Teng, 1996; Spekman et. al, 1998). A strategic alliance can be defined “*a successful strategic alliance*” if the reasons behind its formation, are transformed in benefits for the partners (Vaidya, 2011). A successful alliance must produce benefits for all the partners, offering new opportunities and creating new value together. Partners, create value through synergies as they achieve mutually beneficial gains that neither would have been able to achieve individually (Teece, 1992). Synergy is realized when a partner internalizes expertise, know-how and skills, that enhance its own competitive position in the global markets. Strategic alliance may create strategic, learning and financial value during its own life (Chan et al., 1997; Doz & Hamel, 1998).

Strategic value refers to the firm's possibility to enhance its own competitive position, through the access to new and critical resources and through the developing of new forms of competitive advantage. Learning value refers to a new set of capabilities such as a result of a learning process during the alliance lifecycle and finally the financial value is related to the economic benefits like market returns and operational efficiency. The potential of value creation makes strategic alliance a source of competitive advantage in global markets (Das & Teng, 2001; Ireland et al., 2002).

2.3.1. Mutual Alliance Benefits: “*Alliance between Toyota & PSA*”.

The alliance between Toyota and PSA is a clear example of a global strategic alliance that has been able to achieve its mutual benefits; it could be defined “*a successful strategic alliance*” because reasons behind alliance formation have been turned in benefits for both partners. The alliance between Toyota and PSA has been able to produce benefits for both firms involved, offering them new opportunities and creating new value together.

Toyota and PSA, through their collaboration, have created value, synergies and achieved mutual benefits that neither would have been able to achieve individually; synergies allowed them to realize economies of scale through the joint production, internalize expertise, know-how and skills that in turn have enhanced its own

competitive position in the global markets. The agreement concerned joint production and development of small cars, there was no common marketing or sales organization (TPCA, 2011); as stated by the two firms it has been successful strategic alliance because it has been a “*win-win alliance*” that allowed both to gain mutual benefits without renouncing their independence and shared skills and expertise. The alliance was a successful alliance because allowed both partners to achieve economies of scale speeding the development and increasing the production capacity and offered them the opportunity to learn about each other’s culture and process.

The alliance between Toyota and PSA, named *Toyota Peugeot Citroen Automobile Czech (TPCA)*, is a joint venture where both firms owned exactly half of the shares; it is a 50-50 joint venture concerning the joint development and production of small cars in Eastern Europe (Czech Republic) with *Toyota, Peugeot and Citroen* brands. The agreement involved the building of a shared plant in Kolin that started in 2002 (the same year in which the agreement was signed) and in 2005 the cars production was launched. The two firms chose the Eastern Europe for cooperating because it represented an opportunity as productive location for several reasons, such as the availability of skilled labor at a very low cost levels and the rising purchasing power that led an increased sales of cars in this market. With their partnership, Toyota and PSA (concerning the construction of a new manufacturing plant and the development and production of small compact cars) want to react to the changing of European customer market and to found a new category of small, modern and technologically advanced cars (Ichijo & Kohlbacher, 2008). Both firms had some strategic aims for collaborating with the other:

- *PSA*, through the collaboration with Toyota, want to expand its own range of product; in fact by sharing risks and costs PSA aimed to offer more choice of products to its customers with limited investments. PSA had only two car model in the small car segment and they needed a replacement. Therefore, the main aim of PSA was the achievement of economies of scale and the risk reduction. PSA looked at strategic alliances as a means to respond to challenges posed by globalization and to increasing competition.
- *Toyota*, through the collaboration with PSA, aimed to expand its own business in Europe. Toyota wanted to gain the needed know-how to operate in Europe,

strengthen distribution channels and train the dealers and PSA had a great reputation and capabilities in these fields.

The strategic objectives of both firms, behind the alliance establishment, were compatible and achievable simultaneously; this was one of the factors that led their cooperation towards success. Their collaboration was a partnership where both firms were aware of the importance of the mutual contributions; each partners tried to take the most advantage from the other. Toyota was strength in production process and factory set-up, while PSA had a big supplier network and good and trustily relationships with purchasing, price levels and negotiation culture in Europe (Erver & Svernhage, 2011). In the partnership, Toyota was responsible for:

- *setting up the factory* (in fact the aim was to build the plant on the model of Toyota's factories implementing Toyota's principles, in order to make the plant most efficient possible) – *developing the technologies for cars* (Toyota's manufacturing process were implemented); instead PSA was responsible for: - *sourcing the supplier network*. – *negotiating all the supplier relationships*.

Therefore, joint production plant in Kolin was successfully built through the sharing of mutual strengths and contribution of both partners; Toyota and PSA, in order to achieve their strategic objectives, have contributed their respective strengths to the joint venture: Toyota was responsible for development and production of cars while PSA for procurement. Three were the new small cars produced on the common platform: Toyota Aygo, Peugeot 108 and Citroen C1; they were especially fuel-efficient a modern, four- seat model with the most sophisticated technologies in safety, reliability, urban mobility and environmental protection (Ichijo & Kohlbacher, 2008). Through their joint venture, Toyota and PSA have introduced a new class of cars: small- size cars, positioned below current entry-level models, which have been able to respond to the needs changed in the European market. The models of small car, realized by TPCA, had several advantages such as they had lower price than those in the same segment, high level of standard safety performance and excellent environmental achievement (Ichijo & Kohlbacher, 2008). TPCA, through the joint development and production has been able to offer to European market a new class of cars, which had all the features of a real car at a very attractive price and with efficient solutions to environmental requirements. As stated before, joint venture between

Toyota and PSA represents a clear example of a global strategic alliance, in which both partners have achieved their mutual benefits through the sharing of their own strengths: the excellent production system of Toyota and the great PSA's knowledge of European market. Through their commitment to the joint project and their experience and expertise in different field, Toyota and PSA realized a successful cooperation that allowed them not only to achieve economies of scale but also to foster mutual learning; in fact the two firms, in the common plant, shared their own product design knowledge, technologies, process, styling, network relationships with suppliers and producers and corporate cultures. During their joint venture, in the spirit of teamwork and cooperation, Toyota and PSA mutually shared their know-how; in fact PSA shared its expertise in purchasing and knowledge of small cars in European market, while Toyota shared its skills in manufacturing and production process (Ichijo & Kohlbacher, 2008). Therefore PSA learned by Toyota Production System and Toyota Way, while Toyota learned by PSA about purchasing activities and suppliers relationship from an European point of view.

2.4. Alliance Failure: "Costs & Risks in cooperative strategies".

Strategic alliances represent a source of competitive advantage for firms because allow them to cope with increasing technological and organizational complexity that have emerged in global markets (Dyer, Kale & Singh 2001).

Strategic alliances contribute to value creation through several ways such as risk sharing, learning of new skills and competencies from partners, access to critical and needed resources and monitoring environment uncertainty (Das & Teng, 2000); they should be considered as a powerful tool for implementing firms' global strategies.

Despite the popularity of strategic alliances, the landscape is littered with failures; there are numerous studies on this subject that show a failure rate at or higher than 50% (Killing, 1983; Lorange & Ross, 1992; Bleeke & Ernst, 1993; Parkhe, 1994; Faulkner, 1995). The high failure rate, documented in the literature, highlights the fact that strategic alliances are more likely to fail than to succeed. Previous studies, on strategic alliance theme, show that the half of these agreements fail, in fact it seems that global firms encounter some problems in managing their collaborative

relationships (Bleeke & Ernst, 1995). The high failure rate highlights the difficulties of attaining successful alliances and the fact that not all firms have the capabilities and experience to maximize the potential of value creation from their strategic alliance (Das & Teng, 2001). It seems that while most firms have realized the importance of strategic alliances only few of them have developed the capabilities to manage them towards success (Duysters & De Man, 2007). A substantial number of studies in the literature, argues that main failure causes are due to the little familiarity that firms have with the dynamic nature of their collaborative relationships (Harrigan, 1988; Lorange & Ross, 1992; Bleeke & Ernst, 1993; Faulkner, 1995). Empirical researches testify that more than half of strategic alliances fail and the result of failure could be value destruction for firms that engage in them (Kale & Singh, 2002), because each partner invests a large amount of financial and material resources in the cooperation and once the alliance breaks up the loss associated with failure is substantial. There are several risks and cost involved in strategic alliances. Firms could be aware about the costs involved in collaboration and weigh these against the benefits derived from it (Spekman et. al., 1995). I want to answer the following questions: “*Why despite the strategic importance of the alliances, there is still such a high failure rate? Why strategic alliances fail?*”. This section aims is to answer these questions, identifying conditions and causes of alliance failure. The main source of failure is linked to the dual nature of the alliance, represented by the simultaneous presence of cooperation and competition among partners firms (Kogut, 1988; Hamel, 1991) that creates more complexity for firms facing mutual interdependence³.

Cooperation refers to the sharing of a joint project to achieve common goals, while competition concerns the achievement of personal objectives. In this sense, the strategic alliance is a temporary exchange relationship, which could lead to competitive or cooperative behaviors, depending on the private incentives of the partners (Parkhe, 1993). A strategic alliance proves a failure when excessive competition eclipses cooperative orientation (Park & Russo, 1996).

³ The level of inter-dependence may have a crucial impact on each other's operations, that become extremely vulnerable to the actions and decisions of the other firms. The level of inter-dependence causes complexity and an increase in the cost structure, regarding coordination and management of a partnership (Parkhe, 1993).

As a consequence, the two main failure causes are represented by (Park & Ungson, 2001):

- *Inter- firm competition*: it refers to *opportunistic hazards and to unfair exchange of resources and distribution of benefits between partners*.

The inside competition will lead the partners to pursue personal interests at the expense of the others (Bleek & Ernst, 1993). Each partner could try to maximize its own individual interest instead of common interests. When two or more firms decide to cooperate, there is the risk that the partners could act opportunistically by hiding important information, providing false information or cheating the others, precluding the success of collaboration.

Collective benefits are future- oriented and are characterized by uncertainty, instead opportunistic behavior brings immediate individual goals without facing the uncertainty of long- term returns, so there is the threat that each partner pursues short-time goals and immediate gain cheating the others.

Opportunistic behavior, which is oriented to individual and self-interest rather than to the good of the alliance; it represents a form of *relational risks*⁴, which is a kind of risk related to internal factors of the partners' relationship (Das & Teng, 1996). The occurrence of this type of risk is due to the fact that partner does not honor the commitment, made in the contractual agreement, and take opportunistic behavior, aiming to achieve their self-interest than the collective ones. Relational risk refers to the possibility that opportunistic behaviors of the partner firms, undermine the survival of a strategic alliance. Opportunistic behaviors is costly and difficult to control, it includes appropriation of partner's resources, plagiarizing other's side tacit knowledge to improve its own competitive advantage, providing of distorted information or cheating them (Das & Teng, 2001). Learning races is an example of opportunistic behavior

⁴ Das and Teng (2001), argue that there are two main kind of alliance risks: 1) *Relational risk*: refers to the possibility, that one of the alliance partner doesn't appropriately commit to alliance. Opportunistic behavior represents a form of relation risk, which is internally oriented and is influenced by how each partner manages the alliance resources and to its degree of commitment. Relational risk depends by the relationships between partners and their level of cooperation.

2) *Performance risk*, instead is externally oriented and refers to all the factors that may impede the achievement of alliance goals. Unlike the relational risks, that depends on the relationships between firms partner, the performance risks depends on the relationships between alliance partners and external environment.

when the main reason of a firm, to enter in a strategic alliance, is to learn and acquire partner's capabilities and skills quickly and gets out of the relationship after achieving its learning goals (Hamel, 1991; Khanna et al. 1998; Kale et al. 2001). Besides, in a strategic alliance, a firm could learn unilaterally appropriating of partner's skills and using them for its own operations, in areas unrelated to the alliances activities (Khanna, 1998). The risk of opportunist behavior is higher when the strategic alliance is between direct competitors. In this case, the incentive for one or both partner firms to act opportunistically is larger (Park & Russo, 1996).

- *Managerial complexity*: it refers to firms' *difficulties in coordinating* and in *aligning alliance activities* with partner's long- term goals. Conflicts could arise, during the alliance lifecycle, because of organizational and managerial differences between partners; therefore forming a strategic alliance requires a high effort to coordinate and integrate two or more independent firms, but the effort is greater when they come from different national, cultural, political, managerial and economic backgrounds. Managerial complexity refers to "*coordination problems in cultural, structural and strategic fit*". Alliance durability and success depends on cultural fit between partners; cultural fit doesn't means having the same culture but according to Child & Faulkner (1998) it means understanding cultural differences and being willing to find a compromise when cultural conflicts arise. In the context of global strategic alliances cultural differences can be very high and may hinder the process of building and managing the strategic relationship; if not properly handled may constitute cause of alliance failure (Segal- Horn & Faulkner, 2010). Cultural conflict is surely one of the most problems facing strategic alliance. Partner firms, are probably located in different countries and so they have different background institution and culture. Managers and staff, from the different partner firms that work together may have different values, ways of management, administrative decisions etc. When I talk about cultural fit, I refer two kinds of cultural: national and organizational. Hofstede (1991) define national culture as "the collective programming of the mind, which distinguishes the members in one human group from another. National culture

is the patterns of beliefs and values that are manifested in behaviors and practices shared within a nation. National cultural fit is defined as the similarity of their national characteristics (M. Jason Martin, 2006). National culture affects organizational culture; in fact the alliance success depends on the fact that business practices are compatible with national culture. Organizational culture is an organization's shared values, symbols, behaviors, and assumptions, which are embraced by the members of this organization (Lodorfos & Boateng, 2006). Organizational cultural fit is defined as the compatibility between partners in their management style such as the level of participation of employees or authoritarian management, the delegation of responsibilities or if the process of decision making is centralized or decentralized (Parkhe, 1991). National culture affects managerial behaviors and too often this important aspect is ignored by firms when they enter in a global strategic alliance. Firm's managerial style and practices (organizational culture) are influenced by national culture's features such as political characteristics, nature of economy, legal context, socio-cultural background and the national history of the country (Lee, 2003). Cultural incompatibility may exist at different levels such as management style (individual, formal and centralized or group oriented, informal and decentralized), authority (individual decision making or group decision making process), reward system (based on performance or on loyalty) and communication (Laneve & Stüllein, 2010). Hofstede (2001) create a model through which identified differences between national cultures based on four aspects: - *Power distance*: regards people's beliefs about unequal distribution of power and status and their acceptance of this inequity. Otherwise, when there is a high power distance, there is a centralized power (employees depend on their superior and they are less involved in decision making process); instead in countries, where the power distance is low, there is decentralized power (employees are involved in decision making process and they do not accept centralized decisions).

- *Uncertainty Avoidance*: the extent to which the members of a culture are threatened by uncertain and unknown situation. When the Uncertainty Avoidance is high, organizations tend to resist to changes and to adopt new

technologies; instead when Uncertainty Avoidance is low, organizations are less sensible to the risks and people are more disposed to adopt changes and new technologies. – *Masculinity/ Femininity*: a masculinity oriented culture is focused on material success; instead femininity oriented culture is based on modesty, tenderness and quality of life (Laneve & Stüllein, 2010).

– *Individualism/Collectivism*: an individualistic culture is based on looking for yourself; instead collectivism culture is group oriented. The differences in national cultures affect organizational culture therefore different cultures operate in different ways. Cooperation between firms, with similar culture, may incur less misunderstandings and bring more benefits, instead cooperation between different cultures may incur in serious conflicts. Alliances between partners with cultural fit are more likely to succeed than those between culturally dissimilar partners. Lack of cultural fit between partners leads to mistrust, misunderstanding and managerial conflicts (Kim & Parkhe, 2009). According to Schneider and Barsoux (2006) too often cultural differences are unrecognized and ignored and it leads alliance relationship toward failure. For this reason when firms engage in strategic alliance have to limit cultural conflicts analyzing as much as possible potential cultural differences and try to find a point of integration (Child et al., 2005). One of the most important consequences related to the *lack of cultural fit* between partners is represented by the poor communication. It is fundamental, for firms working together, to be able to communicate and understand the intentions of each other. Communication helps partner firms to eliminate misunderstandings and conflicts related to the different cultures and harmonize strategic goals, ensuring the alliance relationship's growth. Conflicts, arising from cultural differences, could hinder the establishment and the management of cooperative relationship between partner firms and if they are not properly managed, can lead to strategic alliance failure (Faulkner 2010). In addition to different cultures, another source of alliance failure is represented by *lack of structural fit*. Each partner company has its own specific structural characteristics and its organizational processes (Park & Ungson, 1997). These differences can create significant coordination problems as disagreements over

operating strategies, policies and methods between partners that have to expend a great amount of time, energy and resources to find standard managerial routines for facilitating communication and integration (Yan & Grey, 1994). Post - formation phase requires a great integration effort and more complex is the structure of the alliance more integration efforts are required (Weber & Camerer, 2003). Strategic alliances fail also for *lack of strategic fit*. Strategic fit, in the context of alliance, means that organizational resources and capabilities are aligned with complementary resources brought by the alliance (Cunningham & Varadarajan, 1995). Strategic fit is higher when the alignment of complementary resources is useful to bridge the gap of each partner; instead there is a lack of strategic fit when combining value chain's activities of each partner, is not possible to achieve sustainable competitive advantage and synergies. Beside, strategic fit means alignment and coordination of strategic goals of both partners; therefore another cause of alliance failure is represented by the difficult to integrate partner's strategic goals (Park & Ungson, 1997). Lack of clear goals and objectives leads alliance toward failure. It is necessary knowing each partner's real objectives; not knowing is dangerous and leaves firms in a vulnerable position. Partners could have different objectives, but it's important that these objectives are compatible and that they can be achieved simultaneously. Alliance success depends on the definition of clear goals and well-defined procedures, developed by the partnering firms, for the achievement of these. Incompatibility in terms of resources and goals, among partner firms, may lead to a relationship based on strife and suspicion and therefore to its own failure (Varadarajan & Cunningham, 1995). Partners achieve strategic fit, if resources and goals complement in a way that increases value potential and that creates a win- win situation for all the firms involved. Creating a win- win situation is one of the fundamental conditions for alliance success. Alliance success can be defined as "value creation for all the partners involved in strategic alliance (Parke & Russo, 1996). *Lack of cooperation* between partners is another reason of alliance failure; many firms enter into alliance without building the basis of cooperation (Lewis, 1992).

Cooperation means that partners feel part of a common project and operating in a perspective that transcends the particular interest in favor of the common one (Luo & Park, 2004). Creating mutual commitment and mutual dependence, in the alliance relationship is the way to create value for all (Vyas et al, 1995).

All the reason of alliance failure imply an high degree of uncertainty and complexity in coordinating alliance relationship for partners, which have to support a large amount of transaction costs (especially bureaucratic and agency cost), in order to promote coordination. Negative result related to a large amount of transaction costs is a rigid alliance organization. Maintaining flexibility, at the alliance level, is an important condition for success, because over the time, the external and internal factors of an alliance will change gradually. All the factors, described until now, are all related to the features of the alliance and so are internal to the relationship; but alliance failure is caused also by *external factors* like changes and uncertainty of the environment. External failure reason may include decrease of raw materials and market demand, changes in technologies, innovation progress, institutional conditions like interference of governments etc. Therefore “*managerial complexity and inter- firm competition*” are categorized as internal factors of alliance failure, instead “*uncertainty of the environment*” as external factors. The failure of alliance is due by the co- effects of all the factors in different ways because inter-firm competition influences the stability of the alliance relationship, the managerial complexity decides the external adaptability and finally the environment uncertainty and instability has great influence on both aspects. In the table below are summarized the causes (internal and external factors) that could lead strategic alliance towards failure:

Table 1: Summary of alliance failure causes:

| Nature of alliance failure factors | |
|---|---|
| Internal factors | External factors |
| <p><i>Inter-firm competition:</i></p> <p>Risk of opportunistic behavior (like cheating and plagiarizing partner's tacit knowledge)</p> | <p><i>Environment uncertainty and instability:</i></p> <p>changes in economic, institutional and technology conditions.</p> |
| <p><i>Managerial complexity:</i></p> <ul style="list-style-type: none"> - lack of cultural fit - lack of structural fit - lack of strategic fit - lack of cooperation | |

2.4.1. Alliance Failure between Daimler-Benz and Chrysler

In order to show potential issues that could impact negatively the alliance success likelihood, I decide to provide an example of a failed alliance: “*Alliance between Daimler Benz and Chrysler*”.

Daimler AG, founded in Germany in 1883, is a manufacturer of cars, motor vehicles and engines; it was called Daimler Motoren Gesellschaft. In 1926 the firm merged with Benz & Cie and a new firm “Daimler-Benz AG” was formed and the brand name of Mercedes-Benz was put on all its products.

Chrysler Group LLC, founded in 1925 by Walter Chrysler, is a manufacturer of cars in Detroit, Michigan. In May, 1998 Daimler- Benz and Chrysler Corporation, two world's leading cars manufacturer merged; they decided to unify their own business in what they claimed to be a “*merger of equal*”. In 1998 Schrempp (Daimler- Benz CEO) stated that their union was “a merger of equal, of growth and unprecedented strength”. I choose the alliance between Daimler- Benz & Chrysler because it is probably the most famous global alliance that ended in failure. Cultural differences and organizational culture are both played a critical role for alliance failure. Cultural difference and the related need of integration between firms becoming from different reality, just cannot be ignored on a global level. Cultural gap in corporate cultures

between Daimler-Chrysler was one of the main reasons of alliance failure. The CEO of both firms (Jurgen Schrempp for Daimler- Benz and Robert Eaton for Chrysler) were aim by the *objective* to realize a strong partnership to enable them survive in the market of cars; they want to build a strong firms that would dominate the market and compete successfully. The two firms aspired to expand and compete globally. The outcome of merger between the two firms was *DaimlerChrysler* that would become the fifth largest automaker in term of vehicles produced. *The reasons*, behind the merger were:

- On one hand Chrysler Group had experienced unstable financial state for several decades and surviving to this challenge, it needed financial stability. Chrysler was stronger in US market and wanted to expand its own boundaries. Therefore the Chrysler's main aim for the merger was represented by the need to increase its own presence in the market-space; in order to achieve its aim, Chrysler needed to support a large investment and so it decided to merger with another firm that operated in a different economic area. Chrysler, through the merger with Daimler would have survived to global competition on car market, which was characterized by overcapacity at that moment (Laneve, 2010).
- On the other hand Daimler- Benz was very stronger at the financial point of view and operated in different geographic areas; its most profitable source was represented by Mercedes brand. The main reason, behind the merger for Daimler, was represented by the need of diversification; in fact the Mercedes-Benz, Daimler- Benz's luxury brand, was the only one that firm relied on but the luxury cars market was at climax. Therefore for competing on global markets, Daimler- Benz needed to diversify its products range; diversifying its products would have reduced the vulnerability of Mercedes brand on the luxury market.

Therefore both firms were looking for a partner in global markets; each partner had something that the other was looking for. Chrysler was a looking a partner in order to achieve financial stability and a global presence in cars market; instead Daimler- Benz was looking a partner for achieving economies of scale and improving its own presence within car industry. Daimler chose Chrysler because of its efficiency and low

design costs and its large American dealership network, through which Daimler could have improved its own presence in global markets (Laneve, 2010). The shared reason for the merger between the two firms was represented by “*geographic expansion*”, through which both firms could have penetrated new markets and gained global presence in car market. Strategic aims, behind the merger, would be achieved by sharing each other’s technologies, know-how, capabilities, distribution, purchasing etc. Furthermore the merger was favored by complementary resources, owned by the two firms; in fact Daimler was stronger for its technological and engineering capabilities, differently to Chrysler that was stronger for design and fast product development capabilities. Moreover the business approach of the two firms did not overlap each other because Daimler’s business was based on luxurious and high-class car with the taste of quality and attention to details; instead Chrysler’s business was low cost efficiency oriented with a large range of cars (Geisst, 2004). The two firms had not conflicting characteristics because their car models were different and they applied different segments of car market (Laneve, 2010).

Despite the strategic and good intentions of both firms, the merger did not realize any of the desired and planned synergies and it proved a real failure: in fact Chrysler was sold to US fund Cerberus Capital Management in 2007. First of all, an aspect that could be seen as a signal of future failure was represented by the Germans dominance on the Americans and within the new entity; in fact even if the alliance was declared as a “*merger of equals*”, it was a real takeover of Chrysler by Daimler. During the post-merger, Schrempp in an interview in early 1999 admitted that the deal with Chrysler was never really intended as a merger of equal but as a takeover, he stated that the merger of equal was only a way to gain the support of Americans but it was never the reality. DaimlerChrysler deal was never expected to be a merger of equals. Therefore Germans dominated all *DaimlerChrysler’s* relevant operations. In 2000, Chrysler American president, James P Holden, was replaced with the German, Dieter Zetsche and over the years post- merger a lots of American Chrysler executives left and more German executives were joining Chrysler at senior position. By the end of 2000, only few Chrysler employees still working in the US operation; there was the dominance of German partners. Alliance failure between Daimler and Chrysler represented a *case of cultural mismatch*; in fact it is a safe assumption that the lack of

cultural fit was one of the most crucial factors that led an alliance toward failure. They came from different industrial, cultural and political reality and their national and corporate culture are not compatible. In order to minimize this cultural gap between firms, Schrempp decided that both firms would keep their own existing cultures. The merger between Daimler and Chrysler failed because of the lack of cultural integration between the two firms; they failed to create a sustainable culture after the merger and this aspect was decisive for the failure. DaimlerChrysler faced a lots of issues related to cultural incompatibility, which made the alliance a total unsuccessful. The two firms had a very different corporate culture, which was influenced by the national culture that in turn reflected their own way of thinking, management style, beliefs and norms. According Shapiro et al. (2009) the two firms were very different because Daimler was a German firm “*conservative, efficient and safe*”; instead Chrysler was “*daring, diverse and creative*”. On one hand, there was Chrysler that operated on a very rough course and was a very innovative firm that encouraged creativity to develop business ideas and venture into new markets; at the other hand there was Daimler the German firm that encouraged formality and hierarchy. The *corporate structure* of Daimler was hierarchical, differently to that one of Chrysler that was a team-oriented structure. American promoted egalitarian relationships between staff’s members differently to Daimler’s corporate structure that was characterized by respect for authority, bureaucracy and centralized decision making. Therefore Americans promoted freedom in relationships development, differently at Daimler where the relationships were very formal. Luo et al. (2003) stated that at Daimler the decision making process was very formalized and the employees were dressed with formal clothes instead at Chrysler where American promoted informal communication and casual clothing standards. The two firms had a very opposite *corporate cultural* because Germans are authoritarian and Americans are oriented to creativity. Daimler’s corporate culture, influenced by the national culture, was based on management process characterized by planning, organizing and controlling; it was more conservative, efficient and safe than Americans that were more daring, diverse and open mind. Chrysler’s management style was more flexible and creative than the more formal and structured style and top-down management. Furthermore American Chrysler was more risk-taking than the German Daimler- Benz: in fact Daimler had high uncertainty avoidance,

it needed security so the organizational activities were structured, rules are written (Laneve, 2010). Germans were risk averse, differently to Americans, which were more risk-taking and their activities were less structured and the rules were not written. Daimler preferred clear objectives and scheduled activities; control system was very important for Germans differently to Americans. American preferred fast-paced trial-and-error experimentation, differently to Germans that preferred detailed plans and precise implementation. Their different management style was evident also in the fact that Germans preferred long discussions and reports differently to Americans that preferred short discussions and fewer reports; this is because Chrysler promoted creativity and innovation as the main source of business success differently for Daimler, which believed that the firm's success was based on formal set up of the activities and the formal strategies implementation (Luo et al., 2003). Germans preferred lengthy reports and extended discussion; instead American preferred short reports and meeting. Cultural differences also appeared in employees' behaviors because American demanded high salaries and were not willing to relocate to German differently to German ones that liked expensive budgets and were willing to move to America (Berghahn, 1996). Another cultural difference laid in different *customer proposition*: Daimler valued reliability, achieving of highest level of quality, while Chrysler had the image of American greatness and its value was in attractive, eye-catching design at a very competitive price. This condition created chaos and problems in coordinating different departments; it led a great lack of coordination. As stated before, even if the alliance was declared as a "*merger of equals*", it was a real takeover of Chrysler by Daimler. DaimlerChrysler's deal was never expected to be a merger of equals; at the first Germans granted to Chrysler the freedom to do what they always had done but then they dominated all *DaimlerChrysler's* relevant operations and imposed to Chrysler their mode of doing things, their managerial style and corporate culture. The Americans were shunned away from DaimlerChrysler's activities (Smith, 1994); they felt that Germans had overtaken them. This aspect led a lack of *trust*, which in turn led toward alliance failure (Shapiro et al., 2009). Therefore several differences in cultures, structures and values between the two firms led to the failure of the merger that was not able to realize the desired synergies; the above differences can be summarized as follows:

- *Corporate structure*: Daimler-Benz was characterized by high authority, strong hierarchy; instead Chrysler favored a more team-oriented and egalitarian approach.
- *Corporate Culture*: Daimler was more formal, traditional, mannerly and bureaucratic, differently to Chrysler that was more informal, relaxed, flexible and risk taking.
- *Products*: Daimler's products were represented by small sized and luxurious cars characterized by high quality and price; instead Chrysler's products were characterized by attractive, very competitive prices and comfortable driving.

All the cultural differences led misunderstanding, lack of collaboration, lack of trust poor communication and conflicts, which in turn impeded the merger to realize the desired synergies. The main mistake that led alliance toward failure was represented by the lack of cultural integration between the two firms. As stated in the previous section, cultural conflict (national and corporate) is surely one of the most problem facing global partnership; partner firms, located in different countries, such as the German Daimler & the American Chrysler, had different backgrounds institutions and culture and they did not make any efforts of mixing the two cultures, in order to avoid conflicts. Daimler- Benz tried to impose its own management style and corporate culture; it never left its credo of "quality at any costs" (Laneve, 2010).

During the post- merger phases these cultural differences appeared and led a lot of misunderstanding about managerial style, communication, planning and decision-making processes that impact negatively the merger's successful outcome. The alliance failure between Daimler and Chrysler is a clear example of cultural clash between two firms came from different economic, political, social and cultural realities; it meant that cultural plays a critical role in alliance relationship development; it is necessary finds an integration, a balance and a compromise between different firms' culture. When we talk about cross cultural alliance, the cultural differences are not to be ignored; a type of culture can't suppress and replace the other but a consensus had to be reached for the creation of new culture, based on the elements of both firms involved. Daimler and Chrysler were not truly willing to cooperate, to accept changes and find integration, a compromise between the differences in their own cultures. Therefore in DaimlerChrysler alliance, perceived

benefits were never realized because due to lack of cultural fit and the inability to manage the integration process of two different cultures.

2.4.2. Alliance Failure between *Renault & Volvo*.

Another example of alliance failure due to the cultural mismatch is represented by the alliance between " *Renault and Volvo*". Renault S.A⁵, the French automotive company, was born in 1898. The company designs, produces and sells passenger cars and commercial vehicles under three brands: Renault, Dacia and RSM. Volvo Group has its origin in 1927, when the first Volvo car was produced at the factory in Gothenburg, Sweden. Today, Volvo trademark is used jointly by Volvo Group and Volvo Cars Group. Trucks, Buses, Construction Equipment, Engines, parts and services from Volvo Group and Cars, parts and services from the Volvo Cars Group proudly carry the Volvo brand. Volvo Cars⁶ was owned by AB Volvo until 1999, when it was acquired by the Ford Motor Company. Geely Holding Group (in China) then acquired Volvo Cars from Ford in 2010. Headquartered in Gothenburg, Sweden, production takes place in Sweden, Belgium, China and Malaysia. Today, Volvo Car Group produces a premium range of cars, including sedans, wagons, sports wagons, cross country cars and SUVs and is one of the world's best-known and most respected car brands, with sales in around 100 countries.

In February 1990 Renault & Volvo announced their strategic alliance through cross-sharing holdings, joint production and R&D agreements; two firms were too small for surviving in global competitive car markets, mainly because of increased Japanese competition. Therefore the two firms decided to create an alliance: Renault bought 25% of Volvo Car and 45% of Volvo Truck; Volvo bought 20% of Renault's car division and 45% of Renault's Truck (LesEchos, 2007). The idea of the alliance came from 20 years of their previous collaboration on swapping of gasoline engines for gearboxes; the cross-supply agreement was successful and fostered the further

⁵ ***Renault Vision & Mission:*** "Renault's vision is to be a people-centric and innovative company, offering sustainable mobility for all. Renault's mission regards sustainable mobility for all, once again making the automobile a source of progress for mankind".

⁶ ***Volvo Vision & Mission:*** "Volvo's vision is to be the most progressive premium car brand and desired in the world. Volvo's global success will be driven by its mission: to make life less difficult for people and at the same time strengthen its commitment to safety, quality and environment"

collaboration between the two firms. The alliance formation was motivated by the fact that the two firms possess complementary competencies: Renault was strong in small car and diesel engine, instead Volvo had strengths in large cars markets and gasoline technology; moreover they were complementary also from a geographic point of view because Renault was strong in Latin America and in Southern Europe, instead Volvo in North America and Northern Europe (Bruner & Spekman, 1998). Renault was strong where Volvo was weak and vice versa; it could have led great synergies between firms and helped them to reach their own main aim: “*create the sixth largest car-company and the second largest manufacturer of heavy trucks in the world*” (Nkrumah, 2005). During the alliance, Louis Schweitzer (Chairman of Renault’s supervisory board) and Pehr Gyllenhammar (Chairman of Volvo’s board of directors) were thinking about a closer integration between the two firms, creating a common structure for the car division (Laneve, 2010); in 1993, they revealed their merger project that involved in building a new company Renault-Volvo RVA, owned 65% by French Government and 35% by Volvo (LesEchos, 2007). The main aims of the proposed merger was the development of joint production plants and distribution; RVA would become “the second producer of trucks and the sixth of passenger cars in the world”. The above objectives were the same that have not been achieved through the alliance (Bruner & Spekman, 1998). RVA would be managed by Management board (would be appointed Louis Schweitzer, responsible for the operation) under the supervision of a Supervisory Board (would be appointed Pehr Gyllenhammar, responsible for financial issues). The French Government announced its intention to privatize RVA in 1994, where it would get a special right, termed Golden share⁷; French Government, through the golden share (power of veto) in the RVA, sought to promote the creation of a group of French shareholders in order to counterbalance the strength of the Swedish partner, which will be allocated 35% of the capital. Achieving this objectives would take a few years and so the French government decided to use the method of the “golden share” to ensure 65-35 balance, established by the agreements. Golden share granted to French Government special rights to determine RVA’s equity and its voting; it would

⁷ **Golden Share:** legal institution of British origin, through which Government, during and following a process of privatization of a public firm, reserves special powers such as reservation of an amount of shares and the right to appoint a member in the firm’s board of directors. The Government, unlike the other shareholders, enjoys broader powers.

have led to an unfair balance of power between the two firms, advantage for Renault and no gains for Volvo's shareholders. In fact, Volvo's investors had a lot of doubts about the merger deal especially about two main points: - The first was related to *privatization process*, Volvo's investors didn't want that Volvo would be finished under French Government's control and asked it to establish a precise date, but it always refused.

- The second question regarded the *golden share* of the French Government in RVA. Therefore privatization and golden share issues created much uncertainty in Volvo's institutional investors and shareholders (Bruner & Spekman, 1998); they rebelled against the merger. Pehr Gyllenhammar tried to convince the institutional investors to accept the merger deal but he didn't receive support by them. Finally on February, 1994 the strategic alliance between Volvo & Renault was dissolved and Gyllenhammar resigned; he was blamed for bad management and he was seen as a dictatorial person. The failure of Renault and Volvo alliance was due to political and cultural aspects. Both executives were too much focused on financial and economic aspect and ignored the national and organizational cultural differences between the two firms; it led their alliance toward failure. Several cultural divergences created a lot of problems that compromised social capital development and the overall alliance relationship management. Therefore the most critical issue, which was considered as the main cause of Renault & Volvo failure, was the lack of *cultural fit*. As stated previously, cultural conflict (national and organizational) is surely one of the most problem facing global strategic alliances; partner firms, located in different countries (such as the French Renault & the Swedish Volvo), had different backgrounds institutions and culture. Already from the beginning of the alliance between Renault & Volvo, there were some adverse factors that would have foreseen the negative alliance outcome. The alliance between Volvo and Renault was a case of failure due to cultural incompatibility and incomprehension. In fact, despite their strategic compatibility, in terms of geographical and business area, the two firms were from different realities with different cultures; each firms had its own language, structure, national and organizational culture. Renault & Volvo's executives ignored these differences and it led the alliance toward the failure (Echikson, 1993). First of all in France and in Sweden there was a different *Government's weight and role*; in France

the Government control on industry was very high, instead in Sweden was very low. Another critical cultural issue, which impacted negatively the outcome of Renault & Volvo relationship, was represented by different *Power Distance*: In Volvo there is low Power distance, therefore Volvo's structure was decentralized and there was balance between the different powers; instead in Renault the Distance Power is very high and so the structure was very centralized. This cultural difference led a *lack of structural fit*. Beside, Swedish culture was more group-oriented, instead the French are more oriented toward individualism. National culture affects managerial behaviors, so alliance coordination between partners, with different culture, is more difficult (Park & Ungson, 1997). In fact a critical aspect, related to Swedish national culture, is represented by the high Volvo's *nationalism*; Volvo in Sweden was seen as the symbol of Swedish industry, part of the national heritage. For this reason the merger proposal between Renault & Volvo, touched a nationalistic nerve among Swedes (Bruner & Spekman, 1998); they were afraid to lose their identity through the merger, because the French Government would have a greater control on the merger entity. They felt that the symbol of their nation would have given to foreigners that would have not respected the Swedish culture. In this condition the Swedes' nationalism was the strongest and led them to refuse the marriage between the two firms (Laneve, 2010). Each firm has its own culture and it influences its way to operate; in fact managers and staff, from the different partner firms that work together may have different values, ways of management, administrative decisions etc. Bruner & Spekman (1998) argued, in their paper on Renault & Volvo failure, that one of the problems was represented by the *lack of cooperation* between white color workers. They have different ideas about job handling and products development; it led *communication problems*, in fact some newspaper reported that Renault's workers spoke in French, during some conflicts and Swedish perceived this action as a way through which excluding them. One of the most important consequences of the lack of cultural fit, between partners, is just represented by the poor communication. It is fundamental, for firms working together, be able to communicate and understand the intentions of each other. Communication helps partners firms to eliminate misunderstandings and conflicts related to the different cultures. Renault & Volvo failure is a clear example that the culture plays a critical role in alliance relationship development; it is necessary finds

an integration, a balance and a compromise between different firms' culture, involved in a strategic alliance. Renault & Volvo's executives put too much importance to the economic aspect and not enough to the cultural one; it led the alliance toward failure.

Chapter 3: Alliance success factors

3.1. The choice of alliance governance form

In order to investigate different aspects of the strategic alliance phenomenon, I decided to use different economic perspective and the first among these is the *Transaction cost theory* (Coase, 193; Williamson, 1975); it is useful to understand reasons behind strategic alliance formation and to help firms in choosing the most appropriate governance form on the basis of economic activity's characteristics. The theory provides just a theoretical base to show how firms choose the most appropriate governance structure. *Transaction cost theory* is based on some assumptions, by which it justified the presence of transaction costs:

- *Bounded rationality*: is caused both by *complexity and environmental uncertainty* (changes in external conditions, unpredictable, which could negatively impact the cooperation) and *behavioral uncertainty* (related to the unpredictable partner's behaviors, skills and intentions). Rationality is bounded because of human inability to adapt and react quickly to the complexity and changes of the environment and of its actors (Simon, 1991). Bounded rationality, complexity and uncertainty prevent firms from predict fully the future and to be able to write complete contracts.
- *Opportunistic behavior*: defined by Williamson (1985) as "self- interest seeking with guile". Opportunistic behavior, that is oriented to individual and self-interest rather that to the good of the alliance, is due to the fact that the partner does not honor the commitments, made in the contractual agreement and seek to achieve their self-interests than the collective ones.
- *Assets specificity*: are investments made for supporting a particular transaction, which don't create value outside this specific transaction and so they cannot be employed for other uses. In the field of strategic alliance, the term "asset specificity" refers to the amount of value invested in the alliance relationship and to the costs that will be incurred

for the potential end of the relation or for the choice of another partner. These specific assets, in the context of strategic alliances, are termed as “investment in partner-specific”, as assets that are lost sunk costs in the case of a change in the partner.

The transaction theory is based on the logic that firms, in choosing their mode of transacting; they are led by the scope to minimize costs (Coase, 1937). The theory states that transaction costs are minimized when the governance form matches exchange conditions (Williamson, 1975). The Transaction theory states the presence of two kinds of costs: transaction costs and production costs. Transaction costs are due both by market imperfection and control mechanisms. Opportunistic behavior, asset specificity and incomplete contracts (due to bounded rationality, complexity and environmental uncertainty) lead market transactions failure (Williamson, 1981). Partners to protect themselves from potential opportunistic behavior, with the aim to enforce contracts, are oriented to resort to contractual control mechanisms, which are a source of high transaction costs⁸. When transaction costs of market exchange are too high, alternatively firms can choose to internalize activities to control transaction cost effectively (Coase, 1937). Internalization, on the other hand, leads to increase production costs for managing and coordinating the activities in – house. Strategic alliances are classified as intermediate or hybrid organizational forms, located between the market and the hierarchy. Hierarchy, in this case, refers to the situation in which firms choose to internalize functions, instead to resort the market (Coase, 1937). While market and hierarchy are considered as opposite choices, strategic alliances are something located in the middle, they are considered as the most appropriate governance form to govern those relationships that are not very complex as to require the use of hierarchy, but more complex than those entrusted to the market (thus limiting the amount of transaction costs). Alliances combine features of internalization with market exchange. Unlike the internalization, an alliance through the joint coordination activities, decreases the amount of production costs (Kogut, 1988); opposite to market exchange an alliance allow reducing transaction costs because it is

⁸ **Transaction costs** include: costs concerned with negotiating and writing contracts, cost for renegotiating contract conditions, costs for monitoring that performances are in line with the compliance of contractual obligation.

expected that the partners behave cooperatively as they belong to the same project and their economic returns depend on the success of the project itself. Therefore strategic alliances are more efficient, than market or hierarchy, when they minimized the amount of transaction and production costs (Jarillo, 1988; Contractor & Lorange, 1988). With the formation of an alliance, it is expected a reduction of the risk of partner's opportunistic behavior and at the same time a reduction of production costs through the shared coordination of the alliance activities. However, strategic alliances are not exempt from the risk of partner's opportunistic behaviors. With the aim to reduce this risk, transaction cost supporters state the formation of equity based joint ventures, where the ownership aspect tends to limit opportunistic behaviors as the partners joined the mutual interest to maintain the alliances (Williamson, 1981; Hennart, 1988; Russo & Teece, 1988). Equity alliances incur in a "mutual hostage" situation, because of the shared equity, encouraging the alignment of partner's scope and interest to work together, since neither want to lose their investments in specific assets (Kogut, 1988; Teece, 1987; Dyer, 1996).

Equity joint ventures, under certain conditions, are preferred to contracts because helps firms to contain the opportunistic risk present in inter-firm arrangements (Williamson, 1981; Pisano, Russo & Teece, 1988; Chen & Chen, 2003).

Several are the factors, which affect the choice between EJV and contracts (Chen & Chen, 2003):

- *Assets specificity*: In the choice of the most appropriate governance structure for cooperative agreements, if the risk of opportunistic behavior is high because of assets specificity, EJV is preferred to contracts as the risk is suppressed by shared ownership. The investment in specific assets leads to a reciprocal dependence, which in turn leads a mutual hostage situation that equalizes partners' exposure and the incentive to cheat.
- *Behavioral uncertainty*: difficulties in observing and measuring partners' adherence to what has been established in formal agreement. The high behavioral uncertainty increases the difficult in measuring the performance of the parties in a strategic alliance; in this case EJV is

preferred to contracts, because it could overcome this difficult by providing mechanisms for internal supervision and monitoring.

Concluding Transaction Cost Theory, in the field of strategic alliances, supports the importance of choosing the most appropriate governance structure for alliance relationship management. The theory defines "the choice of an appropriate governance structure", in order to reduce partners' opportunistic behavior risk, as the key factor for the alliance success.

3.2. Knowledge sharing

The second theoretical perspective, which I choose to approach strategic alliance, is *Knowledge based view* (Grant, 1996; Spender, 1996); according this point of view, strategic alliances are considered as a platform for knowledge sharing. This theory is particularly appropriate for firms in knowledge intense environments, where the rapid change in technology, the shorter product lifecycle and the increased cost and risk in producing knowledge, promotes the external research of knowledge (Grant & Fuller, 2004). Strategic alliance formation allows both the access and acquisition of knowledge (Hamel, 1991; Grant & Fuller, 2002) and so it increases the efficiency of knowledge utilization (Mowery, 1996).

According to Knowledge theory, the principle reason for alliance formation is represents by knowledge sharing (Gravier et al., 2008); this point of view makes a distinction between two kinds of knowledge sharing: *knowledge acquisition and knowledge access*. *Knowledge acquisition* is considered, by the supporters of organizational learning prospective, the main reason for alliance formation. The term knowledge acquisition refers to all those activities that increase the stock of knowledge of the organization and that Spender (1992) has defined as "knowledge generation"; instead *Knowledge access* refers to all the activities that deploy the existing knowledge for generating value and that Spender (1992) has defined as "knowledge application". Knowledge generation and Knowledge application are two distinct forms of knowledge sharing among alliance partners.

Knowledge application represents a form of knowledge sharing, in which each firm access to the stock of knowledge of its partner, for exploring complementarities but with the aim to preserve its own base of specialized knowledge.

Knowledge generation is a form of knowledge sharing, in which alliance is considered as a vehicle for learning and in which each partner uses the alliance in order to transfer and absorb partner's knowledge base.

In relation to strategic alliances, this distinction between knowledge generation and knowledge application refers two different kinds of knowledge alliances:

- *Knowledge access alliance*: alliances that firms form for a better and more focused integration of its own knowledge (Grant & Fuller, 2002). Through this kind of alliances, firms can share knowledge, maintaining their own base of knowledge. The efficiency of knowledge access alliance depends on firm's ability to integrate the different kinds of knowledge such as the ability to fully utilize knowledge.
- *Knowledge acquisition alliance*: alliance that firms form for acquiring knowledge that they might lack (Hamel, 1991). The efficiency of this kind of alliances depends on firm's ability to learn. Knowledge, obtained from alliance, could be used also post alliance increasing firm's competitive advantage (Hamel, 1991).

“Learning from alliances” means enhancement of firm's knowledge base, through alliances firms can obtain different form of learning also understand how to create value and manage them. Learning from prior alliance experience helps firm to develop alliance know-how on alliance management to use in ongoing and future alliance (Kale & Singh, 2007). Not all learning aspects are positive such as the risk of core competences appropriation by partners or the risk of learning race between partners (Hamel, 1991). Partners, who first learn, should decide to dissolve the alliance even if the other has not complete learning process or one partner could decide to enter into the strategic alliance to learn the needed capabilities, in order to become a competitor. All this it can destabilize the relationship, unless firms to prevent this kind of

capabilities appropriation, are able to build “relational capital” that can promote mutual learning core knowledge assets protection (Hamel, 1991; Kale et al. 2000). Kale (2000) argues that strategic alliances possess relational capital if they are based on mutual trust, friendship and respect.

Concluding the Knowledge based view, in relation to strategic alliances, highlights the importance of social capital development as a safeguard against potential partner’s opportunistic behavior (Kale et al., 2000). This assumption introduces another important theoretical perspective, the “The Social Exchange Theory” that will be examined in the next paragraph and that stresses just the importance of social capital development for alliance's success.

3.3. Developing of social capital

The *Social exchange theory* (Homans, 1961; Blau, 1964), is another theoretical perspective, useful to identify alliance success factors; it argues that social interactions and exchange between partners are crucial elements for alliance success.

Blau (1964) defines social exchange a situation in which the action of someone has effects on the actions of the others and vice versa in a perspective of repeated interactions. According to him, a one-time exchange in a marketplace is not a social relationship but there must be repeated interactions, because in this way the relationship grows, develops and dissolves as a result of social exchanges between the actors. This theory, relation to strategic alliances, states that social exchanges such as reciprocal commitment, mutual influence and trust, plays a critical role for a positive alliance outcome (Ring & Van de Ven, 1992; Gulati. 1995; Doz, 1996; Spekman et al. 2000). The theory identifies relational factors such as mutual trust and commitment as sources of alliance success. The Social Exchange Theory replaces the logic of “contractual based governance” (supported by Transaction Cost Theory) with the logic of “relational based governance”. Transaction cost’s scholars argue that the high transaction costs (resulting from the threat of opportunistic behavior) could be alleviated through the choice of governance structure able to create a situation of mutual hostage (Kogut, 1988); instead Social Exchange Theory for this purpose highlights the importance of developing relations factors such as trust and mutual commitment (Gulati,1995). Contractual based governance focuses exclusively on

opportunistic behavior and not on social exchanges and relationship between partners firms. The importance of developing relations factors, supported by Social Exchange theory, has been particularly emphasized in the context of learning alliances (Arino, 1998), because the success of collective learning efforts depend on social exchange between partners and low transparency and commitment will hinder the learning process (Parkhe, 2003). An effective learning and transfer knowledge is realized when partners firm show themselves willing to share information and knowledge and when there is an high rate of transparency between them (Inkpen, 1998; Doz & Hamel). Social Exchange theory argues that social factors such as *mutual commitment*, *trust* and *power-sharing* have positively influence on strategic alliances outcome. *Mutual commitment* is a sense of duty toward the partner and the joint project (Muthusamy & White, 2005); it allows firms to reduce behavioral uncertainty, build a sense of loyalty and cooperation and provide a basis for communication between partners and for the joint decision- making. A high degree of mutual commitment allows firms not only to learn from each other, but also to develop new skills and competencies. In this sense, mutual commitment results in more learning for each partners because it facilitates communication, knowledge sharing and joint develop of knowledge in a strategic alliances (Inkpen, 1998; Doz & Hamel). *Trust* is defined as reliance on another part under conditions of risk (Nooteboom, 1996) Trust is composed from two elements: *predictability* in one's expectations about the other's behavior and *confidence* in other's fairness (Ring & Van de Ven, 1992). Alliance formation is based on the acknowledge that partners need knowledge, experience and capabilities; afterwards a firm continues to have confidence in its partner if he is willing to provide the access to specific knowledge important for the alliance (Hamel, 1991). In the knowledge alliances, partner's behavior based on trust is the main conditions for a continued and enriched exchange of knowledge. Trust has several positive effects on alliance relationship development, it provides to enhance openness and accessibility so partners become more transparent, increase the scope of the relationship and the mutual knowledge transfer and learning (Kale et. al 2000). Mutual trust, creating loyalty and cooperation between partners, allows to reduce uncertainty in the other's behavior and so the risk of opportunistic behavior (Gulati, 1995). According to Zaheer (1995) trust

is able to increase the scope of joint planning and actions because partners, through relational exchanges, learn more by each other's and develop confidence.

Mutual power, in cooperative relationships, refers to mutual influence that each part has over the others about decisions and actions related to the achievement of alliance's scope (Yan & Gray, 1994). In a strategic alliance, the power should be symmetrical and balanced, for the alliance success is necessary that each partner has the same influence on the alliance decisions and actions. When in a strategic alliance, there is one partner, the stronger, who has great control and influence on the other, the power is unbalanced. Blau (1996) states that the nature of mutual influence and control is determined by the balance of the power in cooperative relationships. An unbalanced power may be a cause of alliance failure because the weaker partner may develop a sense of injustice and frustration, instead through mutual power partners engage in democratic and participative processes and learn and share knowledge easily. All the three elements (*mutual commitment, trust and power-sharing*) allow to reduce the threat of partner's opportunistic behavior, promote learning process and build "relational capital" (Kale et al., 2000). According to Kale, partner firms develop relational capital, composed by mutual trust, commitment and power. The relation capital is built through continuous interactions between partners, which lead to mutual benefits. Relational capital helps partner firms to increase transparency and so consequently to decrease the threat of opportunistic behavior because it acts as a form of relational safeguard. Concluding Social Exchange theory state that the development of relational capital (composed by mutual trust, commitment and power,) enhances alliance success likelihood.

3.4. Complementary and idiosyncratic resources

The resource based view (Penrose, 1959; Barney, 1991; Peteraf, 1993) is another theoretical perspective, useful to understand rationales for alliance formation and key factors that lead alliance to success. According to this point of view the most important reason which leads firms to form or enter into a strategic alliance, is the resources' potential of value creation when are pooled together. The main strategic alliance benefit is represents by the opportunity to access to unavailable resources and by the

joint development of new resources. Alliances are considered a mean to develop and exploit firms' resources base. The resource based view highlights the important role played by resources. According to Penrose (1959) firm is considered as a bundle of resources and its competitive position is defined by its own resources endowments. The term "resources" refers to human resources (such as experience, knowledge etc.), physical resources (such as plant and equipment) and organizational resources (such as mechanisms for coordination, planning and decision making process). Firms, through these resources, can create competitive advantage and enforce barriers on competitors (Barney, 1991). Four are the characteristics that firm's resources must have for achieving a strong competitive advantage: value, imperfectly imitability, rarity and durability (Barney, 1991). Differences in firm performance are due to different resources endowments. Some resources features that we have already mentioned above as *imperfect mobility*, *imperfect imitability* and *imperfect substitutability* are useful not only to explain resources heterogeneity between firms, but also to explain reasons behind alliance formation. *Imperfect mobility* refers to the difficult to move some resources form a firms to another, while *imperfect imitability* and *imperfect substitutability* refer to difficult to obtain similar resources from elsewhere (Barney,1991; Peteraf, 1993). Markets are often incomplete and imperfect, so for firms acquiring the needed and desirable resources on it is not easy because many resources are not perfectly tradable or are not tradable at all. Resources like reputation, trust, organizational culture are not tradable, because of their intangible nature; others resources such as firm's tacit knowledge lose their value if moved from their context. More and more firms decide to form or enter into a strategic alliance for filling this gap of resources. If resources were perfectly mobile, imitable and substitutable, firms would access to all desirable resources, through acquisition on market for fair price, and so they would have no incentive to enter into a strategic alliance. If for a firm, is not possible to get the needed and desirable resources from elsewhere, it will be willing to form a strategic alliance. According the Resource based view strategic alliance are seen as a mean to gain the resources that firms might lack (Lambe et. al., 2002). Firms, through strategic alliances, try to build a resources bundle that is valuable, rare and difficult to imitate (Gulati, 2000). Strategic alliances allow firms to aggregate and share valuable

resources with partners, when these resources cannot be efficiently obtain through market exchange or merger and acquisition. As Penrose (1959) argues firms are bundles of resources, a merger or acquisition does not imply an acquisition of isolated resources but a fully internalizing, where many undesirable and unneeded resources are fused with the needed resources, so merging with or acquiring the entire firms could result in a buck of unneeded resources (Das & Teng, 2000). Firms prefer strategic alliances when none needed resources are not separable from needed resources; in fact through strategic alliances firms preserve their identity and can access only the desirable resources. Strategic alliances allow firms to identify optimal resources' configuration in which the value of their resource is maximized; in fact according the Resource based view, the main scope of alliance formation is the value maximization through pooling and combination of valuable resources (Van De Van & Walker, 1984; Gulati, 1999). Strategic alliances allow firms to create a collection of value resources that can produce substantial benefits for alliance partners and that firms are not able to create independently (Das & Teng, 2000). Eisenhardt and Schoonhoven (1996) state that strategic alliances are cooperative arrangements driven by a need of strategic resources and social opportunities; in fact strategic alliances are more likely to be formed, when firms are in a *vulnerable strategic position* (they need to access resources) or in a *strong social position* (they have valuable resources to share). *Vulnerable strategic position* refers to those situations in which firms are in difficult market conditions or have adapted costly and risk strategies; in these cases strategic alliances can allow firms to access critical resources such as financial resources, specific skills or market power, which can enhance their own strategic position (Pisano & Teece, 1989).

Strong social position refers to social advantages such as reputation, status or strong personal relationships, which signal the quality of the firms and allow to attract partners who desire to ally with high-status others (Podolny, 1994). This favorable social condition promotes alliance formation because extensive social relationships create great opportunities to ally and build knowledge and trust among potential partners (Larson, 1992). Strategic alliances, according to Resource based view, allow both to fill the need of resource for firms in a vulnerable strategic position both opportunities to ally for firms in strong position. Through strategic alliances formation,

firms in a vulnerable position can access needed and desirable resources for competing effectively; instead firms in a strong social position can maximize their own resources for knowing, attracting and engaging potential partners.

From a Resource perspective key factors for alliance success are represented from partners bringing complementary resources to the alliance and from the development of idiosyncratic ones during alliance's lifecycle (Lambe et. al., 2000). Jap (1999) states that complementary and idiosyncratic resources are suggested to foster alliance success. Complementary resources represents a very important criteria for partner selection process (Hitt et. al., 2000). Complementary resources are defined by Lambe (2000) as the degree in which firms can cover each other's lack of resources.

According to Ireland & Miller (2001) high similar resources allows firms to gain economies of scale and to exploit the existent competitive advantage; instead different but complementary resources allow to gain economies of scope, synergies and developing new resources and subsequently achieving new forms of competitive advantage. At the same time, Varadarajan & Cunningham (1995) state that complementary resources allow firms to enhance effectiveness and efficiency of alliance performance, because alliance partners when pool resources new opportunities could arise, which they are not able to exploit individually.

The main effect of complementary resources on alliance success occurs by virtue of its being a key antecedent of idiosyncratic resources (Jap, 1999). Complementary resources, when are combined provide different and more valuable resources, defined as "*idiosyncratic resources*" (Lambe et al., 2002). Idiosyncratic resource, obtained through the combination of partner's resources, are developed during the alliance's lifecycle and being unique to alliance have little use or value outside it (Jap, 1999). These resources can be either tangible (for example a join manufacturing facility) or intangible (for example an efficient system of working together) and they allow firms to achieve strong competitive advantage when are combined in a way that competitors cannot match. Concluding Resource based view, relation to strategic alliances, is useful to suggest that the main aim of alliance formation is represented by the potential value creation of firms' resources that are pooled together; moreover it is useful for highlighting the importance role of complementary and idiosyncratic resources for alliance success.

3.5. Alliance management capabilities

In this section the theory, used for understanding not only how firms can obtain success from their strategic collaboration but also why some firms get success from their alliances and others fail, is the “ *Dynamic Capabilities view*” (Pisano, 1994; Teece et al., 1997); this theory gains importance in the early 1990s. The concept of dynamic capabilities is designed to achieve sustainable competitive advantage (Teece, Pisano & Shuen, 1997); it refers to firms’ abilities to promote changes through integration, building and reconfiguration of competences in matching changing environments. According to Resource based view, competitive advantage depends on the firm’s possession of rare, valuable, inimitable and non- substitutable bundle of resources, but under unpredictable market conditions, resources endowment is no more sufficient to understand performance differences among firms. While resources are at the disposal of all firms, capabilities are heterogeneously distribute across firms. The Resources based view addresses a firm’s existing resources; instead Dynamic capabilities view emphasizes the reconfiguration of these resources (Helfat and Peteraf, 2003). Differently by the resource based view (which highlights the importance of seeking the best way of utilizing firms’ resources bundle), the Dynamic capability view argues the importance of identifying the best way of integrating, renewing, reconfiguring, and recreating resources bundle. In situation of rapid environment change, resources alone are not able to be translated into performance; therefore it is necessary that firms develop a high degree of resources and capabilities that enhance the productivity of the basic resources. Previous studies in literature have assumed a positive effect of dynamic capabilities on competitive advantage. By replacing existing resources, dynamic capabilities are able to create better matches between the configuration of a firm’s resources and external environmental conditions (Teece and Pisano, 1994). Dynamic capabilities are heterogeneously distributed and thus fulfill a key requirement for being a source of competitive advantage. The firm’s continuity of competitive advantage, in dynamic environment, can be obtained when firms develop and renew capabilities over time (Helfat and Peteraf, 2003). The Dynamic capabilities refer to the dynamic interactions between environments and the firms’ capabilities, and the needs to sustain competitive advantage through capability building. Dynamic

capabilities are defined as organizational routines that affect change in the firm's existing resource base (Eisenhardt and Martin, 2000; Helfat, 1997; Teece, Pisano, and Shuen, 1997). Nelson and Winter (1982)⁹ defined dynamic capabilities as the collection of organizational and strategic routines, through which firms obtain a new configuration of resource, in order to match the rapidly environment changes. Dynamic capabilities are defined as a high order of resources that enhance the productivity of the basic resources (Teece et. al., 1997). In the field of strategic alliance, the Dynamic capability view has an important implication, because it promotes a shift in research focus. Theoretical perspectives, used previously (*Transaction cost, Knowledge, Social exchange and Resource based view*), focus on aspects characteristic of the specific and individual alliance relationship (such as trust, commitment, strategic or cultural fit, choice of the most appropriate form of governance etc.); instead Dynamic capability view shifts the focus from the relationship between partners to partner's skills in managing the relationship. This theory is useful to understand how firms can create competitive advantage through alliances management. In relation to strategic alliance, the Dynamic capability view argues the strategic importance of organizational and managerial capabilities for alliance success (Pisano, 1994; Teece et al., 1997). These firm's managerial capabilities, which are considered keys for alliance success, are termed, in alliance literature, as "*Alliance management capabilities*". Like the Dynamic capabilities, the alliance management capabilities are considered as a high-order of capabilities in managing strategic alliance. Just like dynamic capabilities, the alliance management capabilities are asymmetrically distributed across firms, and just this asymmetric distribution is useful to cause performance difference among firms. Firms, which have a superior level of alliance management capabilities, are firms with a superior alliance performance, and so superior alliance management skills are source of competitive advantage (Kale & Singh, 2001). Like dynamic capabilities, alliance management capabilities are source of competitive advantage because they exhibit several feature

⁹ Nelson and Winter (1982) have defined *routines* as "repetitive, highly patterned activities or behavior that are learned". According the authors unlike skills, embodied in people, the routines are developed at the organizational level and act as rules of conduct for the members of the organization. The definition of routine is important for that one of capabilities, in fact capabilities are defined as routines to execute and coordinate several task, required for performing the activities. Capability like routine implies that firms have some threshold of practice.

such as: - they are valuable, their utility will not diminish with the usage (Hamel & Prahalad, 1990) – they are hard to imitate and rare because the developing process of alliance management capabilities is embedded in cognitive routines and cannot be observed by competitors - they are immobile because this process cannot be purchased in the open market (Barney, 1991). Dyer et al. (2001) argues that forming or managing a strategic alliance, more efficiently than competitors, is a source of competitive advantage. Theoretical perspectives, explained previously (*Transaction cost, Knowledge, Social exchange and Resource based view*), have been used to answer the first research question, related to the identification of alliance success factors; instead the Dynamic capability view and consequently the concept of “*Alliance management capability*” is useful to answer the second research question, related to differences in alliance performance rates between firms. Differences, in alliance performance among firms, are due to different level of alliance management capabilities (Kale, Singh & Dyer, 2000; Anand & Khanna, 2000). So alliance management capabilities explain why some firms get success from their alliances and others fail (Kale, Singh & Dyer, 2000); alliance management capabilities are able to explain differences in alliance performance rates between firms. According this point of view firms that have a high alliance performance are firms with a higher degree of alliance management capabilities (Kale & Singh, 2002). Firms’ alliance performance differs because of the heterogeneous degree of alliance management capabilities (Lambe, 2002). Previous studies on the subject, have found that differences in alliance performance among firms, are due to different level of alliance management capabilities (Kale, Singh & Dyer, 2000; Anand & Khanna, 2000). So alliance management capabilities explain why some firms get success from their alliances and others fail (Kale, Singh & Dyer, 2000). Firms, with a higher level of alliance management capabilities, are those that have a greater likelihood of alliance success (Lambe, Spekman & Hunt, 2002).

3.6. Market Driven Management: Alliance Orientation from Market Orientation.

As stated in the first Chapter, globalization has deeply changed the role of strategic alliances, requiring logic of collaborative network. Global markets, characterized by hyper-competition and where time and space become competitive factors, promote a

competitive logic based on network relationships (Brondoni, 2010). Global firms become aware that they cannot compete with its own endowment of resources, skills and capabilities; in fact global firms' management requires the development of ramified, widespread and highly correlated organizations termed global networks that foster firms' collaborative relationships with co-makers and other external partners (Brondoni, 2008). Global strategic alliances allow firms to develop collaborative networks with actors from different cultural, industrial and political background. Globalization lead firms to adopt a philosophy of management oriented to the market termed "*Market-driven management*" in which prevails a "competitive customer value management" with direct and continuous confrontation with the competitors (Brondoni, 2010). In the field of global strategic alliances, interesting is the concept of "*alliance orientation*" (created by Kandemir, Yaprak & Cavusgil, 2006); that is driven by literature on "*market orientation*"¹⁰ (Day, 2000). Market orientation is the essence of *Market Driven Management*, (Lambin & Brondoni, 2001; Brondoni, 2007) and allows market driven firms to achieve superior abilities to realize a greater customer value than competitors thanks to their deep market knowledge (Brondoni, 2009); at the same time "*alliance orientation*" is considered as a higher order of management capabilities about collaborative relationships that enhances "*firm-level capabilities to identify and analyze partnership opportunities, to coordinate the activities underlying the alliance and to develop "alliance experience" and learn from it, in a superior way than their competitors*" (Kandemir, Yaprak & Cavusgil, 2006). Market orientation is considered as a "*firm-level capability that links firms to their external environment and allows them to compete by anticipating markets requirements ahead of competitors and by creating durable relationships with customers, channel actors and suppliers*" (Day, 1994). Day (1999) argues that a firm, who possess superior market performance, is a firm more market-oriented of its competitors. These firms are defined as "*Market Driven Winners*". This definition refers to the combination of three capabilities:

1. *An externally oriented culture* with a focus on the customer and the continual quest for new sources of advantage.

¹⁰ Day (2000) has defined *market orientation* as the firm's ability to create superior competitive customer value thanks to knowledge, derived from customers and competitors analysis.

2. *Distinctive capabilities* in market sensing, market relating and anticipatory strategic thinking.
3. *A configuration* that enables the entire organization to continually anticipate and respond to changing customer requirements and market conditions.

The combination of these capabilities allows firms to realize a value proposition superior than their competitors; it means that market-driven firms know more deeply their markets and are better able to form close relationships with key partners.

At the same way alliance orientation, according to Kandemir, Yaprak & Cavusgil (2006), is defined as combination of three firm's capabilities:

1. *Alliance scanning*: firm's superior capabilities in identifying best partnering opportunities. Firms, which possess these superior capabilities, can achieve first-mover advantages in choosing the best partner (Day, 1995). Superior scan capabilities allow firms to identify skillfully partners with complementary resources and strategic compatibilities (Lambe et. al., 2002).
2. *Alliance coordination*: firm's superior capabilities in coordination alliance activities and in combining respective partner's resources for generating new capabilities. Superior coordination capabilities enhance firm's ability to share information, opportunities and activities. These kinds of capabilities help firms to have more integrated strategies and more synchronized alliance activities (Dwyer et. al., 1987).
3. *Alliance learning*: firm's superior abilities to learn from its own previous experience. Alliance management is a complex process, it's important for firms learning by its prior or ongoing alliance experience (Anand & Khanna, 2000).

In harmony with the market orientation literature, the combination of these alliance management capabilities, allows firms to obtain "*alliance performance superior than their competitors*" (Day, 2000). Lambe (2002) states that alliance management capabilities allow firms to achieve superior alliance performance compared to its competitors; he defines alliance management capabilities as a higher order capability that results from a firm's continuous improvement of its lower order capabilities. Kandemir, Yaprak & Cavusgil (2006), have defined *alliance management capabilities* as a "firm's portfolio of superior alliance management capabilities, which help firm to scan partnering opportunities, to coordinate its alliance activities and to learn from its

own prior alliance experience”. Alliance management capabilities are a portfolio of higher managerial relationship skills, through which firms increase their ability in scanning partnering opportunities, in coordinating and managing joint alliance activities and developing mutual learning (Lambe, 2004). The developing of alliance management capabilities regards three fundamental aspects: - Experience with alliance – Knowledge of alliance – Management processes related to the alliance (Draulans et. al., 1999). According alliance management capability point of view a key role, in developing alliance management capabilities, is played by “*prior experience*”, gained through engaging in numerous alliances; another critical role is played by “*learning mechanisms*”, which are useful to translate the alliance experience into accessible lessons across the organization and that promote the learning process on alliance management for future partnership opportunities (Kale et. al., 2002). According to Harbison & Pekar (1997) learning, from prior experience about alliance management, promotes the creation of managerial practices, which allow firms to share and translate the alliance experience into accessible lessons and to develop a sort of knowledge containers, in order to use for future partnering opportunities.

In light of this view, a firm can benefit from its alliance relationships as learning source. Concluding the Alliance orientation is useful to explain the heterogeneous level of alliance performance among firms and to understand why some firms are more able to collaborate than the others; some firms have a superior alliance performance due to their level of experience, knowledge gained through it, and the presence of managerial practices related to the alliance activities (Harbison & Pekar, 1998). The issue of alliance management capabilities will be the subject of the fifth chapter of my research, in which will be clarified what they mean, identified their organizational characteristics, how firms develop these management skills and how they contribute to strategic alliance success.

3.7. Conclusions

In this chapter, through the literature review of important theoretical perspectives (such as Transaction cost, Knowledge based, Social Exchange, Resources based, Dynamic capabilities and Alliance management capabilities), I identify and analyze rationales, which lead firms to join or form a strategic alliance, and alliance success factors that

are able to enhance alliance success likelihood. The results of this chapter are summarized in the below table:

Table: *Summary scheme on alliance rationales and alliance success factors.*

| Theoretical perspective | Reasons | Success factors |
|--|--|--|
| <i>Transaction cost theory</i> | Reducing the sum of transaction and production costs | Choice of the appropriate governance structure that limits the threat of partner's opportunistic behavior |
| <i>Knowledge based view & Social Exchange theory</i> | Knowledge sharing: Knowledge acquisition & Knowledge access | Alliance know-how on alliance management, gained from prior alliance experience. Developing of "relational capital" such as trust, mutual commitment and power- sharing |
| <i>Resource based view</i> | Potential value creation of partners' resources, which are pooled together. Partner firms opportunities to access unviable resources and to develop jointly new resources | Partner's complementary resources and development of idiosyncratic ones, during the alliance lifecycle |
| <i>Dynamic capability view & Alliance management capability view</i> | Reconfiguration of the existing resources. Identification of the best way ,through which partner firms can integrate, renew and reconfigure the bundle of their base resources. | Partner firms organizational and managerial capabilities, which are termed "Alliance management capabilities". Importance of developing "Alliance management capabilities" as a high-order of resources in managing alliance relationship |

Chapter 4: Alliance competitive success factors in alliance lifecycle

4.1. Alliance lifecycle

Strategic alliance is similar to an entity that grows and develops in nature; in fact its development process can be explained through the concept of “*lifecycle*”, because alliances are composed by steps, through which the alliance relationship emerges, grows and dissolves. Alliance development has a cyclical approach, such as alliance phases are interlinked through learning and adaptation; in fact strategic alliances are considered as entities that learn and adapt to the changing circumstances, indicating that alliance development entails a repetitive sequence of goal formulation, implementation and modification, based on lesson learned or changed intents among partners (Arino & De La Torre, 1998). Alliance life-cycle could be defined as a set of different collaboration phases, ranging from alliance formation to alliance termination. In literature, there are a lot of studies on alliance lifecycle theme (Lorange & Ross, 1993; Murray & Mahon, 1993; Ring & Van de Ven, 1994; Faulkner, 1995; Dussage & Garrette, 1998; Spekamn et. al., 1998; Child & Faulkner, 1998; Kale & Singh, 2000), each one with its specific analysis perspective and different point of view, but all of them agree on the presence of some fundamental alliance life stages, each one characterized by key factors and activities. Each study describes the development of strategic alliance as an interactive and circular process, which begins with a formation phase, continues with a development phase up to reach a maturity phase. The initial phase is the phase in which future partners manifest desire and interest in forming an alliance, the development phase is the phase in which the alliance dream becomes reality and finally the maturity phase regards the way in which the alliance develops further, following its formation. Each phase has an important impact on the others and a specific contribution on alliance continuation; in fact the alliance success is the result of a successful management of each alliance life-cycle phase. Strategic alliance proceeds to the next stage only after scope and objectives of previous stage have been achieved. Alliance success lies in the best way to build and integrate different phases of alliance life-cycle and to identify, develop and manage key factors, which characterize each one specific phase. A successful strategic alliance must be actively

managed through various stages, in order to increase the change of success. Based on the extant literature (Lorange & Ross, 1993; Murray & Mahon, 1993; Ring & Van de Ven, 1994; Faulkner, 1995; Dussage & Garrette, 1998; Spekamn et. al., 1998; Child & Faulkner, 1998; Kale & Singh, 2000), I decide to divide strategic alliance development in three main phases: *Formation Phase*, *Operational Phase* and *Evaluation Phase*, which respectively correspond to the birth, development and maturity of a strategic alliance. Each of these phases provides the alliance with a specific foothold to continue in the next step of alliance development. After providing an overview of alliance lifecycle, in the following section I'm going to describe each phase, identify for each of them key factors and show how they have to be managed better in order to lead alliance toward success.

4.2. Success factors in Alliance Formation phase

Alliance Formation phase is the initial phase of alliance lifecycle, in which firms manifest an interest in forming strategic alliance, analyze reasons and potential alliance benefits, select future partners and choose the most appropriate form of cooperation for alliance management. Selecting the right partner and choosing the most appropriate form of cooperation for alliance governance, are the two key activities in this phase. In each key activity, are involved some success factors that are crucial for successful management of alliance formation phase and overall for the alliance success. The aim of this section is to analyze the two key activities of alliance formation phase (such as *partner selection and choice of alliance governance*) and the success factors engaged in it.

4.2.1. Partner selection

Partner selection is a very critical activity; in choosing an appropriate partner, firms need to be cautious and they have to look for a certain degree of fit between partners, because on it depends the probability of alliance success (Das et. al., 1997). During formation phase, as well as during the entire alliance lifecycle, firms have to focus on achieving and maintaining a good fit between partners. Alliance lifecycle is a repetitive sequence of phases, in which strategic goals, organizational structures, operational

activities and different cultures have to be aligned, in order to achieve a high degree of fit among partners. Alliance success depends on an efficient and effective fit between firms involved in the cooperation. Insufficient fit among partners can lead to alliance failure; in fact Harbison & Pekar (1998) states that partner selection is of critical importance and often alliances fail because inexperienced firms pay more attention on their own objectives, instead of conducting a detailed partner selection. Partner selection is a core element in building alliance success. In partner selection, are involved some key factors, which are able to identify the most appropriate partner and overall to increase the probability of alliance success. Choosing the right partners means find the desirability match between partners' resources, goals, incentives and strategies (Das & Teng, 2003).

Key factors, involved in partner selection, are identified and described as following:

1. *Partner complementarity*: is defined as the degree to which a partner shares non overlapping resources to the alliance, such that on partner brings resources and capabilities that the other lacks or needs (Kale & Singh, 1998). As well as established by *Resource based view* (discussed in the second chapter) complementary resources play a critical role for achieving alliance success. Complementary resources are considered by Resource based view as one of the most important success factors; they are defined by Lambe (2000) as "*the degree in which firms can cover each other's lack of resources*". According to Ireland & Miller (2001) high similar resources allows firms to gain economies of scale and to exploit the existent competitive advantage, instead different but complementary resources allow to gain economies of scope, synergies and the development of new resources and subsequently to achieve new forms of competitive advantage. Researchers argue that firms should choose for partners with similar but complementary resources (Murray & Kotabe, 2005; Kim & Inkpen, 2005). If partners bring together the same resources, they have little knowledge to share and few benefits to gain. Excessive similarity, between resources, implies that partners have little to learn from each other (Kim & Inkpen, 2005); such as the same time excessive diversity, between resources, implies difficult for partners to learn from each other. Therefore, a careful balance between resources diversity and similarity is represented by complementary

resources. Complementary resources allow firms to enhance effectiveness and efficiency of alliance performance, because alliance partners when pool them together new opportunities could arise, which they are not able to exploit individually. The main effect of complementary resources on alliance success occurs by virtue of its being a key antecedent of idiosyncratic resources (Jap, 1999); in fact when complementary resources, are combined provide different and more valuable resources, defined as “*idiosyncratic resources*”¹¹ (Lambe et al., 2002). Partner complementarity refers to the concept of *strategic fit* among partners; in fact in the context of strategic alliances, strategic fit means that organizational resources and capabilities are aligned with the complementary resources brought by the alliance (Cunningham & Varadarajan, 1995). Strategic fit is higher when the alignment of complementary resources is useful to bridge the gap of each partner; instead there is a lack of strategic fit, when combining activities of each partner’s value chain is not possible to achieve sustainable competitive advantage and synergies. Previous studies on the subject, show that when partners pool together complementary resources, it increases the efficiency and effectiveness of the alliance performance (Sarkar et. al., 2001).

The concept of strategic fit refers, in addition to partner complementary, to another alliance success factor, which firms need to consider in choosing the right partner:

2. *Partners’ goals congruence*: is defined as the extent to which partners’ orientations, abilities and activities can be integrated successfully (Speckman et. al., 1998). Alliance success depends on the definition of clearly and compatible partner’s goals. Lack of clear goals and objectives leads alliance toward failure. It’s necessary knowing each partner’s real objectives, not knowing is dangerous and leaves firms in a vulnerable position. Partners could have different

¹¹ The idiosyncratic resource, obtained through the combination of partner’s complementary resources, are developed during the alliance’s lifecycle and being unique to alliance have little use or value outside it (Jap, 1999)

objectives, but it's important that these objectives are compatible and that they can be achieved simultaneously.

Partners' goal compatibility introduces another success factor, involved in partner selection process, which are:

3. *Partner compatibility*: is defined like fit between partners in management style, practices, experiences and organizational culture. Partners' compatibility allows harmonizing differences among partners and enhances alliance success likelihood. The concept of partner compatibility refers to *cultural fit and organizational fit*. *Cultural fit* means sensitivity toward partners' cultural differences and willingness to find integration between the elements of cultural distance (such as differences in managerial styles, strategic approach, management risks, innovation and production strategies and financial policies etc.). Partnering firms are probably located in different countries and so they have different background institution and culture (Child et. al., 2005). Managers and staff, from the different partner firms, working together in the strategic alliance may have different values, way of operation management, administrative decisions etc. Different cultures operate in different ways. Elements of cultural distance must be the basis on which partners could promote cultural integration. Cultural differences can create, in the context of global strategic alliances, different situations such as (Marchi & Vignola, 2013): - cultural pluralism (coexistence of both cultures) - cultural assimilation (integration of the positive elements of both cultures to create a new common culture to partner) - cultural transfer (prevalence of the culture of one of the partners considered most suitable for achieving the objectives of cooperation) - cultural resistance (situation in which there is no integration between partners' culture). Cultural resistance could create cultural conflicts and compromise the likelihood of alliance success. Conflicts, arising from cultural differences, could hinder the establishment and the management of cooperative relationship between partners firm and if they are not properly managed, can lead to strategic alliance failure (Faulkner, 2010).

The other concept, related to partner compatibility, is *organizational fit*; it

means partners compatibility to adapt to each other's management practices, organizational culture and procedures, working style etc. (Park & Ungson, 1997). Lack of organizational fit could arise create significant coordination problems as disagreements over operating strategies, policies and methods between partners that have to expend a great amount of time, energy and resources to find standard managerial routines for facilitating communication and integration (Yan & Grey, 1994).

Others critical factors, for a successful partner selection, are represented by:

1. *Commitment*: is defined as the degree to which an alliance partners is willing to commit resources, in order to achieve alliance strategic goals and to undertake certain actions to preserve the alliance. Firms are committed, in a strategic alliance, by contributing specific resources and capabilities (Jiang et al., 2008). Partners' commitment means that partners are willing to devote costly resources to the alliance relationship and to make short- term sacrifices to realize long term ones (Kale & Singh, 2009). Mutually commitment is a critical element of relational capital (Madhok, 1995). As stated by *Social ex-change theory*, discussed in the second chapter, critical to the alliance success is the developing of relational factors like trust and commitment (Gulati, 1995). Partners' commitment means long term orientation in maintain alliance relationship long enough for partners to realize their own benefits (Zaheer et al., 2005). Commitment allows partner reducing behavioral uncertainty, building a sense of cooperation and loyalty between partners and providing a basis for communication for the joint decision- making process.
2. *Reputation*: A good partner's reputation announces relationship quality and encourages firms to ally with him; firms tend to be more confident if a partner has a good reputation, because they presume that he will cooperate in good faith and make a real alliance contribution (Das & Teng, 2001). A bad partner's reputation is considered like a signal of high risk of opportunistic behavior. Das & Teng (2001) argue that a good partner's reputation allows to develop mutual trust, helps to reduce transactional costs and risk of opportunist behavior and decreases inter-partner conflicts and control relational risks.

3. *Prior ties*: Gulati (1995) argues that prior experience, in alliance relationships and in repeated interactions, is a critical factor that affects partner choosing. Prior ties have a positive outcome on alliance success for several reasons (Doz, 1996; Reuer et al., 2002; Kim & Inkpen, 2005). Learning from prior alliance experiences helps firms to accumulate experience, lessons and guidelines on how manage and reduce risks in future partnerships such as how avoid past mistakes or anticipate some contingencies and prevent possible change in alliance conditions (Killing, 1993). Again previous ties help to create close bonds and promote the developing of mutual trust, in turn discouraging partners' opportunistic behavior and reducing transaction cost (Parkhe, 1993; Gulati, 1995).

4.2.2. Choice of appropriate alliance governance

The second key activity of alliance formation phase is represented by *the choice of appropriate alliance governance*. When firms decide to form a strategic alliance, they face several transaction and coordination risks, therefore it's very important understand how to address the governance issue related to strategic alliance As stated by *Transaction cost Theory* (Coase, 1937; Williamson, 1975) the choice of the most appropriate alliance governance, able to reduce partners' opportunistic behavior risk, is a critical factor for alliance success. The existing literature on strategic alliance issue identifies the presence of three main choices of alliance governance.

The first choice regards "*equity ownership*". According Transaction cost theory (Williamson, 1985), when risk of opportunistic behavior and environment uncertainty are very high, choosing an equity- based alliance is considered the best choice. With the aim to reduce these kind of risks, Transaction cost supporters state that the choice of equity- based alliances are preferred because of their ownership aspect, which tends to limit opportunistic behaviors as the partners join mutual interest to maintain the alliance (Williamson,1981; Hennart,1988; Russo & Teece,1988). Equity alliances incur in a "mutual hostage" situation, because of the shared equity, encouraging the alignment of partner's scope and interest to work together, since neither want to lose their investments in specific assets (Kogut, 1988;

Teece, 1987; Dyer, 1996). Furthermore Strategic Equity alliances are preferred, in choosing alliance governance, because allow to facilitate hierarchical supervision (Kogut1988) and provide a basis, for each partner, for receiving share of returns in proportion to its level of ownership (Kale & Singh, 2009).

The second choice, related to alliance governance, is “*contractual provisions*”. Alliance contract allows to clarify mutual rights and duties, partners’ contributions, the way through which exchanges take place and potential conflicts are resolved (Kale & Singh, 2009). In governing alliances, contracts are effective through enforcement provisions (which are useful to specify cases of contracts' breach that require alliance termination or adjudication) and informational provisions (which are useful to facilitate coordination between alliance partners).

The third choice regards “*Self- enforcing governance*”, which is a mechanism of alliance governance based on relational factors such as trust and commitment.

Self- enforcing governance is also defined as “relational based governance” (Gulati, 1995). The importance of developing relational factors, in order to achieve alliance success, is supported by Social exchange theory. “Relational based governance” is different from “equity ownership governance”, supported by Transaction Cost Theory (Williamson, 1991). Transaction cost argues that the high transaction costs (resulting from the threat of opportunistic behavior) could be alleviated through the choice of alliance equity- based governance creating a situation of mutual hostage (Kogut, 1988); instead relational based governance for this purpose highlights the importance of developing relations factors such as trust and mutual commitment (Gulati,1995). Trust has several positive effects on relationship development, it provides to enhance openness and accessibility so partners become more transparent and increase the scope of the relationship and mutual commitment (Kale et. al, 2000).

Kale (2000) argues, for addressing the alliance governance issue, the importance of developing “relational capital, which is built through continuous interactions between partners”. Relational capital increases the likelihood of alliance success through different way such as: transparency between partners able to reduce the threat of opportunistic behavior, trust that acts as a form of relational safeguards that reduce contracting, monitoring and adaptation costs because partners act fairly and are more willing to be flexible in response to unforeseen circumstances. Therefore the

developing of “relational capital” promotes mutual learning and the protection of core knowledge assets (Hamel, 1991; Kale et al., 2000) because a firm, which has confidence in its partner, is more willing to provide access to specific knowledge (Hamel, 1991).

4.3. Success factors in Alliance Operational Phase

The operational phase is the phase in which alliance vision is translated in economic reality, in which partners’ resources and assets are dedicated to realize alliance mission. During this phase the alliance realizes the intended actions. Partners manage the alliance on an ongoing basis in order to realize value. In the phase, the focus is on coordination and integration of partners’ activities. Strategic alliance has arisen, partners begin to work together, probably with different culture, way of doing business, behavior etc.; for the above reasons, this phase is considered the most critical phase, in which it could emerge conflict between partners; it is called by Das & Teng (2002) as crossroads, because during this phase the alliance may fluctuate and the result could be a reformation or termination. Partner interactions become more intense and the risk of conflicts is very high; in fact many alliances fail during this phase. Strategic alliance may be destabilizing because of potential conflicts among partners. Operational phase is considered crucial for defining the alliance continuity or the end. The success of this phase depends on the previous work, which has been done during the formation phase (partner selection and choosing of appropriate alliance governance).

Operational phase is considered the longest stage and is the moment in which the potential alliance benefits are materialized. During this phase, the partner firms have to take decision related to coordination of day to day process, monitor alliance activities, manage communication process and inter-partner learning process, solve potential conflicts and build high- quality work relationship. In the Operational phase, as in the previous alliance phase, are involved several key factors that need to be managed better, in order to lead the alliance toward success. Key factors, involved in Operational phase, are described in the next sections, as below.

4.3.1. Coordination

During the Operational phase, the first issue that alliance partners face is related to the need of coordination of their actions, in order to manage the interdependence and realize alliance benefits (Gulati & Singh, 1998). Coordination is a set of tasks that each partner expects the other to perform (Mohr & Spekman, 1994); in fact when mutual objects are set, coordinated actions should be directed towards these goals for achieving alliance success. In today environment, characterized by uncertainty and instability, partners can achieve relationship's stability only through high level of coordination (Pfeffer & Salancik, 1978). Successful alliances are marked by coordinated actions directed at mutual and common objectives (Narus & Anderson, 1987).

Alliance partners, in order to manage successful coordination process, can use three mechanism of coordination:

1. *Hierarchy*: regards the introduction of a structure or formal role with authority, power and ability in decision- making process that supervise interactions between alliance partners and helps them in information and resources sharing (Kale & Singh, 2009). This formal role or structure can be played by a separate dedicated alliance function with the specific aim to manage it or by an alliance review committee with the same alliance supervision and management function
2. *Programming*: regards the development of clear guideline about the task that each partner has to perform, the specific responsibility for each tasks and a timetable for implementing them. Programming helps alliance partner in coordination process because it clarifies each specific task that has be performed and the specific partner that has to perform it (Dyer & Singh, 1998). Indeed programming of roles, activities and responsibilities facilitates and increases decision- making speed.
3. *Feedback mechanism*: such as joint team and collocation is the most appropriate coordination mechanism when regularly information about each other partners' actions and decisions are needed and when alliance partners periodically evaluate the evolution of their relationship and adapt themselves to it.

4.3.2. Trust and Commitment

Trust and Commitment are the most important elements of relation capital and are considered as the soft side of alliance management. As stated in Social Exchange theory, development of mutual trust and commitment enhances alliance success likelihood. Developing mutual trust and commitment identifies the quality of the relationships between alliance partners (Coleman, 1990), facilitates and allows the effective alliance functioning day-to-day. All firms, involved in strategic alliances, recognize the importance of developing mutual trust and commitment; without mutual commitment and trust there is no alliance (Spekman, 1996). These two elements are closely related and are mutually reinforcing in alliance. Mutual commitment and trust are considered very crucial elements, during the operational phase, for several reasons. The first reason is related to the fact that no contract or agreement, can foresee every contingency that could arise; contracts could never identify and anticipate situations and changes that occur over the life time of the alliance. It's no possible that alliance partners re-write or modify the contracts every time there is a new change or a new event in the alliance relationship; so much of what happens during the alliance life is informal. Alliance partners develop trust and mutual commitment to fill gaps of formal contract or agreements. The second reason is related to potential conflicts, between alliance partners. Partners, in a strategic alliance, may have different organization culture, management philosophy, and this aspect could be source of misunderstanding and conflict, which may impact negatively the alliance success likelihood. Without a steady and sustainable development of mutual commitment and trust, differences in culture, organization and management could greatly inhibit the alliance success; instead if partners develop and demonstrate each other commitment and trust, the alliance will develop based on fair-exchange principles (Kotler, 1989; Lane & Beamish, 1990). Fair-exchange is the positive partners' sensation that they receive benefits equal to their contribution from alliance relationship; it allows, in the relationship among partners, to develop a sense of give and take. If there are no feelings of trust and commitment, among partners, they could hold back important information or could gain unfair advantages on the others. Opportunistic behavior and unfairness could lead alliance toward dissolution and failure (Gulati, 1995). Another reason, which explains the importance of developing trust and mutual commitment in alliance

relationship, is represented by learning process (Kale et. al, 2000). In the case of knowledge alliance, if there is no trust and commitment among partners, the exchange of knowledge and information is limited and inhibited. Firms, for sharing important information and knowledge imbedded¹² in the organization, have to work closely and to trust each other (John, Johnson & Tomoaki, 2000).

Trust is defined by Spekman (1996) as “cornerstone of strategic alliance success”; it is the belief about how an alliance partner will behave in the relationships (Jean & Tomoaki, 2000). Trust refers to the confidence that a partner will not exploit the vulnerabilities of the other (Barney & Hansen, 1995). Trust is composed by two distinct bases, one rational and the other emotional (McAllister, 1995; Kramer, 1999; John et al., 2000):

1. *Credibility*: is the practical and structural side of trust and it regards belief about whether a partner really delivers what he has promised. It is considered as the rational side of trust and concerns the confidence that the partners have the intent and the ability to meet their obligations and contribute with what they have promised (John et. al., 2000). Credibility refers to expectations that one’s partner will not act opportunistically due to a mutual hostage situation.
2. *Benevolence*: is the emotional side of trust and is the personal consideration that one partner has about the others in caring the relationship (Johnson et. al., 1996). Benevolence is the belief that a partner will show goodwill towards the alliance and refers to the degree of confidence, which a firm has in its partners’ reliability and integrity (Madhok, 1995).

In the field of strategic alliances, when trust is mutually recognized by partners, it acts as an alliance governance mechanism, able to reduce the risk of opportunist behavior (Das & Teng, 1998; Zaheer et al., 1998; Yang et al., 2011). Trust promotes cooperative behaviors, reducing the risk of opportunism because it commits the partners not to benefit from the others' weaknesses. Trust promotes cooperative behaviors, reducing the risk of opportunism because it commits the partners not to benefit from the others' weaknesses. Moreover trust promotes the contribution of skills and capabilities by

¹² Tacit knowledge is composed by skills, capabilities, way of doing that belong to the organizational culture. Tacit knowledge is imbedded in an organization, and for this reason it is difficult to share outside of the situation of closely relationship.

alliance partners, facilitates information sharing, makes alliance relationship more flexible to the occurrence of unforeseen events and changes in the alliance conditions and helps to resolve potential alliance conflicts (Larson, 1992; Ring & Van de Ven, 1994; Gulati, 1995; Zaheer et al., 1998; Das & Teng, 1998). Several are the factors, involved in trust development such as partners' goal congruity (Luo, 2002). Goals congruity regards the extent to which alliance partner have the same strategic aims (Kogut, 1988). When partners work closely together, in order to achieve congruent goals, trust between them will increase; having the same strategic objectives helps partners to reduce uncertain and the risk of opportunistic behavior and leads to personal attachment and development of mutual trust (Williamson, 1985; Luo, 2001). As result, common values and strategic objectives facilitate the development of trust and commitment between alliance partners (Morgan & Hunt, 1994). Developing of trust, among partners, has a positive effect on inter-firm knowledge transfer (Pak & Park's, 2004); high level of trust promotes openness and sharing of valuable knowledge. Partners firms, through trust developing, not only share valuable know-how, but also protect themselves against opportunistic acquisition of proprietary knowledge (Kale et. al., 2000). Trust leads reliability and allows partner to become more open to transfer its own knowledge to alliance partners (Inkpen & Tsang, 2005). Developing trust, facilitates information sharing (Dyer & Chu, 2003), reduces relational risk and ensures partners' willing to adapt themselves to the evolving contingencies (Doz, 1996). Overall scope, persistence and longevity of the alliance increase (Jap & Anderson, 2003).

Commitment is the second element of social capital that enhances the alliance success likelihood; it concerns partners' intent to further alliance relationships. Commitment is defined as the partners' willing to exert effort behalf relationships (Porter et. al., 1974; Mohr & Spekman, 1994). Alliance partners have to take some affirmative actions to demonstrate their willing to respect their promise. High level of commitment creates the ideal context, in which each partner can achieve individual and common goals without raising the specter of opportunistic behavior (Cummings, 1984). In a strategic alliance, where there is a high level of commitment, partners will exert efforts and balance short- term problems with long-

term goals achievement (Angle& Perry, 1981). Commitment within an alliance acts as a counterbalance against failure (Anderson & Narus, 1990).

Such for trust, there are two kind of commitment:

1. *Rational Commitment*: is defined as instrumental form of commitment. Each strategic alliance has instrumental base, because firms do not form a strategic alliance for making friendships but to make gain and obtain some rewards. Instrumental commitment is driven by potential for gaining rewards in and from a strategic alliance. With the aim to continue alliance relationship, it is necessary that the cost/ benefits analysis must be positive for partners. The rational commitment represents the economic side, also called as calculative commitment.
2. *Emotional Commitment*: is the attitudinal component of commitment (John et al., 2000); it refers to alliance partners' ability to internalize the relationship and to their availability to nurture and care for it. Attitudinal commitment means psychological identification with alliance relationship and an extra effort and availability to make the joint work and to go beyond the contractual obligations.

Mutual commitment allows reducing uncertainty and promotes open and honest communication among partners, leading high level of cooperation and trust (Doz, 1996). Mutual commitment reduces the risk of opportunistic behavior because leads partner to work together towards common strategic objectives and not only their own personal interests (Das & Teng, 1998). Commitment promotes not only the development of new trust, but is also useful to strengthen the established trust, whereby through mutual and continuous commitment a high level of trust is maintained because synergies from cooperation are more likely to be created and sustained (Zaheer et al., 1998).

4.3.3. Control

Control is considered a critical issue for alliance success, because within a strategic alliance, it's important that each partner shares some control (Child & Faulkner, 1998). Leifer & Mills (1996) define control as "a regulatory process by which the elements of a system are made more predictable through the establishment of standards, in order to achieve some desired objective or state". Das & Teng (1998) define control as "the process of regulating others' behaviors, in order to make them more predictable". Control is a set of rules and mechanisms that allows to make partners' behavior more predictable and to bond their actions to cooperation intents. Control acts as a means of protection and security for the proper use of resources and capabilities, conferred to alliance relationship by partners, in order to achieve strategic goals (Parkhe, 1993; Leifer & Mills, 1996; Das & Teng, 2001; Inkpen & Curral, 2004). An appropriate level of control management is necessary for anticipating unexpected situation; alliances control allows partners to balance collaboration with the competitive aspect of their relationship. Lack or insufficient control may limit partners to protect and efficiently utilize resources, which they have provided for the alliance, and to achieve alliance goals. Child & Faulkner (1998) stresses the importance of finding balance between the need for control and the equal need in a strategic alliance, in order to build and maintain a harmonious and equilibrated alliance relationship. If the alliance partners don't arrive at a mutually acceptable solution, regarding control issue, they will compete for control and alliance relationship will be jeopardized. Indeed Jiang, Li, Gao (2008) stress the importance of a balanced and appropriate control for alliance success, because an excessive control mechanisms on alliance activities, could destroy goodwill and benevolence between alliance partner, which will have limited autonomy to perform their job; instead an appropriate an balanced level of control could allow firms, through real-time monitoring, to detect problems and contingencies that may rise during the alliance development. Child & Faulkner (1998) stress the importance of finding balance between the need for control and the equal need in a strategic alliance, in order to build and maintain a harmonious and equilibrated alliance relationship. If the alliance partners don't arrive at a mutually acceptable solution regarding the control issue, and if control is not equally balanced between partners, it will create situation of power-dependence and the alliance relationship will be jeopardized. Establishing

formal control mechanisms, such as protocols and periodic checks, enhances cooperation and helps partners to resolve potential conflicts and problems in real time (Sklavounos, Konstantinos & Hajidimitriou, 2015).

Das & Teng (1998) argue that firms, involved into an alliance, tend to be more confident in cooperation, when they feel having an appropriate level of control over their partners. According to the authors, partner firms that use control, in order to achieve alliance goals in a more predictable way, tend to be more confident in alliance partners. According to Li (2002) control fosters the developing of trust, because it creates rules and standardized procedures that are the basis for building trust between alliance partners. Control, in an uncertain environment, could allow firms to develop familiarity and predictability, which are condition for building trust (Child, 2003). In this sense, control and trust are considered as parallel concepts and complement one another (Sklavounos, Konstantinos & Hajidimitriou, 2015); in fact control provides formal assurance, which complements the informal assurance of trust, creating a structure of coordination (Reurer & Arino, 2007). The joint presence of the two elements will enhance the alliance success likelihood, because improves the efficiency of alliance governance and management (Das & Teng, 1998; Yang et al., 2001; Luo, 2002; Poppo & Zenger, 2002).

4.3.4. Communication

Efficient and effective communication between alliance partners is considered one of the most critical success factors for alliance success (Cummings, 1984; Synder & Morris, 1984; Mohr & Nevins, 1990; Faulkner, 1995; Spekman et al., 1998; Hutt et al., 2000), because it underlies most aspects of organizational functioning. Cummings (1984) argues that, in order to achieve the benefits of collaboration, effective communication between partners is essential. The importance of communication for alliance success is due to several reasons, such as it collects information about the trustworthiness of each partner, helps to manage some potential conflicts and helps to discuss and integrate the differences between alliance partners. The most important aspect of the communication process, which enhances alliance success likelihood, is the efficiency of information sharing; when the sharing of information, between partners, is timely, open, feedbacks are credible, accurate and probability of alliance

will increase. Child & Faulkner (1998) argue that the alliance success depends on how partners manage the information flows and how they ensure that information about the alliance are adequately disseminated to them. Communication can strengthen alliances through different ways (Parkhe, 1993; Ring and Van de Ven, 1994; Kanter, 1994; Das & Teng, 1998) such as it helps to coordinate and manage relationship between the different levels of hierarchy. Communication promotes collaboration, actions coordination and information sharing from top management through middle manager to operational personnel. Top management develops alliance goals, middle managers develop planning for joint action implementation and the operational personnel are accountable for the alliance day to day work; for this reason communication helps alliance actors to coordinate their different tasks, in order to lead alliance towards success. If top management fails in articulating or communicating shared strategic intents or managers don't understand alliance rationale, in the relationship arises a sense of mistrust and suspicion, which will negatively impact alliance success likelihood. If all day-to-day decisions, at every alliance level, are made in a transparent and open way, communication is able to counteract potential suspicion and mistrust between alliance partners. An open and transparent communication system, allows partners to share expertise, to create a great sense of cohesion and to secure mutual advantages (Buchel et al., 1998). Open communication and day-to-day and regular share of information about managerial and operational issues, allows partners to ensure that everyone in the relationship behave according commitment, which they have agreed in the partnership. Spralls et al. (2011) argue that sharing information between partner highlights common goals and open discussions promote the achievement of these goals; in fact information sharing helps partners to align their interest and achieve mutual goals (Schilke & Goerzen, 2010). Kale & Singh (2009) state that an open and regular communication between partners, focused on alliance goals and critical task-related information will improve alliance performance. Furthermore information sharing promotes a better and mutual understanding between partners regarding rules, obligations and develop shared model to work together (Neisten & Jolink, 2015). Alliance success likelihood will increase when partners share values and create a shared vision and ideology because mutual understanding about alliance reduces the opportunistic behavior likelihood (Kim et. al., 2006). Spralls et al.(2011) argues that a

shared understanding about the importance and the use of information and shared methods for problems solving are important for alliance success; alliance partners with a shared vision will be more committed to the alliance (Hunt et al., 2002).

Therefore, communication allows partners to understand alliance goals, roles and responsibilities and the nature of their relationship. Communication also promotes sharing and dissemination of individual experience between partners (Inkpen, 1996). Mohr and Spekman (1993) identifies three main aspects of communication process, which enhances alliance success probability that are:

1. *Communication quality* refers to important communication features such as timeliness, accuracy, adequacy and credibility, which are essential for the achievement of strategic alliances' goals.
2. *Information sharing* is the extent to which important information are shared among alliance partners.
3. *Participation* is the extent to which alliance partners engage themselves in planning and goals setting.

More successful strategic alliance are those alliance with an high level of communication quality, more information sharing among partners and more participating in planning and goal setting.

4.3.5. Conflicts

Managing conflicts is a critical challenge for firms involved in strategic alliance (Das & Teng, 1998). Conflict often exists in inter-organizational relationship due to interdependence between parties, involved in it (Cummings, 1984; Mohr & Spekman, 1994). The source of conflicts might range from day-to-day alliance work to more strategic issues (Hyder, 1988). Operational phase requires great integration efforts and more complex is the alliance's structure more integration efforts are required (Weber & Camerer, 2003). The main sources of alliance conflicts are due to organizational and managerial differences between partners, it could arise conflicts that if are not adequately managed, could lead the alliance toward failure.

Building alliance relationship requires a high effort to coordinate and integrate two or more independent firms, but the effort is greater when they come from different national, cultural, political, managerial and economic backgrounds.

Cultural conflicts, is surely one of the most problems facing strategic alliance. Partner firms, are probably located in different countries and so they have different background institution and culture. Managers and staff, from the different partner firms, working together in the strategic alliance may have different values, way of operation management, administrative decisions etc. National culture affects managerial behaviors, so coordination between partners with different culture is more difficult, because they could incur in a lack of strategic and organizational fit (Park & Ungson, 1997). Other aspects, linked with different cultures, are differences in managerial styles, in strategic approach, in management risks, in innovation and production strategies and in financial policies (Child, 2005). Conflicts, arising from cultural differences, could hinder the establishment and the management of cooperative relationship between partners firm and if they are not properly managed, can lead to strategic alliance failure (Faulkner, 2010). In addition to different cultures, another source of alliance conflicts is represented by structural issues. Each partner has its specific structural characteristics and organizational processes (Park & Ungson, 1997). These differences can create significant coordination problems as disagreements over operating strategies, policies and methods between partners that have to expend a great amount of time, energy and resources to find standard managerial routines for facilitating communication and integration (Yan & Grey, 1994). Another source of alliance conflicts is represented by asymmetrical partners 'contributions and to the related returns (Khanna et al., 1998). Creating a win- win situation is one of the fundamental conditions for alliance success. Alliance success, can be defined as the value creation for all the partners involved, and as the fair distribution of this value (Parke & Russo, 1996). Partners need to mutually exchange resources and distribute benefits between each other. Perception of equity is one of the most conditions which lead the partners to remain committed for the duration of the alliance. Alliance conflicts could arise also when partners have different set of alliance's expectations. It is necessary knowing each partner's real objectives; not knowing is dangerous and leaves firms in a vulnerable position. Partners could have different objectives, but it's important that these objectives are compatible and that they can be achieved simultaneously. Alliance success depends on the definition of clear goals and well-defined procedures,

developed by the firms, for the achievement of these. Incompatible goals, among partner firms, may lead to a relationship based on strife, suspicion and ensuing conflicts (Varadarajan & Cunningham, 1995). Another critical aspect, which can lead to alliance conflicts, is represented by control.

Child & Faulkner (1998) stresses the importance of finding balance between the need for control and the equal need in a strategic alliance, in order to build and maintain a harmonious and equilibrated alliance relationship. If the alliance partners don't arrive at a mutually acceptable solution regarding control issue, and if control is not equally balanced between partners, it will create situation of power-dependence and the alliance relationship will be jeopardized. Overall we can say that a conflict arises when a partner perceives that the behavior of the others prevents or hinders the achievement of alliance's strategic goals (Stern & El- Ansary, 1992). Conflicts, caused by the reasons that we have described previously, can negatively affect the development of alliance relationships between partners and can lead to alliance failure (Lane & Beamish, 1990). Conflicts are bound to exist in alliance relationship, the key aspect is the way through which they are managed and resolved, in order to avoid alliance resolution or failure (Mohr & Spekman, 1994). The impact of conflict resolution on alliance relationship can be productive or destructive. The approach, through which alliance conflicts are resolved, has a great influence on alliance's success likelihood. Partners, in order to manage potential conflicts, can adopt two different approaches: productive or destructive approach. Through productive approach partner engage in joint problem solving and persuasion, instead using a destructive approach implies domination and confrontation. Alliance partners are more likely to engage in joint problems solving because they are, by definition, linked in order to manage an uncertain and turbulent environment and integrative outcome satisfies and meets more fully the both partners' need and concerns (Cummings, 1984). A mutually satisfactory solution is reached when partners engage in joint problem solving, enhancing the overall alliance success. Therefore partners, in order to resolve a conflict situation, can try to persuade each other to adopt particular. Persuasive approach is considered more constructive than the use of coercion or domination (Mohr & Spekman, 1994); in fact if conflicts resolution is dominated by one partner or when a partner waits for problems to appear to confront the others, the alliance life could be compromised. The conflicts

resolution mechanisms, characterized by domination and confrontation are counter-productive and could negatively impact the outcome of alliance relationship (Mohr & Spekman, 1994). In some particular conflict resolution situations, it is possible that partners decide to adopt an outside support and third party arbitration (Anderson & Narus, 1990). Outside arbitration could be productive to resolve a particular conflict episode, but ongoing use of arbitration may reflect problems in the relationship; instead the use of internal resolution (such as joint problem solving and persuasion) leads a long-term success (Assael, 1969).

4.4. Success factors in Evaluation Phase

The Evaluation Phase shows as a strategic alliance matures and realizes their potential benefits. Key factors, involved in the Evaluation phase, are *alliance performance and further alliance development*. The two key elements are closely related because partners, basing on performance assessment, decide the further alliance development such as alliance continuation, alliance adaption or alliance termination. In the following, alliance performance and further alliance development will be analyzed.

4.4.1. Alliance performance

In order to achieve alliance success, performance evaluation is a very critical factor (Segil, 1998) because it is necessary for partners understand the potential progress that is being made, intervene if issues arise and establish from that learning a strong lesson for future alliances (Bamford and Ernst, 2002). In literature, there is no agreed definition of alliance performance but goals achievement underlines most interpretation (Anderson, 1990; Inkpen & Birkenshaw, 1994; Lee & Beamish, 1995; Beamish and Delios, 1997, Yan & Zeng, 1999). Based on this interpretation, alliance performance could be defined as the extent to which alliance objectives are reached; in fact partners evaluate alliance performance in terms of either overall satisfaction with the alliance or the extent to which an alliance meets its expectations (Kale et al., 2002). Performance measurement is important for partners, in order to understand whether their expectations were met or whether alliance management requires adaptations or termination. Performance evaluation means developing a set of

measurement tools that allow alliance partners to evaluate the success of strategic alliance (Tjemkes, Vos & Burgers, 2013). Alliance performance has to be evaluated continuously, because through an ongoing monitoring partners can access to important information, useful to take decisions regarding the adaptation of alliance design and management or the alliance relationship termination. Partners need to develop a performance evaluation approach, in order to assess alliance progress over the time. Performance evaluation approach has to be integrated, because no single measure can capture all the multiple aspects of strategic alliance performance nature and the issues regarding its assessment. Alliance performance evaluation is considered a very critical phase because of the complex nature of alliance performance (Evans, 2001). Partners need to consider the *interrelation between alliance outcome and process*. Alliance could be formed for achieving multiple objectives and the alliance process influences the objectives' achievement. Therefore, an appropriate performance evaluation approach has to include both outcome metrics and process metrics (Tjemkes, Vos & Burgers, 2013). Outcome metrics assess the achievement of the multiple objectives, which partners could pursue through the alliance such as economic, strategic and learning objectives (Kogut, 1988); instead the process metrics, relative to the relational process, assess dynamics between partners and their satisfaction through interactions. Multiple alliance objectives may create conflicts that could influence the interaction between partners; at the same time the way through which partners interact influence objectives achievement. Another critical aspect, related to performance evaluation is the *time horizon*. Performance evaluation approach has to include input (prospective) metrics because alliances are long-term arrangements and their benefits are reached only over the time or new objectives could emerge (Perkmann et al., 2011). Therefore partner have to take into account both input and output metrics. Outcome metrics assess the intended results of a process; instead input indicators regards the aspects that appear casually to desired outcome and are useful to overcome the disadvantages of outcome metrics such as when the outcome is delayed because information and corrective actions arrive too late. Input (prospective) metrics are useful to predict the value of benefits over the time (Anderson, 1990). These prospective metrics helps partners for ongoing monitoring and for immediately interventions over the alliance progress. When alliance *outcomes are intangible* (such as knowledge creation in R &

D alliances), for partners it is difficult to measure and quantify their value. Developing an appropriate performance evaluation approach implies that partners define some metrics that approximate the value of intangible outcomes (Tjemkes, Vos & Burgers, 2013). Another aspect critical aspect of performance evaluation is the *different kinds of alliance*. Performance metrics should be aligned with the unique characteristic of each alliance, because different types of alliances require different types of metrics (Anderson, 1990). Drawing from the existing literature on alliance performance (Anderson, 1990; Beamish & Delios, 1997; Yan & Zeng, 1999) it is possible to recognize several performance aspects such as economic, strategic, operational, learning and relational alliance performance. There are a lot of differences between the different kinds of performance, but their combination provides an integrated and coherent performance evaluation approach. Each kind of performance provides important information about different aspects of alliance development, in order to enhance alliance success likelihood. The different kinds of alliance performance are described as follow (Tjemkes, Vos & Burgers, 2013):

1. *Economic alliance performance* provides information about alliance short-time outcome; they are useful to understand whether the alliance is creating value for firms involved in alliance relationship. Therefore economic performance evaluates the *economic value* of the alliance relationship; it allows partners to assess whether the alliance is useful to increase their value. Economic performance assessment is based on financial metrics, which are represented by quantitative indicators such as return on investments, profit, costs and revenues (Geringer & Hebert, 1991). Financial metrics allow partners to evaluate the achievement of economic goals; they have a *short time horizon and are output oriented* (Anderson, 1990). These kinds of metrics, because of their economic foundation, are easier to specify and anticipate ex ante than the others types of metrics. An economic underperformance shows that the alliance is not realizing its potential value; in this case partner firms have to understand, in order to improve the economic performance, causes that could be related to alliance management or alliance design such as when the joint production does not meet customer demands or when negotiation, formation or monitoring costs outweigh alliance benefits.

2. *Strategic alliance performance* provides important information for stakeholders, top management and alliance managers about alliance management and design; it allows partners to assess alliance long-term viability. Strategic performance evaluates alliance effectiveness in a better way than economic metrics, because provides an insight in the critical factors that will be managed for achieving a superior alliance performance. Strategic metrics have a long term horizon, are output oriented and are represented by qualitative and quantitative indicators such as market opportunities, risk reduction, market share, reputation and competitive position. Because of the uncertainty and the time required to reach strategic objective, strategic metrics are more difficult to specify than the economic metrics. Strategic metrics allow partners to assess whether strategic alliance supports them in achieving strategic goals, such as the developing of new competences. A strategic underperformance shows that the strategic intent, under the alliance formation, is poorly development and requires alliance adaptation or even alliance termination. Furthermore a strategic underperformance also shows that a firm's competitive advantage could be jeopardized by potential partners' opportunistic behavior that could try to appropriate proprietary knowledge or hold some critical information.

3. *Operational alliance performance* provides important information about day-to-day alliance operations; it assesses efficiency and effectiveness of alliance process. Operational metrics are output and processes oriented and have a short term horizon; they allow firms to evaluate day-to-day alliance operations (Geringer & Hebert, 1991; Yan & Zeng, 1999). Operational metrics are easy to specify and are represented by both qualitative and quantitative indicators such as operating efficiency, production time, product quality (indicators useful to evaluate the production process) customer satisfaction, customer retention and customer service (indicators useful to evaluate marketing efforts). An operational underperformance show a lack of operational fit between partners, which in order to improve the performance need to align their

operational process, or a lack of mutual commitment to make the alliance work on a daily basis.

4. *Learning alliance performance* provides important information about both learning outcome and process; in fact learning metrics assess both learning outcome and process, because learning alliances are formed in order to both acquiring and sharing knowledge between alliance partners. Learning metrics have medium-long term horizon, are process and output oriented, and because of the intangible nature of learning outcome are difficult to specify and value (Contractor, 2001). These kinds of metrics are represented by qualitative indicators such as knowledge transfer about managerial techniques, marketing and technological know-how, production know-how and product development know-how. A learning underperformance could be due to an initial alliance design that does not improve or promote knowledge creation and exchange, or to an inappropriate partner choice that is leaking of valuable knowhow. In this case, partner firms can invest in “relational governance”, based on trust and mutual commitment that are able to promote inter-firm learning because they act as safeguard against the risk of partners’ opportunistic behavior such as “learning race” (shown in the previous chapter).
5. *Relational alliance performance* provides important information about the value of interpersonal relationship and the quality of alliance work. Relational metrics have medium term horizon, are process oriented and are represented by qualitative indicators such as mutual commitment, trust, harmony, integrity, flexibility, solidarity and ability to resolve conflicts. Because of their intangible and subjective nature are difficult to specify and value. Relational metrics are based on partners’ behavior in alliance relationship; they allow addressing behaviors ongoing within the alliance. These kinds of metrics partners measure the status of alliance relationship, which provides important information about each partner’s behavior and potential corrective actions, in the case of opportunistic behavior and conflict (Kale et al., 2000). Measuring the status of alliance relationships is a key activity, in alliance evaluation performance

because, as Kale (2000) argues, valuable relationships between partners enhance alliance success likelihood. A relational underperformance means that alliance partners have not developed sufficient “relational capital”.

The ability to assess alliance performance is a key activity for alliance success (Cravens et al., 2000; Segil, 1998). An appropriate alliance evaluation, based on the different performance aspects, provides a comprehensive understanding of alliance status, progress and outcomes and enables partners to evaluate and track alliance performance and intervene timely if it does not live up the expectations.

Therefore, through an appropriate alliance evaluation process, partners can decide the *further development of the alliance* such as continue the relationship, make adaptations or else decide to terminate the alliance.

4.4.2. Further alliance development

Alliance evaluation phase will not be complete without the assessment of further alliance development; it means that partners, based on the performance assessment outcome, decide whether continue, modify or terminate the alliance (Das & Rahman, 2002). Further development is a very critical factor in the evaluation phase (Buchel et al., 1998), because it shows how the alliance evolves after its establishment. Further alliance development includes several development options leading to re-organization or termination. In order to show the possible further alliance developments, I will use as theoretical basis the model proposed by Dussauge & Garrett (1998). The authors proposed different options of alliance development such as:

1. *Alliance natural end.* Strategic alliance comes to a natural end because the goals, for which the alliance has been formed, have been met. When the aim, for which the alliance was established, has been reached the alliance naturally ends.
2. *Alliance is extended or expanded.* Partners decide to prolong their collaboration or expand it to new joint project. In order to continue their alliance operations, partners need to realize synergies. Faulkner (1995) argues that conditions, for alliance continuations, are perception of balanced benefits from the alliance, regular development of new projects and a constant learning between alliance partners.

3. *Premature alliance termination.* The alliance terminates before the objectives, have been reached. Premature termination means that the alliance ends before objectives achievement (Inkpen & Beamish, 1997; Park & Ungson, 1997). Causes, which lead to a premature alliance termination are several and are related to structural and process deficiencies and to external circumstances.). Partners could decide to terminate the alliance if it generates insufficient value or when they perceive an unfair value sharing related to their contribution (Patzelt & Shepherd, 2008). Another cause of alliance premature termination is due to an inappropriate partner selection; in fact, during the formation phase partners could select a partner with poor fit, which enhances the risk of opportunistic behavior, conflicts and knowledge spillovers (Douma et al., 2000). Again an inappropriate choice of alliance structure may lead a premature termination (Reuer & Zollo, 2005), such as when in knowledge alliances that needed strong protection against opportunist behavior are governed by non- equity form. Hamel (1991) argues that the convergence of partners' capabilities or when partners compete for acquiring each other's knowledge, the risk of premature alliance termination is very high. Arino & De la Torre (1998) argues that developing relational capital such as mutual commitment and trust helps alliance partners to mitigate a poor economic performance, avoiding the premature alliance termination. Others cause of alliance premature termination are related to external conditions such as changes in environment like the development of new technology, which makes the alliance obsolete. Therefore also changes within alliance such as changing of corporate strategies, internal reorganization or changing in members on the board of directors, may lead to the alliance premature termination.
4. *Change in alliance structure.* Partners change governance forms such as when a partner decides to take an equity share in its partner, turning non-equity in equity alliance (Hennart et al., 1998; Makino et al., 2007).
5. *Takeover of one partner by the other.* A partner should internalize alliance activities and acquire all the control. An alliance ends because one partner acquires the other.

4.5. Alliance success between “Ford & Mazda”

“Ford and Mazda Alliance” represent a case of historic strategic alliance that has been able to achieve its success; for this reason it can be represented, for economic world, an example of how firms have to manage cross-culturally alliance in global markets. Strategic alliance between Ford and Mazda allowed them to realize synergies, through the combination of their own strengths: Ford’s marketing and financial expertise and Mazda’s engineering and product development know-how (Treece et al., 1992). Ford and Mazda alliance, thirty years of collaboration, shows how a strategic alliance Us-Japan can be represented a mean for enhance firms’ capabilities (Chan & Wong, 1994). Mazda in the 1960’s was the third largest automobile firm in Japan, with a great reputation for engineering excellence (Haigh, 1992); Mazda attracted Ford’s attention. Mazda was able to turn out small cars more efficiently than Ford and with fewer manufacturing errors. Collaboration between the two firms started in October 1969 when Ford, Nissan and Mazda built JATCO, a manufacturing joint venture to produce automatic transmissions in Japan. Collaboration relationship between Ford and Mazda increased, they began to work on a number of projects in the Asia- Pacific Region Mazda sold kits of unassembled automotive parts and components to Ford Asia Pacific; Ford assembled Mazda- designed vehicles in its plants, selling cars with Ford badges in several Pacific Rim countries (Haigh, 1992). The ties between Ford & Mazda grew closer when in November 1979 Ford a 25% equity stake in Mazda that was in financial difficulties because of the oil crisis of 1973 that led the decreased of rotary engine vehicles, which involved a greater fuel consumption. Cooperative activities between Ford and Mazda included product development collaboration, a distribution joint venture in Japan and mutual parts and product sourcing. Ford was moved by the aim to engage in organizational learning to enhance its productive and manufacturing capabilities as it faced the pressure of Japanese automakers competition. Ford and Mazda cooperation included supply of all manual and portion of automatic transaxles for Ford’s car and the supply of small car to the Ford Asia- Pacific region. Mazda built Autorama dealer network in Japan for the distribution of Ford’s derivatives of Mazda vehicles; it allows Ford to become the biggest seller of foreign automobiles in Japan (Chan & Wong, 1994). Ford and Mazda joined forces on the construction of Hermosillo (1985), a Ford’s automobile assembly plant in Mexico that was considered

not only the best plant (in term of quality and efficiency) but also a model for renewing others facilities (Womack et al., 1991). The idea was to create an ideal laboratory in which Mexican employees learned Japanese management methods (Haigh, 1992). Ford equipped the plant and designed product system drawing upon Mazda practices in Japan; Mazda's Hofu plant represented a blueprint for the stamping operation, in fact Mazda was responsible for training Ford Mexico managers. In the Hermosillo project Ford managed the production of Mercury Tracer that was recognized as Ford's best built car (Chan & Wong, 1994); Mazda sold kits and parts to Ford and also earned a handsome fee for technological support. Hermosillo project represented for Mazda also an opportunity to learn about Ford's cost-control practices and the process of launching a major manufacturing facility in a foreign country (Haigh, 1992). Another joint- production process was represented by Mazda 323- Ford Escort combination; again in September 1987 the two firms created another model Ford Probe, based on Mazda MX-6, produced by Mazda Motor Manufacturing Usa Corporation (MMUC) in Flat Rock, Michigan. In June 1992, after another Mazda's financial crisis, Ford acquired 50% equity stake and management control of MMUC that officially became a joint-venture and was renamed "AutoAlliance International" (AII). In 1995 Ford and Mazda created "AutoAlliance Thailand" (AAT) that is of a joint venture automobile assembly firm co-owned by Ford Motor Company and Mazda Motor Corporation in Thailand. Modeled after the Ford-Mazda AutoAlliance International joint venture in the United States, AAT builds compact pickup trucks and SUVs primarily for the South-East Asian market, with exports to other developing markets, and Europe as well. The factory in Thailand is designed to be similar to Mazda's Hofu plant. In April 1996, strategic relationship between the two firms closer increased, Ford increased its equity stake in Mazda from 25% to 33.4% and gained the authority to appoint Mazda's president. In June 2002, Henry Wallace that was dispatched from Ford to Mazda in 1994, became the president of Mazda; he was the first non- Japanese to head a Japanese firm (Fujimoto & Heller, 2004). In 2008 Ford reduced its ownership of Mazda stock from 33.4 % to just over 13.8%. Ford gradually has divested its stake in Mazda from 2008 to 2010; currently Ford holds 2.1% of Mazda stock, it means that the alliance between the two firms came to a natural end because the purpose of the alliance has been achieved (Isada, 2003). The tie between Ford and Mazda has become

an example of success alliance, which has allowed both firms to achieve valuable strategic and organizational changes (Haigh, 1992). The two cooperate on new vehicles and exchange valuable expertise: Ford in international marketing and finance, Mazda in manufacturing and product development. Ford and Mazda have worked jointly on ten auto models, usually with Ford doing most of the styling and Mazda making key engineering contributions (Treece et al., 1992).¹³ For Ford, these cars include the vastly improved Ford Escort and Mercury Tracer models, the subcompact Festiva, the sporty Ford Probe and Mercury Capri, and the off-road Explorer. The Ford-aided Mazda are the MX-6, 323, Protege, and Navajo. Ford and Mazda moved closer, particularly in North America and Asia. Both invested in Korea's Kia Motors, Ford owns 10% and Mazda hold 8%. When Ford wanted to import the Kia Festiva for sale in the USA, Mazda sent engineers to Kia to help. The most significant success of the alliance was represented by Ford probe and Mazda MX-6. There were swapping of resources and capabilities between the two firms. Mazda designers design the basic platform, engine and drive train for the cars. Mazda also helped Ford develop the 1991 Explorer, which Mazda sold as the 2-door only Mazda Navajo from 1991 through 1994. The main aspect, which led Ford and Mazda alliance toward success, was represented by *similarity in culture and beliefs*. Differently to the failure case, previously illustrated, about Renault & Volvo alliance, Ford already before the closer collaboration with Mazda made a metamorphosis in its organizational purpose and corporate culture; this change not only created the base for cultural fit with Mazda, but also allowed Ford to strength its competitive position in global markets (Chan & Wong, 1994). Ford sent its manager to Japan in order to observe how employees and managers work in automotive plant of Honda, Toyota, Mazda and Nissan; doing so, Ford understood that the key of Japanese automakers was not only in the machines (high level of automation and advanced technology) but mainly in the people. Ford invited also Dr. Deming (father of Japanese's quality control) to improve Ford's productivity. The result of these efforts by Ford was the introduction in 1983 of "*Mission, Value and Guiding Principles*" program that put the people before to product or profits; again in 1985 Ford created the Ford's Executive Development Center with the aim to train

¹³ Jointly worked cars included Ford Escort and Mercury Tracer model, the sub-compact Festiva, the sporty Ford Probe and Mercury Capri and the off- road Explorer; instead the Ford's contribution in Mazda are MX-6, 323, Protégé and Navajo.

its executives to think internationally (Chan & Wong, 1994). Ford, through these initiatives, enhanced its commitment to quality and empowerment of its employees; it created a people-oriented culture. Without this shift in culture Ford could have not benefit from the alliance with Mazda because the cultural fit is essential for alliance success. Cultural difference is one of the main alliance failure causes; therefore the restructuration of its culture helped Ford to achieve cultural fit with Mazda and it created the basis for alliance success. The alliance between Ford & Mazda can be considered as learning alliance (Hamel, 1991), an high commitment horizontal alliance with the aim to maximize over the long term the mutual accumulation of superior capabilities of alliance partners (Heller & Fujimoto, 2004); in fact since 1980s, as the outcome of intensified competition in global markets, an increase of inter- firm alliances. In the auto industry automakers compete not only on price and content product but mainly on productive capabilities in design, planning, engineering, procurement, logistics, assembly and distribution (Fujimoto, 1999; Heller & Fujimoto, 2004); therefore firms looked beyond their organizational boundaries and started to build strategic alliances, in order to strength their competitive capabilities. It is just the case of Ford and Mazda strategic alliance: on one hand Ford, which was facing the intense competition from Japanese automakers (they based its strengths on productivity and quality unlike American firms, which were focused more on luxury and style), wanted to use the alliance with Mazda as a means for learning its manufacturing and productive capabilities (Heller, 2004); at the other hand Mazda had deep strength in productive capabilities but have a lots of weakness in managing financing and brand construction. In Ford & Mazda alliance, it is possible observed inter-firm learning of each partner's stronger capabilities through the integration of their own *complementary capabilities* (Heller & Fujimoto, 2004); each firms had a competitive advantage in the field where the other lacked: Ford was strong in managerial capabilities (brand management, marketing and financial management), instead Mazda in productive capabilities. The two firms saw cooperation as the mean to strengthen and bridge their respective skills gap and weaknesses. The two firms had *compatible goals* because Mazda had a good reputation in engineering excellence and desired to expand in others markers and minimize the risks of developing plants in other countries; instead Ford had operating plants in many countries, but had

difficulties in competing with the strength of Japanese firms and so need to strengthen its leading position (Theophilou & Papageorgiou, 2009). Ford, such as the other American firms, had some difficulty to compete in small car and their product were focused on luxury and style, so the alliance with Mazda was a mean of learning and making better products; on the other hand Mazda saw the alliance with Ford as a mean for accessing new market and for learning about financial and marketing knowledge. Ford and Mazda were clearly aware of each partner's contribution to the value creation of their alliance. As stated in the previous section, alliance success depends on the definition of clearly and compatible partner's goals. Lack of clear goals and objectives leads alliance toward failure. It's necessary knowing each partner's real objectives, not knowing is dangerous and leaves firms in a vulnerable position. Partners could have different objectives, but it's important that these objectives are compatible and they can be achieved simultaneously. The widespread of mutual learning of capabilities, has been seen as a win situation for both sides (Heller et al., 2005). Another crucial aspect that led the alliance toward success was represented by the fact that each firm, despite the closer collaboration, has preserved its own organizational separation (Heller et al., 2005). Beyond similarity culture, goal compatibility and resources complementarity, other factors contributed to Ford and Mazda success such as *trust and commitment* based relationship between partners. One hand, Ford showed its commitment and the desire to build a healthy relationship through the investment in Mazda stock, which in that moment had financial difficulties; at the other hand Mazda showed its commitment to the relationship helping Ford in building Hermosillo, through which Mazda offered much of its techniques to Ford. The experience of Hermosillo served as a proving ground for an expanded relationship between Mazda and Ford, which learned a great deal about to manage a strategic alliance and how to work together. The project allowed the transfer of Mazda's technology to Ford about product design, tooling and equipment, quality system and assistance in employee training (Haigh, 1992). Ford also showed its commitment in the collaborative relationship sending various dispatched upper and middle managers in Mazda, in order to bring their own expertise in financial management and marketing; in Mazda was introduced an extensive internal education system for enhance strategic skills of Mazda's managers in management and finance and to promote the strategic

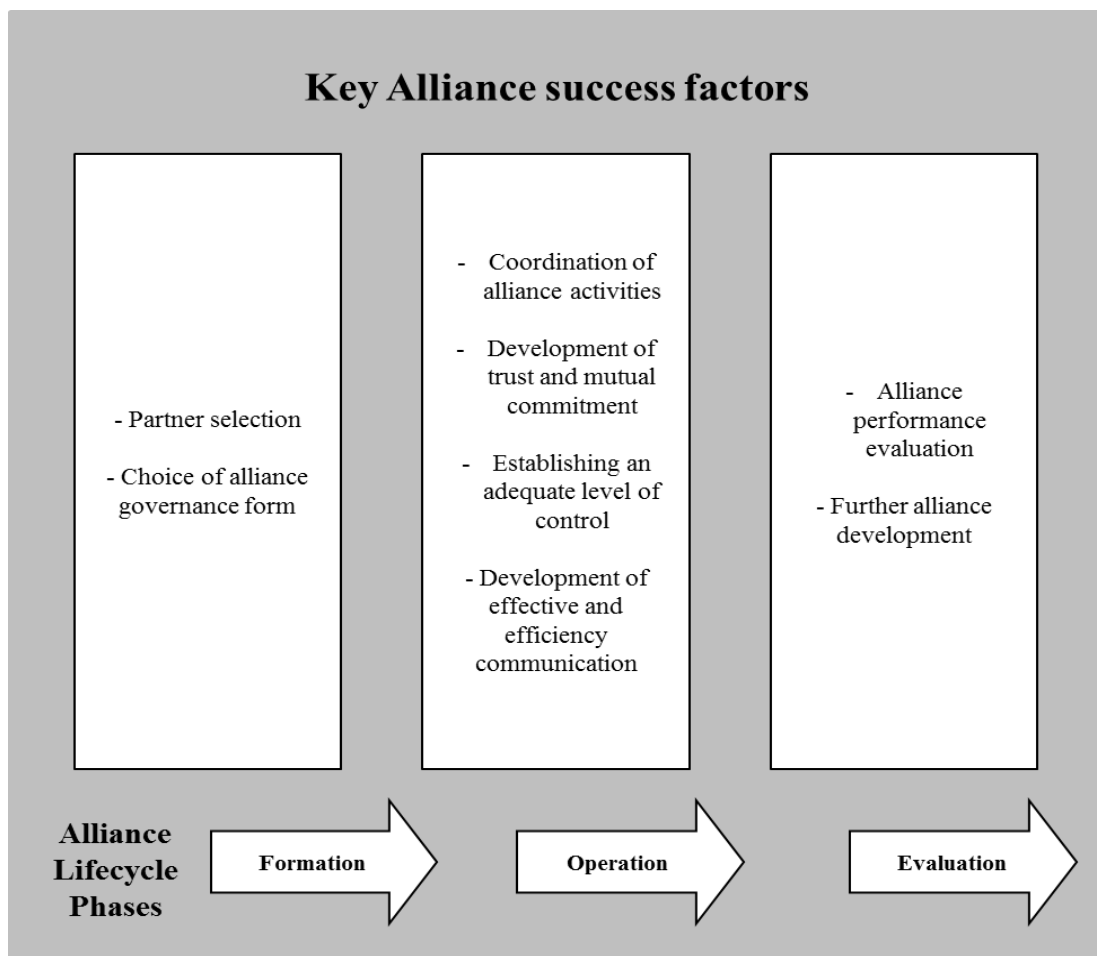
clarification of Mazda's worldwide brand positioning (Heller, 2003; Heller & Fujimoto, 2004). The relationship was based on trust, mutual commitment, respect, equal efforts and was aimed by the idea each firm made a specific contribution for the alliance and so none of them dominate the relationship. The success cooperation between firms was also enhanced through *an effective communication and a good cooperation feeling* transmitted within both firms; in fact top and middle managers regularly met for enforcing the feeling of trust, cooperation, socializing and discuss and resolve potential issues of the relationships. Ford and Mazda understood the importance of building social capital (Gulati, 1995). They realized great efforts for developing an efficient communication that was able to ensure coordination, relationship management and expectation conformation. Furthermore senior management of both firms, through effective communication transmitted the message about the importance of the alliance downward aligning so the strategic operations and creating a joint culture (Theophilou & Papageorgiou, 2009). Heller & Fujimoto (2004) talked about the existence of top level interaction with similar interaction that occurs between lower levels; therefore the existence of cooperation at all hierarchical fostered the mutual learning between firms. The interaction of upper and middle manager also occurred when they were dispatched form one firm to work on a daily basis inside the partner firm (Heller & Fujimoto, 2004). The closer upper level interaction provided some benefits for the alliance such as alignment of strategies, creation of high level of commitment between the firms, reducing the fear of creating a competitor, in fact the commitment is able to promote trust and openness and knowledge sharing between partners. Hamel (1991) argues that closer interactions between upper levels help to reduce obstacles to mutual learning such as a lack of transparency. Ford and Mazda alliance is considered an example of successful strategic alliance because through knowledge- sharing, in different field such as marketing, manufacturing capabilities, financial management and co- production has been able to reach its main aim: "bridge the gap of the two firms". The key of the success in Ford and Mazda lies in the mutually willing to learn by each other: Mazda from Ford learned about marketing and controlling cost, in turn Ford accessed to Mazda's manufacturing and product development know-how. For the two firms the alliance was a desirable state and they

were highly motivated in alliance work with a deep level of efforts and long- term support for each other’s alliance learning goals (Heller & Fujimoto, 2004).

4.6. Conclusion

Strategic alliance is similar to an entity that grows and develops in nature; in fact its development process can be explained through the concept of “*lifecycle*”, because alliances are composed by steps, through which alliance relationship emerges, grows and dissolves. Analyzing the existing literature, I dived the alliance lifecycle in three main phases such as Formation, Operation and Evaluation and for each of one I identify key factors and show how they have be managed better to enhance strategic alliance success likelihood. The results of this chapter are summarized in the below table:

Table: Summary scheme on alliance lifecycle phases and their own key success factors.



Source: Adapted from Kale & Singh, 2009.

Chapter 5: Alliance management capabilities

5.1. Alliance management capabilities

According to Anand & Khanna (2000) alliance management capabilities influence firms' ability to create value through strategic alliances. The concept of alliance capabilities is useful to explain why some firms realize better performance than the others from their strategic alliances (Ireland et al., 2002); they explain alliance performance heterogeneities across global firms. Previous studies on alliance capabilities management adopt a Dynamic capabilities view (Teece et al., 1997); they are considered a type of dynamic capabilities (Chang et al., 2008) because such as dynamic capabilities, they defined as high-order of resources that influence lower-order alliance resources represented by some alliance attributes such as information sharing, collective goals, shared partner understanding (Pavlovich & Corner, 2006; Hagedoorn et al., 2006; Sluyts et al., 2010; Spralls et al., 2011). Dynamic capabilities are defined by Teece et al. (1997) as firms' ability to integrate, built and reconfigure internal and external competences to address rapidly environment changes. Therefore, dynamic capabilities refer to changes in or renewal of lower-order resources (Eisenhardt & Martin, 2000); they change resources bundle that in turn affect economic performance. At the same way, alliance management capabilities are considered as high-order of resources that influence and change alliance attributes, which instead are considered as lower-order of resources (Heimeriks & Schreiner, 2010; Schilke & Goerzen, 2010); alliance management capabilities improve alliance performance because they allow partners to adjust their alliance attributes to environment changes (Hoffmann, 2005; Heimeriks & Schreiner, 2010; Spralls et al., 2011). Furthermore such as dynamic capabilities, alliance management capabilities are asymmetrically distributed across firms, and just this asymmetric distribution is useful to cause performance difference among firms. Firms in fact, exhibit heterogeneity in term of alliance success rate; it means that some firms are more successful in managing alliance relationship or in creating value from them (Kale, Dyer & Singh, 2002). Dyer et. al. (2001) argues that forming or managing a strategic alliance, more efficiently than competitors, is a source of competitive advantage;

according to this point of view, firms that have a high alliance performance are firms with a higher degree of alliance management capabilities (Anand & Khanna, 2000; Kale, Dyer & Singh, 2002). Firms' alliance performance differs because of the heterogeneous degree of alliance management capabilities, owned by them (Lambe, 2002). Previous studies on this subject, have found that differences in alliance performance among firms, are due to different levels of alliance management capabilities (Kale, Singh & Dyer, 2000; Anand & Khanna 2000). Therefore, the alliance management capabilities are able to explain why some firms get success from their alliances and others fail (Kale, Singh & Dyer, 2000). Firms, with a higher level of alliance management capabilities, are more "alliance-oriented" (Kandemir, Yaprak & Cavusgil, 2006) and are those that have a greater likelihood of alliance success (Lambe, Spekman & Hunt, 2002). The crucial role of alliance management capabilities was identified by Ireland et al. (2000) that more than a decade ago states that developing alliance management capabilities is a source of competitive advantage. The existing alliance literature (Gulati, 1995; Simonin, 1997; Anand & Khanna, 2000; Kale et al., 2002; Lambe, Spekman & Hunt, 2002; Draulans et al., 2003; Sarkar et al., 2009; Schreiner et al., 2009) provides various and often divergent definitions of alliance management capabilities; analyzing them, there are two main and different points on alliance management capabilities meaning. Each type stresses the importance of a particular aspect of the alliance management capabilities concept. The first point of view stresses the importance of *learning process* as a key determinant of alliance management capabilities (Kale et al., 2002; Draulans et al., 2003; Sarkar et al., 2009); it supports the critical role played by prior alliance experience in developing alliance management capabilities. Kale et al. (2002) defines alliance management capability as a mechanism useful to accumulate, store and disseminate alliance know-how management, derived from prior experience. This definition highlights the crucial role of prior experience that is the expertise on alliance management gained from prior alliances. Gulati (1995) argues that firms, engaging in numerous alliances, gain experience about alliance management such as recognizing partnership opportunities or potential conflicts, choosing the most appropriate alliance governance of the most suitable partner etc. On the same basis, Heimeriks & Duysters (2002) argue that "alliance management capabilities are learning capabilities on alliance management"

and Draulans et al. (2003) talks about alliance management capabilities as “firms’ ability to create successful alliance, based on learning about alliance management and leveraging alliance know-how inside the organization”. According this point of view the alliance experience acts as a key determinant in alliance management capabilities and needs to be transformed into accessible lessons on alliance management, which it can be shared and disseminate throughout the organization with the development of learning mechanisms (Kale et al., 2002). Learning mechanism allow firms to transform prior alliance experience in accessible lessons, which are shared and disseminated alliance know-how throughout the organization (Draulans et al., 2003). Therefore transforming learning into accessible know-how on alliance management and sharing it throughout the organization promotes alliance management capabilities development. The second point of view on alliance management capabilities concept (Simonin, 1997; Anand & Khanna, 2000; Lambe, Spekman & Hunt, 2002; Schreiner et al., 2009), highlights the importance of *alliance management*; in fact alliance management capabilities are defined as firms’ skills to addresses and manage several tasks, which arise at the different phases of alliance lifecycle. Lambe et al. (2000) define alliance management capabilities as “the ability in finding developing and managing alliance”; similarly Simonin (1997) talks about alliance management capabilities as the “skills, which are crucial in identifying, negotiating, managing and terminating collaboration”. Therefore, the second point of view stresses the importance of developing alliance management capabilities in order to manage effectively alliance’s tasks during all alliance lifecycle phases.

The two different points of view, even if they focus on different aspects, share the common idea that developing alliance management capabilities is important for alliance success achievement; in fact Anand & Khanna (2000) argue that alliance management capabilities are the “ability to create value through the alliances” and similarly Draulans et al. (2003) define alliance management capabilities as the “ability to manage strategic alliances successfully”. Both the points of view tend to associate the presence of alliance management capability with superior alliance performance; in fact they agree on the fact that firms, which have developed alliance management capabilities, outperform firms without them (Simonin, 1997; Anand & Khanna, 2000; Lambe, Spekman & Hunt, 2002; Kale et al., 2002; Draulans et al., 2003; Sarkar et al.,

2009 ; Schreiner et al., 2009). In order to have a clear vision about what are alliance management capabilities, it's necessary to integrate both the learning process and the alliance management, because firms learn from previous alliance experience, internalize and disseminate alliance know-how through learning mechanisms, which in turn address managerial tasks during the phases alliance lifecycle (formation, operation and evaluation). Harbinson and Pekar (1997) state that firms internalize and translate previous alliance experience into accessible lessons or guidelines, which promote an efficient alliance management. Concluding alliance management capabilities can be defined as “firm’s ability to learn from previous alliance experience, develop know-how from the experience, internalize and disseminate alliance know-how through learning mechanisms, all with the aim to support the alliance management during formation, operational and evaluation phase”.

5.2. Alliance management capabilities development

In the previous section I show how alliance management capabilities are considered as a set of high-order resources, difficult to imitate and obtain that have the potential of enhancing alliance success likelihood (Heimeriks, Duysters & Vanhaverbeke, 2007). Similarly Irleand (2000) argues that having alliance management capabilities, in managing strategic alliances, is a source of competitive advantage. The concept of alliance management capabilities is useful to understand why some firm success in managing strategic alliance and the others fail; in fact in global markets firms present a heterogeneous alliance success rate and alliance management capabilities explain the cause under these differences in term of alliance performance. Firms, with greater alliance performances, are those with superior alliances management capabilities. Established the crucial role of alliance management capabilities to enhance alliance performance rate, the aim of this new section is understand how firms develop alliance management capabilities, in order to achieve greater and repeatable alliance success than the others.

Kale & Sing (2007) define alliance management capabilities as firm’s ability to capture, share and store alliance knowledge on alliance management, gained from prior experience and used it in ongoing and future alliances. Firms, involving themselves in a great number of alliances, acquire experience on how manage strategic alliances and

then translate it in alliance knowledge through learning mechanism. Anand & Khanna (1998) argue that *experience* is the main drive, through which alliance management capabilities develop. Great alliance experience allows firms to develop alliance management capabilities and in turn to have a greater overall alliance success (Simonin, 1997; Anand & Khanna, 2000). In order to develop alliance management capabilities, previous experience alone is not sufficient, it has to be captured, shared and stored through the use of *learning process*. Related to alliance management capabilities development, learning process plays a critical role because it allows firms to formalize, internalize and disseminate alliance know-how, gained from the experience, and it supports the management of alliance's tasks during several phases of alliance lifecycle such as formation, operation and evaluation (Kale & Singh, 2007). According to knowledge based view (Grant, 1996) learning process is a "process that involves in articulation, codification, sharing and internalization of know-how on alliance management". Learning and accumulating alliance know-how allows firms to develop abilities for achieving alliance success; firms that have a strong learning process have a superior degree of alliance management capabilities, which in turns enhance the overall alliance success likelihood (Grant, 1996). Implementing an efficient and effective learning process is not easy, for this reason firms create a *dedicated alliance function* that is a structural entity responsible for managing and coordinating several alliance activities (Kale & Singh, 2007). In this sense, a dedicated alliance function leads the implementation of learning process; it coordinates and manages the learning and accumulation of alliance know-how on alliance management. Alliance function allows firms to implement a strong learning process, which in turn promotes the achievement of alliance success through the acquiring and improving of alliance management know-how (Kale & Singh, 2007).

According Draulans, De Man & Volberda (2003) alliance success likelihood depends on the development of alliance learning process and on the firm's capability to leverage alliance know-how within the organization. Therefore through previous experience, firms learn how to manage strategic alliance relationships and they developed alliance management capabilities as results (Heimeriks and Duysters, 2007); moreover firms, in order to develop alliance management capabilities, need to

implement alliance structures (such as creating an alliance dedicated alliance) and alliance process (such as learning process) (Niesten & Jolink, 2015).

Alliance structures consist of organizational units and relationship between them (Niesten & Jolink, 2015).; in fact global firms include a Corporate Alliance Department that oversees alliance managers across the different departments (Kale et al.2001; Hoffman, 2005). Alliance processes refer to all processes that promote alliance knowledge- sharing such as alliance managers' debriefing and rotation, training and evaluation procedures. Alliance processes are useful to incorporate best practices, capture alliance knowhow and promote the sharing of this between alliance partners and employees (Niesten & Jolink, 2015). Concluding three are key elements, which allow firms to develop alliance management capabilities: *alliance experience, a dedicated alliance function and alliance learning process*; they are closely related in alliance management capabilities development. Involving themselves in a great number of strategic alliances, firms gain experience on alliance management that is translated, with the support of a dedicated alliance function, in alliance know-how through the implementation of learning process. (Simonin, 1997; Anand & Khann, 2000; Kale & Singh, 2007). In the following sections I'll describe each one of the three key elements that contributes to alliance management capabilities development.

5.2.1. Alliance experience

Alliance experience is considered one of the main driver of alliance management capabilities development; it is an antecedent for alliance management capabilities (Anand & Khanna, 2000). Firms engaging in prior alliances, gain experience on alliance management, which is translated in alliance knowhow (Gulati, 1995; Kale et. al, 2002). This point of view highlights firms' ability to create value through their previous experience; through the accumulation of alliance experience, firms learn how to manage successfully a strategic alliance (Anand & Khanna, 2000). In this sense alliance improves learning process on alliance management and in turn promotes the alliance management capabilities development (Simonin, 1997). Alliance experience helps firms to manage alliances more effectively; therefore firms, which frequently engage in strategic alliance, are more likely to benefit of superior alliance know-how that in turn allows the development of high order of alliance management capabilities

(Sluyts et al., 2011). Dyer and Singh (1998) argue that firms, basing on their own prior alliance experience, have developed superior capabilities in managing them. From different levels of alliance experience derive different levels of alliance management capabilities; in fact given firms heterogeneity in prior experience, it is expected that firms with more experience develop superior capabilities in managing strategic alliance than those with lesser (Anand & Khanna, 2000). According to Kale & Singh (2009) firms with superior alliance experience have developed superior alliance management capabilities and are more likely to succeed in strategic alliance management. Child & Yan (1999) state that firms, who have more experience in managing strategic alliances, have a great alliance success likelihood. Therefore alliance experience helps firms to develop alliance management capabilities through “learning by doing” (Levitt & March, 1988); this is an important but not sufficient condition because lessons, learned from experience, have to be articulated, codified, shared and internalized in alliance management know-how through the implementation of learning process. Alliance experience alone, in order to develop alliance management capabilities, is not sufficient; it is considered as an antecedent and approximation of mechanism that allow alliance management capabilities building such as learning mechanism (articulation, codification, sharing and internalization). According Kale & Singh (2007) learning process allows firms to learn, accumulate and leverage alliance know-how and best practices for strategic alliance management. The implementation of an effective and efficient learning process is support by the creation of a *dedicated alliance function*; it acts as a focal point for capturing, storing and leveraging alliance knowhow with firms (Kale et al., 2002).

5.2.2. A dedicated alliance function.

As stated previously, alliance experience is an important but not sufficient condition, for alliance management capabilities development; it depends on firms’ ability to accumulate, disseminate and share the experience throughout the organization. Kale, Dyer & Singh (2002) argue that firms can capture and integrate alliance know-how, gained from previous experience, through the creation of a dedicated alliance function. A dedicated alliance function is a separate structure, usually in the form of separate team of managers, that has the responsibility to coordinate and manage alliance

activities and capture the alliance know-how (Kale et al., 2002); it acts as a central coordination mechanism able to promote alliance management capabilities development for a better alliance management and increase the overall alliance success likelihood. Firms are more likely to achieve success from their strategic alliances if they invest in creating a dedicated alliance success, which helps to accumulate, diffuse and integrate knowledge on alliance management, gained from previous and current experiences in several parts of the firms (Pisano, 1994). Creating dedicated alliance function increases alliance success likelihood (Hamel & Doz, 1998; Kale et al., 2002; Draulans et al., 2003); it is responsible for overseeing and coordinating several alliance management tasks. Borker et al. (2004), related to the concept of a dedicated alliance function, talk about the creation of “alliance office” that enhance coordination of all alliance-related tasks; they argue that “an alliance office could be responsible for institutionalizing supportive process and tools, developing and sharing alliance know-how, embedding the right alliance mindset and analyzing alliance patterns in order to learn from the experience”.

Dedicating an alliance office for alliance management is expected to significantly enhance firm-level alliance performance. Global firms such as *Eli Lilly Company* and *Philips Electronics*¹⁴ are the demonstration that developing a dedicated alliance function for alliance management is a successful choice (Kale et al., 2009; Bellido & Heras, 2014). Both firms considered strategic alliance formation as a key element of their own strategy. Philips creates a *Corporate Alliance Office in 2003*, a dedicated department tasked with developing and implementing a proactive, systematic, company-wide approach for a better management of its own strategic alliances; it is an expertise and knowledge center that provides support to improve Philips’ alliance performance (Kok, 2004). As stated by Tottè (2007), Philips considers knowledge and experience in alliance techniques as an important capability for achieving alliance success. Due to the importance of strategic alliances for Philips’ business, the Alliance Office reports to a member of the Board of Management and for each alliance is appointed a full time coordinator to the head of an alliance team composed by people from the business area related to the alliance activities .(Bellido & Heras, 2014)

¹⁴ Philips Electronics is a global player in healthcare, lighting and consumer lifestyle. The main aim of Philips business is to improve the quality of people life through the introduction of meaningful innovation (Philips, 2016).

Therefore Philips' Alliance Office supported each kind of alliance; in fact it classifies alliances basing on the level of synergy with the alliance partner and the alliance's potential value (Tjemkes, Vos & Burgers, 2013). The alliance with high value and synergies are corporate alliance (instead low synergies and value implies business alliance) and Philips focuses on the management of these assigning a dedicated alliance manager and involving a specific team that is responsible for the contacts between Philips and partners (Tjemkes, Vos & Burgers, 2013). The main Alliance team functions are: 1) *Partner selection* 2) *Assessing the interests on the deal by the partners* 3) *Formalize the agreements* 4) *Support and Control for the alliance*.

Eli Lilly Company¹⁵, such as Philips, considered strategic alliances as the base of its competitive success in global markets; it forms a lot of alliances with the aim to develop new capabilities and resources. Eli Lilly Company, which is considered a premier partner in the pharmaceutical industry (Draulans et al., 2003), develops in 1999 an alliance dedicated function that coordinates all alliance related activities with the aim to generate success from alliance through different ways (Kale et al., 2002); it acts as a focal point for learning and leveraging lessons from prior experience and current alliances (Kale et al., 2002) and allows to foster alliance learning mechanisms and the internal coordination for mobilizing resources for alliance support (Dyer et al., 2001) Eli Lilly's aim is to achieve greater alliance success over the time, developing such codified tools and templates, able to enhance firm's decision making ability and actions in its own alliances (Draulans et al., 2003). Eli Lilly Company institutionalizes alliance activities and formalizes alliance management process through the creation of *Alliance Management Office* (Gueth et al., 2001). Formalizing the alliance process management means training firms about alliances, developing alliance governance forms, building tools for partner selection and strategic objectives achievement, fostering the developing of social relations between firms involved in alliances,

¹⁵ Eli Lilly Company is a global research-based pharmaceutical company headquarter in Indiana, Us. Eli Lilly was founded in 1876 by Col. Eli Lilly, a pharmaceutical chemist and veteran of the American Civil War, after whom the company was named.

Among other specialties, Lilly was the first company to mass-produce penicillin, the Salk polio vaccine, and insulin, including one of the first pharmaceutical companies to produce human insulin using recombinant DNA. Lilly is also the world's largest manufacturer and distributor of psychiatric medications.

developing metric to measure the state of alliance relationship and a database for codifying the alliance learned lessons (Burns et al., 2013).

Eli Lilly 's *Alliance Management Office* has the functions to: 1) Identifying alliance opportunities 2) Selecting partners 3) Developing alliance agreements 4) Monitoring results and take corrective actions. (Bellido & Heras, 2014). Ely Lilly's main aim of developing a dedicated alliance function is to increase alliance success likelihood for each alliance, reducing potential risks of failure and conflicts in day to day alliance management (Bellido & Heras, 2014).

Kale, Dyer & Singh (2002) argues that an alliance dedicated function acts as a focal point for learning process and leveraging alliance know-how, gained from prior and ongoing alliance experience. Therefore, an alliance function promotes alliance learning process; it codifies alliance know-how through manuals or guidelines and acts as support for alliance managers, in order to handle tasks better during the several phases of alliance lifecycle such as partner selection, choice of the most appropriate alliance governance form etc. Through training programs and internal meeting, alliance functions allows managers to share tacit knowledge, the outcome of their own experience gained in carrying out the several tasks of alliance management. In this sense, alliance functions acts also as a depository of alliance know; in fact alliance know-how, owned by individual manager, could be lost if they leave the firms but alliance function, codifying alliance experience, allows to retain it. Alliance function is considered a focal point for capturing and storing alliance management lessons from previous and the ongoing experience (Dyer et al., 2001). Others several benefits of a dedicated alliance function, regard the fact that it allows the coordination of internal resource across different alliance divisions and acts as a facilitator to resolve potential conflicts among partners; it is able to identify potential troubles, before they become a critical issue and jeopardize the alliance relationship (Kale, Dyer & Sing, 2002). Firms, which possess a dedicated alliance function, are more likely to succeed in their strategic alliance; in fact the main alliance function's contribution to alliance success is represented by the fact that it allows firms to have a stronger *alliance learning process*, which in turn promotes alliance management capabilities development by articulating, codifying, sharing and internalizing alliance know-how management and best practice with the firms (Kale & Sing, 2007). Implementing an efficient and

effective learning process is not easy, but is a very complex task; therefore having a structural entity responsible for managing and coordinating overall alliance activities and in particular for accumulating and leveraging of alliance know-how, enhances success likelihood. Alliance function leads the implementation of a stronger alliance learning process, which allows firms to achieve great alliance success through the improving of alliance management capabilities; therefore alliance function is positively related to learning process, which in turn promotes the overall alliance success (Kale & Sing, 2007).

5.2.3. Alliance learning process

In order to develop alliance management capabilities, previous experience alone is not sufficient, it has to be captured, shared and stored through the use of *learning process*. Related to alliance management capabilities development, learning process plays a critical role because it allows firms to formalize, internalize and disseminate alliance know-how, gained from previous experience, and it supports the management of alliance's tasks during several phases of alliance lifecycle such as formation, operation and evaluation (Kale & Singh, 2007). According to knowledge based view (Grant, 1996) the learning process is a "process that involves in articulation, codification, sharing and internalization of know-how on alliance management". Learning and accumulating alliance know-how allows firms to develop capabilities for achieving alliance success; firms that have a strong learning process have a superior degree of alliance management capabilities, which in turns enhance the overall alliance success likelihood (Grant, 1996). Fiol & Ly (1985) state that firms associating and interpreting past actions and their effects on current and future ones, learn and accumulate alliance management know-how, which improves their capabilities to execute several tasks of alliance phases. Knowledge based view (Grant, 1996) highlights the role of alliance learning process in alliance management capabilities development; according this point of view, firms by executing managerial tasks, accumulate know-how that then is applied for improve the overall alliance management. According to Dynamic capability view (Teece et al., 1997; Zollo & Winter, 2002), alliance learning process is like a dynamic capability because it allows firms to modify, improve and extend

their low-order of capabilities in managing a strategic alliance during the several phases of its life and enhance the likelihood to achieve success. Accumulating, codifying and leveraging alliance management know-how promotes the development of superior capabilities in order to manage better the alliance; in fact Zollo & Winter (2002) state that accumulation and codification of alliance management know-how allows firms to manage more effectively the alliance tasks (such as partner selection, choice of most appropriate alliance governance form, alliance management etc.) and in turn to achieve better alliance performance. On this base, Kale & Singh (2007) define alliance learning process as “*effort to learn, accumulate and leverage know-how on alliance management*”; in this sense alliance learning process allows firms to develop alliance management capabilities through learning mechanisms such as alliance know-how articulation, codification, sharing and internalization. Learning process, through the development of learning mechanisms, allows firms to capture and codify the alliance know-how on alliance management, in the form of usable lessons and best practices that improves firms’ capabilities for a better management of alliance lifecycle phases and enhance overall alliance success.

Kale & Singh (2007) provide the presence of four learning mechanisms (articulation, codification, sharing and internalization) which allows firms to develop and institutionalize alliance management capabilities that in turn help to manage more effectively their alliances. The learning mechanisms are showed as following:

1. *Alliance know-how Articulation* is defined by Kale & Singh (2007) as a “*process of converting individually held alliance management knowledge into articulated knowledge, to the extent that it is articulable*”. Most of know-how on alliance management is tacit, because it is within the individuals and is the outcome of their past or current experience in managing alliances; therefore it is necessary to convert individual know-how , in some articulable form, in order to avoid that it could be lost if managers leave the firms. In fact, alliance know- how articulation means “externalizing and accessing individual and tacit know-how” (Kale & Singh, 2007), owned by individuals involved in alliance management tasks, into explicit know-how and valuable lessons, useful for future alliances. Individuals are repository of tacit knowledge, about the managing of several alliance tasks and articulation helps firms to store and

access individual knowledge (Kale et al., 2002). Articulation has several benefits for firms such as: it allows managers to externalize their own and individual know-how and the others to learn from it, it helps firms both to create a record of firms' alliance history and to understand the mechanisms, used in prior alliance experience, for the effective management of a particularly tasks. Firms, through articulation of alliance management know-how, can understand mistakes and valuable actions in the past alliance and learn important lesson for improve the management and the success of current and future alliances. The tools, through which knowledge articulation is realized, are several such as formal and informal de-briefing, logbook on alliance events, internal reports on alliance management etc. Concluding the main aim of Alliance know-how articulation is the externalization of individual know-how and its articulation in valuable lesson for improving the management of current and future alliances.

2. *Alliance Know-how Codification* is defined by Kale & Singh (2007) as “*the creation and the use of alliance resources such as manuals, checklist and guidelines to assist actions and decisions in future alliance*”. The main aim of this second learning mechanism is to create concrete alliance tools such as alliance management guidelines, templates, databases, checklists and manuals, which incorporate best practices and support firms in decision-making and management process for future alliances. Kale et al. (2001) state that alliance tools allow to codified knowledge on alliance management and support alliance managers in several tasks such as partner selection, assessment, negotiations and development of alliance contracts. Zollo & Singh (2004) state that firms, codifying the knowledge about alliance tasks management, can develop capabilities to manage it in a better way. According Kale & Singh (2007), codification is considered as a concrete efforts to codify the past alliance experience, providing a toolkit for alliance managers, in order to managing in a better way the different alliance phases. Therefore codification means codify alliance know-how through the creation of tools, which incorporate best practices to transfer and replicate in future alliances. According to Kale et al., (2002) codification improves firms' capabilities in

decision-making and management process, which in turns enhances alliance success; it allows firms to create a toolkit for transferring and replicating best practices of alliance management.

3. *Alliance Know-how Sharing* is defined by Kale & Singh (2007) as “*exchanging and disseminating of individually and organizationally held alliance management know-how, which is both tacit and codified, through interpersonal interaction within the organization*”. Grant (1996) argues that the development of capabilities in managing some tasks depends on firm’s ability in sharing the knowledge related to the management of those tasks. Dyer and Singh (1998) state that sharing alliance know-how frequently improves contribution and combination of alliance resources and skills of each partner, because know-how involves knowledge that is difficult to imitate by outsiders and this aspect is a source of competitive advantage.

The main instruments, through which alliance know is shared, are personal interactions between individuals (Sleely, Brown & Duguid, 1991); they pool together personal experiences, in order to share not only articulated and codified knowledge, but also the tacit one (Winter, 1987). Through person to person interactions, individuals can, not only share their own personal experience and tacit knowledge, but also they can understand better and conceptualize it in the form of best practices. Alliance Know-how Sharing allows individuals, involved in strategic alliances, to share and understand much about each other previous experience and create the best practices for future alliances. For promoting alliance know-how sharing, firms used different mechanisms both formal like alliance committees or tasks forces (which have the responsibility to review and share alliance experience, tacit knowledge and best practices periodically) and informal such as discussions and conversations between individuals involved in alliance management tasks. Kale & Singh (2009) argue that partners, in order to share knowledge on alliance management, may create a joint review committee or a cross- company management team responsible for alliance know-how sharing within the alliance. Another way, through which alliance know- how could be shared, is

rotating alliance experienced managers so they can disseminate, across the different alliance teams, their own personal alliance experience.

4. *Alliance Know-how Internalization* is defined by Kale & Singh (2007) as “*the process of facilitating the absorption of organizationally held knowledge into individually held, explicit and tacit knowledge.*”. Nonaka (1994) argues about internalization mechanism, that it allows individuals to absorb accumulated organizational know-how; it means that, through alliance know-how internalization, individuals enhance their absorptive capacity (Cohen & Levinthal, 1990) about alliance management tasks. Absorptive capacity is defined as organizational routines and process that enhance firm's ability to acquire and access to external knowledge and to disseminate it internally (Zahra & George, 2002); it is a base condition for knowledge creation and transfer. In fact according to Cohen & Levinthal (1990) absorptive capacity is the ability to recognize valuable knowledge and use it for commercial end. Therefore a firm's absorptive capacity is the result of knowledge accumulation over the years (Mowery et al., 1996). Similar levels of absorptive capacity allow partners to enhance learning process and reduce the risk of knowledge appropriation and the need of knowledge protection (Dyer & Singh, 1998). Therefore, absorptive capacity helps individuals, involved in strategic alliance management, to recognize valuable alliance know-how, assimilate and apply it usefully for a better management of alliance tasks. The internalization mechanism allows individuals to have knowledge base about alliance tasks, which in turn enhances their own absorptive capacity to assimilate new knowledge about specific tasks, in order to manage them better in future alliances. Through Alliance know-how internalization, individuals not only learn important lessons from firm's prior experience in alliance management, but also understand where they can allocate the knowledge gained (Cohen & Levinthal, 1990). Instruments, through which alliance know-how internalization is realized, are mainly internal and external training programs that help firms to enhance their own capacity of absorbing best practices and lessons on alliance management (Draulans et al., 2003). Concluding, alliance

know-how internalization allows individuals to develop a knowledge base about alliance tasks, which in turn enhances their own absorptive capacity to assimilate new knowledge about specific tasks, in order to manage them better in future alliances (Kale & Singh, 2007).

Kale & Singh (2007) argue that learning process, through its learning mechanisms such as articulation, codification, sharing and internalization, allows firms to develop and institutionalize alliance management capabilities that in turn enhances the alliance success likelihood.

5.3. Conclusions

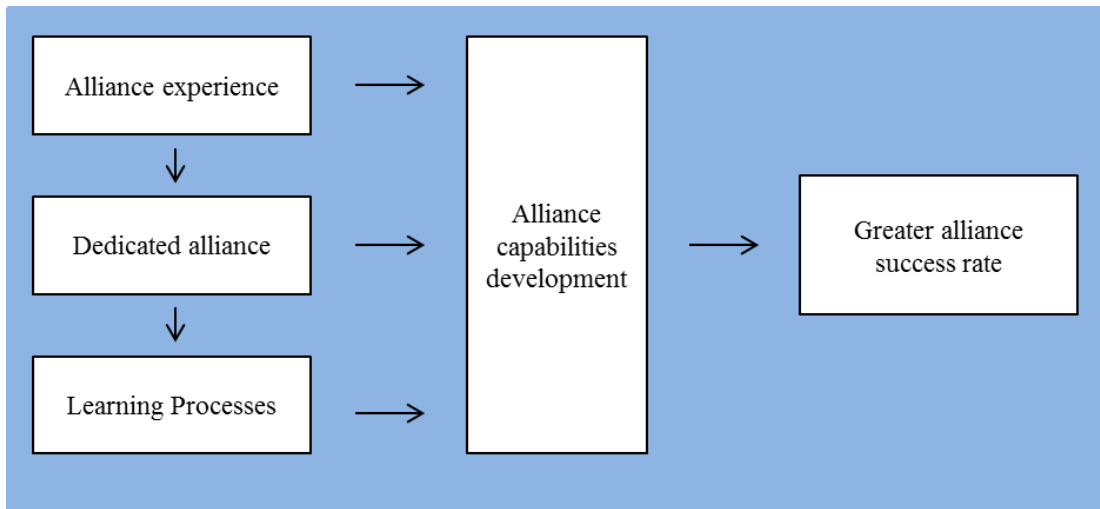
In global markets, firms present a heterogeneous alliance success rate; it seems, in fact that while most firms have understood the importance of strategic alliances, only few of them have developed skills to manage them well and lead them to success (Duysters & De Man, 2007). Analyzing the existing literature (Kale, Singh & Dyer, 2000; Anand & Khanna 2000), I found that firms with greater alliance performances are those with superior alliances management capabilities that are termed in literature as “Alliance management capabilities”. Whereby, differences in alliance performance among firms are due to different level of alliance management capabilities; according this point of view having superior alliance management capabilities (in managing alliances) is a source of competitive advantage. Firms, with greater alliance performances, are those with superior alliances management capabilities. In this chapter, through the analysis of the existing alliance literature, I define alliance management capabilities as “*firm’s ability to learn from previous alliance experience, develop know-how from the experience, internalize and disseminate alliance know-how through learning mechanisms, all with the aim to support the alliance management during formation, operational and evaluation phase*”. In order to understand how alliance management capabilities contribute to alliance success, I analyze their development process and I found three key elements, such as *alliance experience, alliance function and alliance learning process* that are closely related and are considered the main drivers, through which firms’ alliance management capabilities are developed. Each one of these key elements is analyzed and it is showed how they promote alliance management capabilities development and the overall alliance success. Involving themselves in a

great number of strategic alliances, firms gain *experience* on alliance management that is translated, with the support of a *dedicated alliance function*, in alliance know-how through the implementation of learning process. (Simonin, 1997; Anand & Khanna, 2000; Kale & Singh, 2007). According to Kale & Singh (2009) firms with superior alliance experience have developed superior alliance management capabilities and are more likely to succeed in strategic alliance management. Alliance experience helps firms to develop alliance management capabilities through “learning by doing” (Levitt & March, 1988); this is an important but not sufficient condition, because in order to develop alliance management capabilities, lessons gained from experience, have to be articulated, codified, shared and internalized in alliance management know-how through the implementation of learning process. The implementation of an effective and efficient learning process is support by the creation of a dedicated alliance function; it acts as a focal point for capturing, storing and leveraging alliance knowhow gained from prior and ongoing alliance experience, within firms. Therefore, an alliance function promotes alliance learning process; it codifies alliance know-how through manuals or guidelines and acts as support for alliance managers, in order to handle tasks better during several phases of alliance lifecycle such as partner selection, choice of the most appropriate alliance governance form etc. Firms, which possess a dedicated alliance function, are more likely to succeed in their strategic alliance; in fact the main alliance function’s contribution to alliance success is represented by the fact that it allows firms to have a stronger alliance learning process, which in turn promotes alliance management capabilities development by articulating, codifying, sharing and internalizing alliance know-how management and best practice with the firms (Kale & Sing, 2007).

Learning process, through the development of learning mechanisms (know-how articulation, codification, sharing and internalization), allows firms to capture and codify alliance know-how on alliance management, in the form of usable lessons and best practices that improves firms’ capabilities for a better management of alliance lifecycle phases and enhance overall alliance success.

The results of this chapter are summarized in the below table:

Table: Summary scheme on alliance management capabilities development.



Source: Adapted from Kale & Singh (2009).

CONCLUSION

The dissertation contributes to investigate how global firms can address “alliance paradox” and how they can lead their strategic alliances toward success; in fact after providing a better understanding of alliance phenomenon in global markets, it emerges as strategic alliances represent a “paradox” for firms. An increasing number of global firms, on one hand engage in several strategic alliances for improving their own competitive position and to the other hand the success rate is still very low. Firms need to enter in strategic alliances for several benefits but at the same time they face a lot of difficulties and problems to obtain success from them. So although in global markets, the number of strategic alliances continues to grow (growth rate increases at 25% globally, in the recent years), they still have a very low success rate (an extensive review of the literature reveals that between 30%- 70% of alliances fail). The high failure rate highlights difficulties of attaining successful alliances and the fact that not all firms have capabilities and experience to maximize the potential value creation of their strategic alliance (Das & Teng, 2001).

In particular, I dedicated the first part of my dissertation to answer the following research questions:

- 1) *How firms can obtain success from their strategic alliance? Which are the key factors that led an alliance toward success?*

It appears necessary understanding what really underlies alliance success, key factors that in each phase of alliance life cycle led the alliance toward success and how firms can manage them better. In order to reach my aim I discussed various theoretical perspectives: *Transaction cost theory, Knowledge based view, Social exchange theory, Resource based view, Dynamic capabilities view and Alliance management capabilities view*. Through the review of these theories I have identified reasons that lead firms to choose collaborative strategies and which are critical factors that make the choice to ally a winning choice; each theory, for my research, has been useful to clarify a reason and a success factors during alliance lifecycle. Therefore, basing on the literature review, I have identified several success alliance factors and reasons as following:

- *According to Transaction Cost Theory global firms decide to ally moved by the aim to reduce the amount of transaction and production costs;*

the success factor lies on the choice of an appropriate governance structure that limits the threat of partner's opportunistic behavior.

- *According to Knowledge based view and Social Exchange Theory global firms decide to ally moved by the aim of knowledge sharing (Knowledge acquisition and access); the success factors lie on alliance management know-how gained from prior alliance experience and developing of social capital between alliance partners (such as trust, commitment and power-sharing).*
- *According to Resource Based view global firms decide to ally moved by the aim to create value from resources, which are pooled together; in fact strategic alliance, for firms involved, represents an opportunity to access unviable resources and to develop jointly new ones. Success factors lies on partners' complementary resources and developing of idiosyncratic ones during the alliance lifecycle.*
- *According Dynamic Capability view and Alliance management capability view global firms decide to ally moved by the aim to identify the best way through which they can integrate, renew and reconfigure bundles of basic resources; the success factor lies on the developing of an high-order of capabilities in managing alliance relationships, termed in literature as "Alliance management capabilities".*

Success factors, identified in the first part of my dissertation through the literature review, in the second part are applied to a specific phase of alliance lifecycle, in which they have a specific relevance. In order to reach my aim, I divided the alliance life in three phases such as Formation, Operation and Evaluation and for each one I identify key factors and show how they have be managed better to enhance alliance success likelihood.

In the Formation Phase the factors that have major importance are represented by *Partner selection* (partner complementarity, compatibility and goals congruence) and the *Choice of appropriate alliance governance* that limits the threat of partners' opportunistic behaviors. In the Operation phases the main factors appear *Coordination, Social Capital* (such as trust and mutual commitment), *Control and*

Communication. In the Evaluation phase the main factor is represented by the *Alliance performance evaluation* in order to decide for *further alliance development*. In the last part of my dissertation I highlight the issues that in global markets, firms present a heterogeneous alliance success rate; it seems, in fact that while most firms have understood the importance of strategic alliances, only few of them have developed skills and capabilities to manage them well and lead them to success (Duysters & De Man, 2007). Therefore, the aim of the last part of my dissertation is understanding why some alliances achieved success and many others fail. Analyzing the existing literature (Kale, Singh & Dyer, 2000; Anand & Khanna, 2000, Ireland, 2002), I found that firms with greater alliance performances are those with superior alliances management capabilities that are termed in literature as “*Alliance management capabilities*”. Whereby, differences in alliance performance among firms are due to different level of alliance management capabilities (Kale & Singh, 2002); according this point of view having superior alliance management capabilities (in managing alliances) is a source of competitive advantage (Ireland, 2002). Firms, with greater alliance performances, are those with superior alliances management capabilities (Kale & Singh, 2002). Basing on this assumption I formulate the second research question:

2) *What are “alliance management capabilities”? How does a firm develop these capabilities to manage alliances? And how alliance management capabilities contribute to alliance success?*

In order to answer this question, it is necessary clarifying the meaning of alliance management capabilities; in fact analyzing the existing literature on this issue, I find many definitions, often conflicting; my research aims to provide a clear and complete definition that integrates the many points of view, existing at the time on this concept. I define alliance management capabilities as “*firm’s capability to learn from previous alliance experience, develop know-how from the experience, internalize and disseminate alliance know-how through learning mechanisms, all with the aim to support alliance relationship management during formation, operational and evaluation phase*”. Analyzing the existing literature, useful to clarify the issues of

alliance management capabilities is the concept of “*alliance orientation*” (Lambe, Spekman & Hunt, 2002) that is drawn from studies in “*market orientation*” (Day, 2000). Market orientation is considered such as a management philosophy market-oriented, dominated by competitive customer value management, which offers a direct and continuous comparison with competitors (Brondoni, 2007). “*Market orientation*” is defined as firms’ superior abilities to realize a greater customer value than competitors thanks to their deep market knowledge (Brondoni, 2009), at the same time “*alliance orientation*” is considered as a higher order of management capabilities about collaborative relationships that enhances firms’ ability to identify and analyze partnership opportunities, coordinate alliance activities, develop “alliance experience” and learn from it in a superior way than their competitors (Kandemir, Yaprak & Cavusgil, 2006). Alliance orientation is defined as distinct combinations of a firm’s capabilities in identifying partnering opportunities, coordinating alliance activities and learning from previous experience in a superior way than its competitors (Lambe et al., 2002). In simple word, “market orientation” has its focus on creating superior competitive customer value based on a deep market knowledge, derived from customers and competitors’ analysis (Day, 1994); at the same time “alliance orientation” has its focus on getting superior performance alliance, based on previous experiences that promotes alliance's ability to learn from it for further alliance opportunities. In order to understand how alliance management capabilities contribute to alliance success, I analyzed their development process and I found three key elements, such as *alliance experience*, *alliance function* and *alliance learning process* that are closely related and are considered the main drivers, through which firms’ alliance management capabilities are developed. Each one of these key elements is analyzed and it is showed how they promote alliance management capabilities development and the overall alliance success. Involving themselves in a great number of strategic alliances, firms gain *experience* on alliance management that is translated, with the support of a *dedicated alliance function*, in alliance know-how through the implementation of learning process. (Simonin, 1997; Anand & Khanna, 2000; Kale & Singh, 2007). According to Kale & Singh (2009) firms with superior alliance experience have developed superior alliance management capabilities and are more likely to succeed in strategic alliance management. Alliance experience helps firms to

develop alliance management capabilities through “learning by doing” (Levitt & March, 1988); this is an important but not sufficient condition, because in order to develop alliance management capabilities, lessons gained from experience, have to be articulated, codified, shared and internalized in alliance management know-how through the implementation of learning process. The implementation of an effective and efficient learning process is support by the creation of a dedicated alliance function; it acts as a focal point for capturing, storing and leveraging alliance knowhow gained from prior and ongoing alliance experience, within firms. Therefore, an alliance function promotes alliance learning process; it codifies alliance know-how through manuals or guidelines and acts as support for alliance managers, in order to handle tasks better during the several phases of alliance lifecycle such as partner selection, choice of the most appropriate alliance governance form etc. Firms, which possess a dedicated alliance function, are more likely to succeed in their strategic alliance; in fact the main contribution of alliance function to alliance success is represented by the fact that it allows firms to have a stronger alliance learning process, which in turn promotes alliance management capabilities development by articulating, codifying, sharing and internalizing alliance know-how management and best practice with the firms (Kale & Sing, 2007). Learning process, through the development of learning mechanisms (know-how articulation, codification, sharing and internalization), allows firms to capture and codify alliance know-how on alliance management in the form of usable lessons and best practices that improves firms’ capabilities for a better management of alliance lifecycle phases and enhance overall alliance success.

This study is subject to limitations. First of all the validity of my research should be tested through a more qualitative and quantitative research as it is based mainly on theoretical assumptions. Second my research deals the issues of alliance success factors and alliance management capabilities at the level of a single alliance and not at the level of an alliance portfolio. Further research should test the degree of influence that specific success factors of a single alliance lifecycle’s phase have over those of the other phases; also it would be interesting to investigate challenges that global firms face in alliance management capabilities development process and test which alliance management capabilities' key elements (such as alliance experience, a dedicated alliance function and alliance learning process) are more crucial than the others during

the different alliance lifecycle's phases. Furthermore, based on previous studies on alliance management capability, firms with greater alliance performances are those firms with superior alliances management capabilities, but my work only summarizes theoretical claims; it would be interesting a quantitative analysis to understand the impact that alliance management capabilities have on alliance performance.

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