

INVESTIGATING THE IMPORTANCE OF MATCHING EXPECTATIONS OF CONTRIBUTIONS TO SMES' INTERNATIONAL STRATEGIC ALLIANCE FORMATION

Claudio De Mattos¹, Laura Salciuviene², Vilte Auruskeviciene³, Susana Thomas⁴

^{1,4}*The University of Manchester, United Kingdom, claudio.de-mattos@mbs.ac.uk*

²*Lancaster University Management School, United Kingdom, l.salciuviene@lancaster.ac.uk*

³*Kaunas University of Technology, Lithuania, vilaur@ism.lt*

Abstract

The study investigates managers' expectations of contributions towards a strategic alliance. In order to achieve this objective, a case study of a British Small and Medium-sized Enterprise (SME), which has engaged in international strategic alliances and operates in the Information and Communication Technology (ICT) sector, is examined. The findings indicate that cultural issues may be the origin of problems in the mismatch of expectations on contributions connected to strategic alliance formation in the ICT sector. However, culture clashes are not the rule under this scenario. Congruency of the objectives of both partners in the integration process is also an important success factor as well as an open and clear communication between negotiators with regard to potential contributions. Additional research is deemed necessary to establish a deeper understanding of the significance of mismatch of expectations of contributions of partners in the formation of strategic alliances in the ICT sector.

Keywords: strategic alliances, expectations, contributions, ICT sector

Introduction

In the last few years there has been a steady increase of strategic alliances formation worldwide, particularly in the information technology sector. Information technology has changed the business world and competition conditions worldwide. "Forty five per cent of businesses run electronic procurement systems and 44 per cent of businesses receive orders via an electronic medium" (Farooqui, 2005, p.3). The majority of companies use IT in some way to support their daily activities. International strategic alliance formation in this context becomes vital for SMEs' successful performance and business expansion. This study investigates managers' expectations of contributions towards a strategic alliance. It bridges together the existing research on negotiations, alliances and partner expectations, in order to produce a unique investigation on how these research spheres operate collectively.

In order to achieve the objective of this study, a case study of a British Small and Medium-sized Enterprise (SME), which has engaged in international strategic alliances and operates in the Information and Communication Technology (ICT) sector, is examined. The SME 'A' was chosen as it has undertaken successful alliances in ICT sector in recent years. Two partners, one from a developing country and another from a developed country, were examined in the study. Our findings show that firms seem to contribute different yet complimentary skills to the relationship. Whilst one partner may contribute with market knowledge, the other partner's main contribution may be technical expertise and products to be commercialised. This study has also highlighted the importance of understanding what each partner is required to contribute.

Literature Review

In order to create an integrative relationship within a strategic alliance, it is of the utmost importance to choose not only the appropriate type of partnership, but also a compatible partner (Harrigan, 1985). The importance of partner selection has its importance reinforced when we consider that 50% of alliances fail in the long run (Kale *et al.*, 2002) and nearly as many fail in less than two years (Dyer *et al.*, 2004). An alliance partner must effectively contribute to the collaborative relationship must follow the mutual policy of 'give and 'take' i.e. the partners should ideally have a symbiotic relationship with regard to learning and also, the effective transfer of skills unique to it. According to Bleeke & Ernst (1993), partners should possess complementary skills, products, technology, geographic markets and functional skills and efficiency to contribute to the partnership. In addition, trying to identify a universal list of attributes when deciding on a complementary partner may be ineffective as there are many drivers propelling the alliance (Killing, 1983).

Geringer (1991) made a significant contribution to the literature on partner selection of international strategic alliances by inferring that it is based on partner and task-related dimensions. The partner related dimension identifies the variables that are intangible, i.e. trust, relationships and national or corporate culture. On the other hand, the task-related dimension highlights that relationship traits are less important in determining effectiveness of cooperative strategies than industry behaviour. Task related examples include patents, technological know-how, financial resources, experienced employees etc (Wang & Kess, 2006).

Furthermore, understanding both yourself and your partner may increase credibility. Triandis (1982: 147) suggests that understanding 'self-concept' will further enhance credibility, where self-concept is made up of the following three dimensions:

Self-esteem: the extent an individual thinks of themselves as good or bad;

Perceived potency: the extent an individual believes themselves to be powerful and capable of completing any task;

Perceived activity: the individual will actively carry out a task, they are a 'go-getter' who wants to shape the world. Moreover, Triandis (1982) suggests that individuals with high self-esteem, potency and perceived activity will attempt more difficult tasks, are often overconfident, may fail in completion of these tasks but they show initiative. On the contrary, individuals with low self-esteem are often more passive and will need to wait for direction from others.

Parkhe (1998) believes that trust plays an integral role in partner selection. He puts forth that trust is based upon and involves three common elements:

Uncertainty: the greater the uncertainty of a future project, the greater the trust required;

Vulnerability: the greater the potential loss of a project, the greater the trust required);

Control: the less control exercised over other partners the greater the trust. Additionally, Barney & Hansen (1994) suggest there are three different types of trust: weak, semi-strong and strong forms. Weak forms of trust arise from limited opportunities for opportunism, and takes place in specific types of low cost exchanges and where transaction-specific investments are not required. Semi-strong forms of trust arise from vulnerabilities, and where partners have mutual confidence that their vulnerabilities will not be exploited as it would be irrational for the other side to behave in such a manner. Finally, strong forms of trust are considered as "hardcore trust worthiness" Barney & Hansen (1994, p 179). Here trust emerges due to vulnerabilities and taking advantage of these would violate values and principles. Thus, "trust is only required when vulnerability exceeds gain" (Parkhe, 1998, p 225). Once a partnership has been formed and trust has been established, partners within the joint venture must be able to communicate their goals and expectations to one another (Devlin and Bleackley, 1988) and have a shared commitment to performance goals (Shaughnessey, 1995). This will accelerate the maximisation of a win-win potential of an alliance and is a major contributor for the success rate of collaborations (Newing, 2006). Varying degrees of expectations can lead to one or both members of the alliance to become disappointed and cut short the relationship.

However, regardless of which partner has been chosen for an alliance an issue that can play a role in bridging cultural gaps is that of biculturalism. According to Benet-Matinez *et al.* (2006) bicultural people (those who are either integrated/disassociated in two or more cultures) are better equipped with dealing with complex cultural situations than monoculturals, due to their complex cultural switching. Therefore, selecting a bicultural negotiator can significantly diminish cultural conflicts that may arise, and support the trust building up process (Teegen & Doh, 2002).

Hales and Tamangani (1996) define managerial roles (i.e. an individual's behaviour in relation to their job role) as what managers are expected to do as defined by their employment position within a firm. These expectations can change over time, are rarely fixed (Graen, 1976) and can create conflict and ambiguity (Dougherty & Pritchard, 1985). Strategic alliances are often characterised by this problem, as there may be confusion over what each partner is, or is not, expected to do i.e. what practical or technical know-how they are both to bring to the alliance (Buckley & Casson, 1996). Previous research has pinpointed organisational structure and national culture as the main reason why expectations differ (Stewart *et al.*, 1994). Manager's within a strategic alliance, especially SMEs, will also face the problem of 'double identities' – where one manager may have two or more jobs roles, one (or more) in their own firm and one (or more) in the strategic alliance (Wang, 1992). This too can create ambiguity and "self-centred assumptions and expectations may result in mismatched perceptions of managerial roles to be shared by the partners resulting in incompatible, misfit managerial behaviour" Cui *et al.* (2002, p 344).

As stated previously, firms ally with other firms in order to enter new markets, to create new products or to get access to cheaper resources and this often results in cooperating with potential competitors by

exchanging skills, knowledge and resources. However, the partners' contribution in joint ventures may be unequal which can create an imbalance in bargaining power. Partner contributions can be broken down into two categories: scope and extent (Lin *et al.*, 1997). In terms of scope, Contractor & Lorange (1988) differentiates between joint ventures where partners' contributions are either complimentary and those that are based on unique qualities which each partner brings to the alliance. Generally, alliances that are based upon complimentary partner contributions are more successful (Dymsza, 1988) and perform better (Killing, 1982; Awadzi, 1987; Beamish, 1987). On the other hand, the extent to which partners contribute to a venture can be considered as 'equal' or 'unequal' (Lin *et al.*, 1997).

Awadzi (1987) analysed the links between the selection of partners and relative bargaining power of forty manufacturing international joint ventures (IJV) in the USA. He found four different selection criteria, which had a positive effect on the IJV performance, namely: complementary resources provided by the partners, past business association between partners, links between businesses and links between foreign partners' and IJVs' businesses. However, this study was limited as Awadzi (1987) did not identify the differences in priority among different resource contributions or variables which might affect these priorities. Also, he did not explicitly state what contributions would be acceptable as complementary resources. This study stressed that general knowledge and speed of entry are the most important contributions from the local partner, whilst technology and complimentary products were the most important contributions from the foreign partner. These findings are in line with those presented in the 1970's by Stopford & Wells (1972).

Additionally, Lin *et al.* (1997) analysed the motivations, control and contributions of alliances formed in Taiwan. They conclude that the motivations of the parents of the IJV will directly affect their degree of control over the IJV, for example, if the contributions of the host and foreign parents are complimentary, they will control different managerial activities. On the other hand, they found that regardless of the contributions, it did not affect the control over the IJV.

Other studies (Gomes-Casseres, 1990; Blodgett, 1991) have found that possession of technology may strengthen a MNCs position over a partner that contributes local knowledge (Blodgett, 1991), whilst host government favoured technology over marketing (Gomes-Casseres, 1990; Raveed & Renforth, 1983).

Proposition 1: Partners whose contributions are complimentary will perform better than partners with similar contributions.

Proposition 2: Partners who believe they have unequal contributions will be unsatisfied with the alliance.

Method

Among qualitative approaches, a case study methodology through semi-structured interviews was chosen to address this objective, using a company ('A') and its partners operating in the ICT sector as case subjects in the study.

A qualitative approach was followed, due to its appropriateness in unveiling complex phenomena. Qualitative research is flexible and adaptable to change (Saunders *et al.*, 2003) and it helps in establishing causal relationships between variables. A positivistic approach could at times mask the true nature of the phenomenon under observation (Miles & Huberman, 1984). "The main reason for the potential superiority of qualitative approaches for obtaining information is that the flexible and responsive interaction which is possible between the interviewer and respondent(s) allows meanings to be probed, topics to be covered from a variety of angles and questions made clear to respondents" (Healey & Rawlinson, 1994, p.132).

Choice of case study and number of alliances - The SME 'A' was chosen as it has undertaken successful alliances in ICT sector in recent years. The challenges that SMEs face during the process of strategic alliance formation, the eventual synergy that could be accomplished, as well as the integration problems, have received very little attention in academic circles. Particularly regarding the integration process, the empirical literature is limited and fragmented.

Findings and Discussion

The analysis was carried out regarding participant's contributions both of firm A and its two partners. These results provide some interesting insights into each partner and their perspectives. Clearly Firm A believes that their contribution lies in complimentary products rather than their technology, criteria that their

cohorts may seek in a potential partner. Firm A believes that the marketing manager is the major contribution that their partners bring to the alliance, as it is their products that the partners are selling. On the contrary, the partners believe that they contribute important personalities, closely followed by political advantages and the marketing manager, whereas they believe that Firm A contributes the local market alliance product closely followed by product expertise. It is remarkable that the Firm A believes they do not provide the technology and just the complimentary product; however, this makes sense when they are providing complimentary internet based products to compliment the Partners media sector links.

Further tests were carried out and the results suggest that the following five are the most important contributions of the local partner:

1. Local Knowledge
2. Product Technology
3. Product Expertise
4. Faster Entry
5. Local Market – Alliance Product

This table also highlights that the least important contribution is that of export, followed closely by local financing and low cost labour. These contributions may have ranked low due to their unnecessary need in partnerships and ICT community. For example, the premise of an ICT partnership enables two companies to come together to provide a new, and often virtual service; these partnerships may not last very long, nor will they need financing for physical assets such as raw materials and factories etc. The same can be applied to export. Again, ICT firms can send their products via the Internet or other file sharing services thus export is not important. Finally, low cost labour has been ranked as unimportant as this often implies remedial, physical work, which does not require skilled labour. On the contrary, the ICT sector can be highly technical and requires a degree of IT literacy and training. However, this is becoming less of an issue with major “developing” countries such as India becoming more and more advanced in the IT sector (Hill, 2006).

Other results have provided an insight into the relationships between firms and partners contributions. There are some connections between some of the firm’s contributions and the partner’s contributions. The evidence from the results highlights that there is a strong relationship between political advantages, product technology and complimentary products. This is followed by the relationship between political advantages and faster entry, product expertise, local knowledge and an understanding of legal regulations.

Further analysis was undertaken to verify whether there was a relationship between the contributions and the performance measures. This analysis has been split up by the two types of contributions by Firm A and by their partners. In addition there are some results that suggest a link between the contributions and the performance of Firm A. Firstly, there seems to be a strong relationship between the political advantages, faster entry and understanding of government and legal regulations. There is also a significant relationship between local market existing products and political advantages, faster entry, understanding of government and legal regulations, and local market alliance products, as well as significant relationships with product expertise, local knowledge and product technology and expertise. In addition, there seems to be a strong relationship between profitability and overall satisfaction, and profitability and growth.

The results also indicate a link between the contributions and the performance factors from the perspective of Firm A’s partners. These findings highlight some strong correlations between some of the contributions and the performance measures, in particular political advantages and profitability; reduction in political intervention and overall satisfaction; political advantages, overall satisfaction and growth; as well as between the contributions of political advantages and marketing director. There is also a very strong correlation between the performance factors of overall satisfaction and growth, and overall satisfaction and profitability.

The results from Firm A and their partners provide some interesting findings. Firstly, it is evident that both firms and partners exhibit the exchange of complimentary contributions. Firm A provides the technology whilst the various partner firms provide the local knowledge and political advantages. This complementary exchange is clearly having a positive effect on the overall satisfaction, as they all seem to be performing extremely well in the profitability and growth measures.

Conclusion

The majority of companies use IT in some way to support their daily activities, and this technology removes the importance of physical barriers (Luo, 2005). There is a growing trend for firms to leverage their

competitive advantage through strategic alliances (Bartlett *et al.*, 2004; Narasimhan & Carter, 1998; James, 1985). This study, thus, bridges together the existing research on negotiations, alliances and partner expectations, in order to produce a unique investigation on how these research spheres operate collectively. This study addresses this research gap.

Our major findings indicate that complimentary skills are the main contribution of successful alliance partners. In order to build successful partnerships it is essential to have a clear picture of what are the contributions demanded from each partner. Our findings imply there is no direct link between the performance of the alliance and specific partner contributions, considering profitability and competition, the majority of the firms were overall satisfied with the alliance performance. Moreover, the majority of the partners SMEs do not make any contribution in terms of capital, local financing and export operations. Local knowledge and offers of product to be commercialised are ranked in the top five contributions with the product expertise being the most important one. Local financing has been ranked as the least important contribution of the local partner. The results confirm that the firms in the study are not seeking to formalise the alliance, but have the objective to enter new markets or improve their product lines.

In this study, the findings have highlighted a number of implications. First, partners should clearly communicate what their expectations are with regard to a specific alliance. Secondly, partners should be clear about their contributions to minimize potential conflicts. Third, an assessment of the cultural fit between the partners of strategic alliances should be carried out as part of the alliance formation process. The knowledge gained in a cultural assessment may assist in designing the integration plan (Bradley, 2003). Finally, setting realistic goals before entering into an alliance will provide a clear path for the partnership and potentially increase their satisfaction with the alliance outcome.

One topic for future research is to explore an issue of unfulfilled expectations in greater depth. Future work on this subject area will aid the negotiation literature as well as other business areas, as this could be a better explanation why conflicts in alliance formation occur. Another attractive topic for future research is an analysis focusing on the IT sector and its convergence/divergence trends with regard to strategic alliance formation. The ICT industry is immense in size and sector. There are many companies offering different ICT solutions, from e-commerce to hardware to software and networking to name but a few. As this sector grows in importance, it is essential to understand whether there is a divergence between these sub-sectors and, if that's the case, identify the reasons for it. This has implications for all firms, especially for those operating online, as the sector competitiveness is increasing due to consolidation.

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