THE DEVELOPMENT OF INTER-ORGANIZATIONAL COLLABORATIVE VENTURES OF SPANISH FAMILY BUSINESSES. ANTECEDENTS TO THE EVOLUTION OF INTER-ORGANIZATIONAL COLLABORATIVE VENTURES. DO FAMILY BUSINESS CHARACTERISTICS MATTER?

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This dissertation is the result of a long journey of education and investigation. When I left Germany in 1993 to finish my academic education getting a Ph.D., I expected it to be a trip of a couple of years, which would further my knowledge of business.

As in most journeys, initial plans were soon discarded and deviations from the initial path and challenges lead to new discoveries. However, it was these challenges and deviations, which provided the lasting experience. This made this educational adventure a real and lasting learning experience, at which end, I am much more changed, hopefully to the better, than anticipated at its initiation. This dissertation is the final result of this voyage. Many of the lectures received and lessons learned are personal and cannot be shared here.

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ABSTRACT

The subject of inter-organizational collaboration (IOC) receives academic attention and is important to managerial practice. However, there are few studies on inter-organizational collaborative ventures (IOCVs) in the context of family businesses, and of studies investigating the development of IOCVs. The purpose of this dissertation is to explore the development of IOCVs in the context of Spanish family businesses.

The first part of the dissertation focuses on extent research of family business and IOCVs, establishing the managerial relevance of this area and reviews extent research. This concludes in the formulation of the research question. Also the methodology chosen for this dissertation will be discussed.

Then we will report on the results and findings of the fieldwork in three Spanish family businesses. We find that antecedent factors are critical to the formation of IOCVs and have an imprinting effect critical for the development of the IOCV.

Data suggests that those family businesses' ventures, which develop along many small "incremental" changes (process), change more dynamically and are more successful than those ventures (outcome) which develop along a small number of significant changes. Process and outcome of change are associated with the management approach adopted by the parent organization towards the venture. Ventures which are managed in a formal way rely on exogenous safeguards and contracts develop along few large changes. Ventures that are managed to a lesser degree through formal mechanisms and contracts develop in an incremental manner. Whether a formal management approach relying on exogenous/contractual safeguards is adopted or an informal management approach relying on endogenous/non contractual management mechanism is adopted, is associated with several antecedents to the formation and development of the IOCV. Where (1) no endogenous safeguards were developed between the partners prior to venture formation, (2) the investments are specific and risky, (3) operational set up of the IOCV is complex and leads to need for coordination and (4) the family business is governed through formal systems and structure, (A) formal mechanisms are adopted in the management of the IOCV. Where family businesses have developed (1) endogenous safeguards with the partner prior to the formation of the IOCV, (2) the investments are neither specific nor risky, (3) the operation of the venture is not complex and requires little coordination due to partner interdependence in the operation and (4) the corporate context is characterized by few formal coordination mechanisms but direct supervision, (B) an informal IOCV management approach relying on non-contractual/endogenous safeguards is applied. In this context the corporate management
structure adopted by the family business is associated with family business characteristics. Family businesses, which are characterized by complex ownership and management structures, and show conflict, are characterized by a high reliance on formal management systems and structures. Family businesses which have less complex ownership and management structures and show little conflict among family members, rely to a lesser degree on formalized management structures and systems.

In the final chapter we discuss the propositions deduced from data and their contribution to academic inquiry. The intended contribution of this study was to explore the development of IOCVs in the context of family businesses. This study provides first empirical evidence how family businesses engage and manage IOCVs. It suggests a link between the family business characteristics and mechanisms adopted in the management of their ventures. In extant studies antecedent factors had been linked with the outcomes of inter-organizational. In this study we argue that the reliance on formalized versus not formalized (informal) management systems and structures appears to be critical to the development of IOCVs and connects antecedent factors, management approach, the process the venture change and the outcome/change in the strategic position of the IOCV. Antecedent factors could explain the reliance on formalization of mechanisms to manage IOCVs, thereby connection antecedents and the development of the venture.

Researchers in the field of family business argue that due to the personalization of family businesses around the members of the family less formal structures are adapted and informal mechanisms are of importance. We suggest that it might be this reliance on informal mechanisms which allows family businesses to develop embedded relationships due to the reliance on personal and not formal relationships. The organizational characteristics of family businesses might enable the development of their IOCVs. This suggests that the location of family business related advantages are located in the ownership/management structure and are directly related to the characteristics of family businesses.

The focus of this research is the initial approximation to the phenomenon the object of this dissertation we do not aim to achieve statistical significant results, but to generate propositions which can be further investigated through increasing the base of cases or in other organizational or IOC context.
TABLE OF CONTENTS

ACKNOWLEDGEMENTS ................................................................. 2
ABSTRACT ......................................................................................... 4
TABLE OF CONTENTS ......................................................................... 6
TABLE OF FIGURES ........................................................................ 10

1 Research Question ........................................................................... 11
  1.1 Introduction ................................................................................... 11
  1.2 Research Object: Relevance of Inter-Organizational Collaboration (IOC) .. 13
    1.2.1 Introduction ........................................................................... 13
    1.2.2 The Growing use of IOCVs .................................................. 14
    1.2.3 The Importance of IOC in the Pursuit of Business Goals .......... 14
    1.2.4 The Impact of IOC on Industry Structures ............................. 16
    1.2.5 Managing IOC: Stability, Failure and Performance ................ 17
    1.2.6 Conclusion: IOC as Object for Research ................................. 17
  1.3 Research Context: Relevance of Family Businesses ....................... 18
    1.3.1 Introduction ........................................................................... 18
    1.3.2 Relevance of Family Business ................................................. 18
    1.3.3 Importance of IOC for Family Businesses ............................... 19
    1.3.4 A Gap in Extant Research on IOC: Family Businesses .......... 20
    1.3.5 Characteristics of Family Businesses .................................... 21
    1.3.6 Data Gathering in the Context of Family Businesses ............. 24
    1.3.7 Conclusion: Family Business as Context for Research .......... 25
  1.4 Limitations of Extant Research on IOC .......................................... 25
    1.4.1 Introduction ........................................................................... 25
    1.4.2 Limitations: Focus of Extant Research .................................... 26
    1.4.3 Limitations: Theories Studied in Extant Research .................. 27
    1.4.4 Limitations: Separation of the Phenomenon into Disconnected Parts .. 29
    1.4.5 Limitations: Methodological Preferences ............................... 30
    1.4.6 Conclusion: Redirecting Research ........................................... 31
  1.5 Summary and Research Question .................................................. 31
2 Literature Review

2.1 Introduction

2.2 Extant Research: IOC

2.2.1 Introduction

2.2.2 Organizational Theory and IOC

2.2.3 Network-Theory and IOC

2.2.4 Multinational Company Perspective on Joint Ventures and IOC

2.2.5 Research on International Joint Ventures

2.2.6 Learning and IOC

2.2.7 The Relational View

2.2.8 Contribution of Extant Research on IOC

2.3 The Field of Family Business and IOC

2.3.1 Introduction to the Field of Family Businesses

2.3.2 Distinctiveness of Family Businesses: The Importance of Overlap

2.3.3 The Development and Growth of Family Businesses

2.3.4 Succession in Family Businesses

2.3.5 The Management of Family Businesses

2.3.6 Family Business Strategy

2.3.7 Conclusions

3 Methodology

3.1 Introduction

3.2 Methodological Choice

3.3 The Overall Approach

3.4 Case Selection

3.5 Data Collection

3.5.1 Personal Interviews

3.5.2 Interview Protocols

3.5.3 Other Sources of Information

3.6 Data Analysis

3.7 Validity

3.8 Limitations due to Methodological Choice

3.9 Presentation of Results
4 Results .........................................................................................................................108
  4.1 Introduction .............................................................................................................108
  4.2 Antecedents to Formation, Adaptation and Development of IOCV ......................109
    4.2.1 Availability of Endogenous Safeguards to the Partner .....................................110
    4.2.2 Complexity of Operations and Resulting Requirements for Coordination .........111
    4.2.3 Exposure of Investments to Potential Ex-Post Bargaining ...............................113
    4.2.4 Corporate Context of the IOCV .......................................................................117
  4.3 Family Business Characteristics ...........................................................................120
    4.3.1 Family Business Characteristics ....................................................................121
    4.3.2 Group Characteristics ....................................................................................124
  4.4 Management of the IOCV ......................................................................................126
  4.5 Process of Change in IOCV ....................................................................................129
  4.6 Outcomes of Development of IOCV .....................................................................132
  4.7 Relationship between Antecedents and Management Approach .........................135
  4.8 Relationship between Family Business Characteristics and Corporate Context .........140
  4.9 Relationship between Management and Process ..................................................142
  4.10 Relationship between Process and Outcome .......................................................143
  4.11 Towards an Integrative Model of Antecedents, Process and Outcome ...............145

5 Discussion of Results and Conclusions ..................................................................149
  5.1 Towards an Integrative Model of IOCV Evolution .................................................149
  5.2 Discussion of Results ............................................................................................151
    5.2.1 Formalization and Development of IOCV ....................................................151
    5.2.2 Antecedent Factors and the Management of IOCV ........................................156
    5.2.3 Imprinting Effect and the Development of IOCV ..........................................162
  5.3 Limitations .............................................................................................................165
  5.4 Intended Contribution to Research .......................................................................166
    5.4.1 Intended Contribution to the Field of IOC .....................................................166
    5.4.2 Potential Implications for the Field of IOCV ................................................166
    5.4.3 Intended Contribution to the Field of Family Business .................................167
    5.4.4 Potential Implications for the Field of Family Business .................................167
  5.5 Potential Implications for Management Practice ..................................................168
    5.5.1 Potential Implications for Management Practice in IOC .................................168
    5.5.2 Potential Implications for Management Practice in Family Business .............169
  5.6 Opportunities for Future Research ........................................................................170
TABLE OF FIGURES

Table 3-1: Company Characteristics – Description of Family Businesses .........................100
Table 3-2: Company Characteristics – Involvement of Family of Family Businesses ..........100
Table 3-3: IOCV Characteristics of Family Businesses Included ............................................100
Table 3-4: Strategic Decisions of IOCV of Family Businesses Included .................................101
Table 3-5: Interviews Conducted ...............................................................................................102
Table 3-6: Categories for Coding of Data ..................................................................................105
Table 4-1: Model ........................................................................................................................108
Table 4-2: Availability of Endogenous Safeguards .................................................................111
Table 4-3: Operative Requirements of IOCV ...........................................................................113
Table 4-4: Exposure of Investments to Ex-Post Bargaining ....................................................117
Table 4-5: Corporate Context of IOCV .....................................................................................120
Table 4-6: Family Business Characteristics .............................................................................124
Table 4-7: Group Characteristics of Family Business ..............................................................126
Table 4-8: Management Approach Adopted Towards IOCV ...................................................129
Table 4-9: Characteristics of Process of Change of IOCV........................................................132
Table 4-10: Outcome of IOCV Development ............................................................................135
Table 4-11: Safeguards and Management of IOCV .................................................................136
Table 4-12: Operative Requirements and Management of IOCV ............................................137
Table 4-13: Investment Characteristics and Management of IOCV ........................................138
Table 4-14: Corporate Context and Management of IOCV ......................................................139
Table 4-15: Family Business Characteristics and Corporate Context ....................................141
Table 4-16: Management and Change Process of IOCV ........................................................142
Table 4-17: Change Process and Outcome of IOCV Development ........................................145
Table 4-18: The Integrative Model ............................................................................................146
Table 5-1: The Integrative Model .............................................................................................149
1 Research Question

1.1 Introduction

Strategic alliances, joint ventures and other forms of inter-organizational collaboration (IOC) have become some of the most relevant topics for managerial practice and academic inquiry over the past decade (Gulati, Nohria & Zaheer, 2000). The managerial interest in this phenomenon is growing for many reasons. In addition, IOC is an interesting topic, as empirical studies and popular business press point to practitioners’ difficulties in managing strategic alliances and joint ventures (Dussauge & Garrette, 1995; Geringer & Hebert, 1989; Harrigan, 1988a, 1988b; Killing, 1983, 1988; Porter, 1987).

In the context of family businesses, inter-organizational collaborative ventures (IOCVs) can be critical in overcoming limitations of financial and managerial resources (Beamish, 1999; Buckley, 1989; Jarillo, 1988; Lu & Beamish, 2001; Zacharakis, 1997). However, in studying IOC, the specific aspects of family businesses must be taken into consideration.

For more than 20 years, researchers have studied IOC in several areas and independent research streams (Kogut, 1988; Oliver, 1990; Parkhe, 1991; Tallman & Shenkar, 1994). We have developed a good understanding of the conditions associated with alliance formation (Tallman & Shenkar, 1994). We have also gained a better understanding of alliance formation as such. Furthermore, we have gained some understanding of which performance measures are associated with successful IOCVs. Instability has been explored and better understood (Ariño, 1995). Finally learning appears to be an important aspect of IOC (Dyer & Nobeoka 2000; Hamel, 1991; Hennart, Roehl & Zietlow, 1999; Kogut, 1988; Parkhe, 1991).

There are still important gaps in extant research that limit our understanding of the phenomenon of IOC. Critics of extant research propose to move away from sophisticated economic and sociological models towards the application of managerial and organizational perspectives, focusing on the phenomenon from a holistic perspective. They argue that we need to return to grounded research methodologies to study these aspects of IOC (Hamel, 1991; Parkhe, 1993c; Ring & Van de Ven, 1994).

This suggests moving the focus of research from the level of the IOCV as a level of analysis to the level of critical single decisions and their influence on the overall development of IOC (Ariño & de la Torre, 1996; Doz, 1996; Ring & Van de Ven, 1994).

In this context, we will draw on a sample of Spanish family businesses. This group of organizations has been virtually neglected until today, in strong contrast to the relevance of family businesses in terms of overall economic activity and the importance of IOC in leveraging their limited financial and managerial resources (Gallo & Garcia-Pont, 1988; Wortman, 1994).
The contribution of this dissertation will be to analyze the development of IOCVs of Spanish family businesses. The research question is:

“How do inter-organizational collaborative ventures (IOCVs) of Spanish family businesses develop along strategic decisions, and how do organizational characteristics of Spanish family businesses influence the evolution of collaborative ventures?”

This chapter begins with a discussion of the growing relevance of the phenomenon of IOC in managerial practice and research. Next, the relevance of IOC for family businesses will be discussed. The discussion of limitations of extant work on IOC will build the foundation for understanding why a redirection of academic interest is necessary in order to forward our understanding of IOC.
1.2 Research Object: Relevance of Inter-Organizational Collaboration (IOC)

1.2.1 Introduction

Strategic alliances, joint ventures and inter-organizational collaboration (IOC) have become some of the most relevant topics for managerial practice and academic inquiry over the past decade. The managerial interest in this phenomenon is growing for different reasons: (1) the rate at which the number of inter-organizational collaborative ventures (IOCVs) increases, (2) the reasons that drive the formation of collaborative IOCVs gain in importance, and (3) the impact of IOC on industry structures and companies’ competitive positioning becomes more significant. IOC is an interesting topic for academic investigation, as empirical studies and popular business press point to high failure rates, instability and dissatisfaction of participants, implying difficulties on the part of practitioners in managing strategic alliances and joint ventures.

“Strategic Management as a field of inquiry is firmly grounded in practice and exists because of the importance of its subject (Rumelt, Schendel & Teece, 1994, 9”).

This statement applies to most work in management. It is worth undertaking an investigation into management so as to codify, teach and expand what is known about the skilled performance of roles and tasks that are important in today’s societies (Rumelt, Schendel & Teece, 1994). Consequently it is the goal of academic inquiry and research to investigate phenomena of relevance for managerial practice with the goal of making a contribution to managerial practice.

By examining the wide and growing use of different forms of IOC, from the strategic importance of objectives and motivations that drive it to the impact of IOC on industries, we will argue that it is a relevant phenomenon for practitioners. Popular business press and academic inquiry underline today’s limited understanding regarding the management of IOC. This points to instability and performances that fall short of initial expectations. This also allows research to make a contribution to managerial practice by advancing the understanding of IOC.
1.2.2 The Growing use of IOCVs

IOC and joint ventures are relevant phenomena to today's managerial practice, as their absolute number is growing rapidly and, therefore, concerns many practitioners.

The use of IOC in an international and domestic context has exhibited dramatic increases in the 1980s (Harrigan 1988a; Herger & Morris, 1988). More strategic alliances and other collaborative ventures have been announced between 1981 and 1990 than in all prior years combined (Anderson, 1990; Deloitte, Haskins & Sells International, 1989). Empirical evidence suggests a continued increase and growing strategic importance of alliances and joint ventures throughout the 1990s (Hagedoorn, 1996). In the last two years of the 1990s over 20,000 joint ventures and licenses agreements have been formed (Anand & Khanna, 2000).

Collaborative ventures between firms have been formed across many industries and functional areas, and they come in many different forms. They have been observed across a broad spectrum of sectors including the automobile, biotechnology, commercial aircraft, electronic equipment, integrated circuitry, pharmaceutical, robotics, steel, consumer goods and telecommunications industries. They include marketing agreements, manufacturing collaborations, supply agreements, as well as technology, licensing and development agreements. IOC also comes in many structural forms. At one end are equity joint ventures, wherein partners create a new entity in which they share equity and which most closely replicates the hierarchical control features of organizations. At the other end are contractual agreements with no equity sharing and few hierarchical controls built into them (Contractor & Lorange, 1988; Ghemawat et al., 1986 Gulati, 1998; Mowery, 1988, Porter & Fuller, 1985).

The absolute number of agreements and the steady growth of IOCVs imply wide use and relevance to today's managerial practice. A large and still growing number of companies and practitioners needs to deal with issues involved in the formation, management and termination of IOC in its many forms.

1.2.3 The Importance of IOC in the Pursuit of Business Goals

Aside from their sheer proliferation, the reasons and motivations driving alliance formation make IOC an important alternative in achieving strategic goals of organizations and underline their relevance to today's management. From a strategic management perspective, IOC is pursued in order either to improve the product's market position, organize economic activity and transaction cost effectively, or apply and/or acquire critical skill for the organization (Kogut, 1988). All three aspects are considered of strategic importance to organizations and, therefore, make IOC a matter of potential strategic importance to today's organization management.
In looking for the reasons that motivate organizations to pursue IOC, many reasons have been identified: (1) reduced risks; (2) capitalizing on economies of scale; (3) rationalizing activities; (4) matching complementary technologies; (5) co-opting and blocking competition; (6) overcoming government-mandated investment and trade barriers; (7) initiating international expansion; and/or (8) achieving vertical quasi integration (Contractor & Lorange, 1988).

All inter-firm collaboration can help mechanisms change the product-market positioning of a firm by allowing them to change the product market definition and to claim economic rents. As Harrigan put it: "Sponsoring firms embrace ... [them] ... because they are ways to implement changes in their strategic postures or to defend current strategic postures against forces too strong for one firm to withstand alone. ...[They] ... permit firms to create new strengths." (1988a: 156). IOC enables organizations to cope with (1) the shortening of product life cycles, (2) the increasing importance of cost advantages, and (3) the greater number of firms which operated formerly only in domestic markets and now are becoming global competitors (Harrigan, 1988a).

Another perspective regarding the use of inter-firm collaboration is provided by transaction cost economics. These involve understanding strategic alliances as mechanisms for optimizing the overall production and transaction cost. Here inter-firm collaboration permits efficient value generation and organization of economic activity in order to minimize the total cost of production and transaction (Hennart, 1988; Kogut, 1988).

Finally, inter-firm collaboration is a mechanism for applying and acquiring skills and knowledge. IOC offers organizations a mechanism to transfer knowledge that, due to market imperfections, cannot be applied and acquired otherwise. It can be argued that the efficient application of knowledge as an organizational resource is simply a different form of transaction and production of resources. However, the knowledge-learning perspective points to the fact that the issue of IOC may be critical. As resources likely to be at the center of collaboration are those which also form the core of organizations (i.e. knowledge), this makes knowledge management and other aspects of its acquisition issues of strategic importance to the organization and its management (Grant & Baden-Fuller, 1995; Hamel, 1991).

For practitioners that need to enhance the strategic positioning of an organization, it is of great relevance to assure the efficient undertaking of economic activities as well as the need to enhance and protect the key resources of organizations (i.e. knowledge).
1.2.4 The Impact of IOC on Industry Structures

So far it has been argued that IOC is relevant due to its proliferation and its value as an alternative in carrying out economic activity. Strategic alliances are also of critical concern for business because of their growing impact on industry structures.

Aside from the growth of IOC, it has been observed that the network density has increased significantly in a number of sectors. This points to a growing interdependence of organizations at the industry level (Hagedoorn, 1996).

Thus, IOC has an impact on industry structure. It changes the level of competition from company versus company competition to group versus-group competition. Alliances are increasingly perceived as critical elements of corporations’ business networks, as strategic weapons for competing within firms’ core markets and technologies. (Dyer, 1996; Garcia Pont & Nohri, 2002; Gomes-Casseres, 1994, 1996; Gulati 1998; Nohria & Garcia Pont, 1991).

As strategic alliances change the economic structure of industries, they have an impact on their competitive dynamics. This forces managers to evaluate the impact of IOC on industry structure and use alliances as alternatives for improving positioning at the industry level. When an industry is characterized by the emergence of groups of companies that are bound together through multiple alliances, membership in such a group becomes an important asset (Baum, Calabrese & Silverman, 2000).

This can force managers to consider IOC not as an alternative, but as a critical issue to the survival of the firm, thus making ioc a strategic imperative for organizations in these industries.
1.2.5 Managing IOC: Stability, Failure and Performance

While the formation of strategic alliances and joint ventures is accelerating, and their importance to competing successfully in a dynamic, competitive environment is increasingly recognized, the managerial understanding of these strategic alliances is still limited. It has even been assumed that, due to the negative performance of IOC, organizations would eventually refrain from pursuing this alternative in carrying out economic activity.

Much concern arises from the recurrent renegotiations, implying that IOCVs are ineffective in terms of their management and that too much time and effort is spent on renegotiating initial terms and ongoing operations (Blodgett, 1992; Yan & Gray, 1994).

Wide-spread performance problems in IOCVs have been observed (Deloitte, Haskins & Sells International, 1989; Harrigan, 1985) as well as high failure rates (Harrigan; 1988a; Porter, 1987) and a large number of break ups (Gomes-Casseres, 1987). In this observation, sub-par performances and failures are the rule and not the exception. Still, organizations continue to enter into new IOCVs, enticed by the potential rewards and in spite of the limited past success.

These long known but still unresolved difficulties in IOC point to poorly understood aspects in managing this type of collaboration. This poses the challenge to research the phenomenon of IOC in order to provide decision-makers and practitioners with a better understanding of the phenomenon and its relevant issues.

1.2.6 Conclusion: IOC as Object for Research

In conclusion, (1) the wide use of strategic alliances, joint-ventures and other forms of IOC, (2) the importance of the objectives and motivations that drive the formation of strategic alliances, and (3) the impact of IOC on industries and the organizations competing in these industries underline the importance of the phenomenon of IOC. Popular business press and academic inquiry point to difficulties in managing IOC. This highlights the potential contribution of research in reaching a better understanding of IOC for managerial practice.
1.3 Research Context: Relevance of Family Businesses

1.3.1 Introduction

So far, IOC has been analyzed in a large variety of contexts and different organizational settings. Most samples focus on the joint ventures of multinational corporations and global strategic alliances (e.g. Parkhe, 1991). In this study, we will investigate a specific organizational context: Spanish family businesses. In general, there has been little attention given to the phenomenon of IOC in the context of family businesses (Gallo et al. 2002; Wortman, 1994). Only one study has included family businesses in its sample (Renfort, 1974).

We do so, as the phenomenon of family businesses is a relevant phenomenon. IOC is important to family business when confronting resource limitations and family businesses can be interesting partners in an IOCV.

However, when studying family businesses, we must take into account the specific organizational characteristics of family businesses, as their organizational structure sets them apart from non-family businesses. For our purposes, the long tenure of managers and shareholders in family businesses is highly attractive for the gathering of longitudinal data.

1.3.2 Relevance of Family Business

One way to gauge the relevance of a phenomenon to managerial practice is by measuring its prevalence and impact in today's economic activities.

It is not a trivial pursuit to determine the impact of family businesses on the national and international economy. Underlying issues that complicate the definition of such an impact include the general lack of quantitative research (Handler, 1989; Shanker & Astrachan, 1996) and the lack of a unique definition for family businesses (Handler, 1989; Shanker & Astrachan, 1996).

Several studies have been undertaken to provide evidence for estimating the relevance of family businesses in different countries and geographic regions:

- Flören (1998) provides evidence for the importance of family businesses in the Netherlands. Almost 50% of all Dutch companies with more than 100 employees are family businesses, generating more than 60% of the total employment figure in the Dutch private sector. They also contribute 40% - 60% of the GDP output.
- Gallo and Garcia-Pont (1988) analyze the demographics of Spanish family businesses. They find that family firms account for 59% - 66% of the total number of jobs provided by Spanish companies, with sales of over 2 million Euros providing evidence of the importance of family businesses to the Spanish economy.
Klein (2000) provides evidence of the importance of family businesses to the German economy. She finds that 30% of all corporations with more than 500 million Euros in turnover are family businesses.

Shanker and Astrachan (1996) provide evidence for the importance of family businesses to the US Economy. They come to the conclusion that family businesses in the USA contribute between 20% and 50% of the GDP and are responsible for between 15% and 59% of business employment, depending on the definitions and measures applied.

The estimates vary widely due to different underlying definitions. They cannot be compared (as samples are built on the basis of available statistical data). However, they do provide evidence for the relevance of family business. From these studies, it can be concluded that the organizational context is critical for the generation of GDP as well as employment, as family businesses account for 20% - 50% of GDP and employment in many countries.

This provides strong support for the fact that family businesses are a relevant organizational context in today’s economic environment.

1.3.3 Importance of IOC for Family Businesses

From the above studies, it can be asserted that family businesses compete in many industries. Additional evidence has been provided by pointing to the importance of Spanish family businesses across many sectors of the Spanish economy (Casado et al., 1997; Gallo & García Pont, 1988).

As family businesses compete in many industries with non-family businesses, the issue of IOC is as important for them as it is for non-family businesses. With the proliferation of strategic alliances over many sectors, their importance for competitiveness and their impact on industry structure, family businesses must consider this alternative in the same way that non-family businesses do. Therefore, just as its importance is growing for non-family businesses, the issue of inter-firm alliances is becoming an important issue for family businesses as well.

Nevertheless, specific aspects set family businesses apart, apparently making alliances an even more important competitive issue for them. As the family business is managed and financially controlled by the family (following the definition used in the context of this dissertation), it faces limited managerial and financial resources.

The first limitation regards managerial resources, as the family in the family business claims managerial control over the business. For simple biological reasons, family businesses face limitations in terms of their capacity to assign managers. The introduction of outsiders as managers to the family business has limitations, as the managerial control of the family businesses is intended to be within the family. Thus, in short, overall managerial resources are assumed to be scarce in the context of family businesses.
Financial control is the second critical issue to the family business in that one family holds a controlling stake in the overall business. This limits the ability of the family business to introduce outside capital beyond the minority level and only enables family businesses to grow through internally generated resources and bank loans. The overall financial resources of family businesses will be limited to their ability to introduce equity from outside the family (Gallo, Tapies & Cappuyns, 2000).

Within this context, critical strategic alternatives might not be pursued due to a lack of managerial and/or financial resources. IOC can be a mechanism for overcoming these resource limitations as well as a source for managerial, financial or any other resources needed to implement these alternatives and increase competitiveness (Lu, & Beamish, 2001; Jarillo, 1988; Beamish, 1999; Buckley, 1989; Zacharakis, 1997).

Thus far, we have argued that family businesses need to evaluate inter-organizational collaboration. On the other hand, due to their prevalence, family businesses might be interesting partners for IOC with a non-family business. This might be especially true in countries or industries dominated by large family-owned industrial groups. Landsberg and Perrow (1991) describe how most Latin American economies are dominated by large, cosmopolitan, family businesses referred to as “grupos”. There, single family businesses can have a significant market share in specific product markets (Martinez, 2002).

Overall, the prevalence of family businesses, the competitive situation across markets, the resources limitations, and the potential importance of family businesses as potential partners, all make family business a relevant phenomenon for study.

1.3.4 A Gap in Extant Research on IOC: Family Businesses

Although they appear to be a relevant phenomenon now, strategic alliances and IOC within family businesses is virtually unexplored in academic work (Gallo et al. 2002; Wortman, 1994).

Up to now, IOC has been analyzed in a large variety of contexts and different organizational settings. Most samples focus on the joint ventures of multinational corporations and global strategic alliances (e.g. Parkhe, 1991). Only one study has empirically analyzed family businesses in its sample (Renfort, 1974), and only a small number of papers has analyzed the phenomenon in the family business context (e.g. Gallo et al, 2001).

This lack of research in IOC does not reflect the relevance of this alternative form of undertaking business activities in the context of family business.

In this study we will study a specific organizational context: family businesses.
1.3.5 **Characteristics of Family Businesses**

1.3.5.1 **Introduction**

We define family businesses as those businesses in which the majority of shares are concentrated in the hands of a few important shareholders that are relatives. They have the goal of maintaining managerial control and ownership of the business and will pursue family and business objectives within the family business. Some of these shareholders are represented on the board of directors. Some of the key shareholders are also actively involved in the management of the business.

This, by definition, implies three issues. The first is the overlap between ownership and management implying the issue of agency. The second involves the issue of overlap between business and family interests. The last includes issues related to the upper echelons of the family businesses.

1.3.5.2 **Characteristics of Family Businesses: Agency**

Issues of ownership structure are important in understanding the characteristics of family businesses. The partial and complete identity of managers and owners is one aspect that sets family businesses apart from non-family businesses. The agency theory provides an explanatory framework with which to examine hypothesized relationships and build a model for understanding the distinction between family and non-family businesses (Alcorn, 1982; Barnes & Hershon, 1976; Daily & Dollinger, 1993, 1994; Dyer, 1986; Landsberg, Perrow, & Rogolsky, 1988; Stern, 1986). As owners and managers are partially or completely identical in family businesses, these agency problems are different for family businesses (Daily & Dollinger, 1993, 1994).

Aside from the introduction of information and incentive systems, Fama and Jensen (1983) point to the structure of organizational decision making as one of the mechanisms for limiting the agency problem. The separation of ratification and monitoring of decisions from their initiation and implementation allows for control over the agent in organizations where ownership and management are separated. Fama and Jensen argue that a wide variety of organizational structures and processes can emerge to reduce these agency problems. Thus, Fama and Jensen imply a typology of organizational forms based on the nature and kind of agency problems that exist (Barney & Ouchi, 1986; Fama & Jensen, 1983).

In family businesses, the nature and consequences of principle-agent relationships can be hypothesized as different than in non-family businesses due to the partial or complete identity of owners and managers. Therefore, mechanisms for monitoring and control can be hypothesized to differ between family businesses and non-family businesses. The issue of
information and incentive systems and the separation of decision ratification and monitoring in family businesses can be hypothesized to differ from those in non-family business.

Only limited empirical evidence exists regarding this issue. Daily and Dollinger (1993, 1994) tested the hypothesis that in the family-owned and managed business, less formalized systems are likely substitutes for formalized control systems. They did this by studying a sample of 486 small manufacturing firms with fewer than 500 employees. They found support for their hypothesis because, in their sample, professionally managed firms rely to a greater extent on the use of internal control procedures than firms under family control. It can be concluded that family businesses would rather use personalized control than rely on formalized procedures to monitor employee behaviors and firm processes (Daily & Dollinger, 1993, 1994).

This finding is consistent with anecdotal evidence regarding the use of planning systems in family businesses. Ward (1988a) observes that many family business owners are reluctant to plan ahead. Owners argue that planning is a potential constraint to their survival skills and that the high uncertainty of the future makes planning unfeasible (Ward 1988). Founder-run organizations are generally characterized by more centralized decision making processes (Dyer, 1986; Geeraerts, 1984). It is also found that, in family businesses, one or very few individuals dominate the decision making process (Whisler, 1988). At the same time, Ward (1988a) observes that family business owners try to avoid sharing decision-making rights in the organization.

Empirical and anecdotal evidence points to the impact of the identity of management and ownership in the context of family businesses. As the agency structure of family businesses is different from that of non-family businesses, it can be assumed that the way decisions are made and the way decisions are implemented will differ as well.

Given these differences between owner-managed and professionally-managed organizations, it can be hypothesized that the organizational context of family businesses will be different across the family business spectrum depending on the ownership structure of these businesses. And this may have an impact on IOCVs.

1.3.5.3 Characteristics of Family Businesses: Organizational “Overlap”

Authors in the field of family business argue that the management challenges in family businesses result from an overlap between family issues and business issues (Beckardt & Dyer, 1983a, 1993b; Davis, 1983; Davis & Stern, 1980; Davis & Tagiuri, 1982a; Kepner, 1983; Landsberg, 1983a; McWhinney, 1984; Ward, 1987). Authors who take this perspective argue that there are strong interrelationships between decisions in the firm and decisions in the family and that these interrelationships make family businesses different from non-family businesses.

Decision makers in family businesses must make decisions based on business criteria, as they provide goods and services in competition with other companies in the market. In the family, decisions are characterized by strong social ties that are not based on business rational
but on the affection between family members. These two spheres are interconnected in the family business, as family members are simultaneously members of the business (Davis & Tagiuri, 1982a).

Family business-specific management challenges emerge from this overlap, as decisions within the family business influence not only the business but also the family. Also, decisions in the family do not only influence the family, but also the business (Davis & Tagiuri, 1982a; Kepner, 1983). As these two "systems" overlap, decision makers have to balance family interests with business interests (Holland & Boulton, 1984).

Examples of this interdependence between family and business have been reported in many studies. They include, for example, the areas of human resource management (Landsberg, 1983a), financial management, as well as change and adaptation to strategic change (Kepner, 1983; Ward, 1987).

Hollander and Boulton (1984) reached the conclusion that this relationship between family and business needs to be effectively managed. For them, it is important to understand the business-family relationship in order to know when to apply which rational. Interdependencies can lead to constraints on the business, which can then require sacrificing business opportunities and efficiencies, or constraints on the family, which can put strain on the family relationship.

This aspect of family businesses implies that important variables at the family level can influence the decision making within the family business depending on the degree of overlap between family issues and business issues. Therefore, the way this overlap is managed can influence the development of IOC.

1.3.5.4 Characteristics of Family Businesses: Upper Echelons

Family businesses also offer a unique organizational setting, as the management team and board of directors are usually partly recruited from family members. This gives the upper echelons of family businesses specific characteristics that can have a significant impact on business in general.

The general impact of upper echelons on businesses has been recognized in a strategic management research stream. Evidence supports the fact that the characteristics of a management team has a direct impact on the strategic directions and overall performance of the business organization being managed (Hambrick & Mason, 1984; Miller, Kets DeVries & Toulouse, 1982).

In the case of family businesses, the importance of management level phenomena has been highlighted in a large succession research stream. The issue of succession, or changing the management team of a family business, is a critical issue to the performance and survival of family businesses. This has been supported by various statistics that provide empirical evidence to the effect that only 30% of all family businesses survive the succession from first to
second generation and that only 10% of all family businesses reach the third generation (Beckardt & Dyer, 1983a, 1983b). It has also been observed that the average life span of a firm is twenty-four years, which is close to the averaged tenure of the founder in the firm (Beckardt & Dyer, 1983a).

This implies long periods of tenure for key managers and “disruptive” succession events, pointing to the importance of top management and ownership related aspects in the context of family businesses where the change of key executives can have significant disruptive consequences for the business.

In the context of family businesses, overall, there appear to be specific aspects concerning the management team and the family at the center of the organization that have critical importance. The importance of upper echelons for overall business success sets family businesses apart from non-family businesses because the impact to the family organization is even stronger.

Based on these findings, it can be argued that aspects at the center of the business management team and at the family level have an impact on the business as a whole. These specific characteristics of the family business can have a significant impact and, therefore, must not be neglected in attempting to understand this organizational context.

1.3.6 Data Gathering in the Context of Family Businesses

In addition to being unique in terms of the organizational context, family businesses offer a special opportunity in terms of gathering long-term data, due to the long tenures of their management teams.

This had interesting implications for the collection of information for this study, as it allowed us to interview key managers that had spent important parts of their careers within the same organization (potentially filling different roles) and, therefore, provided necessary information for a longitudinal study as recalled by managers and owners.

It cannot be denied that there are drawbacks to this type of data gathering. Those drawbacks will be discussed in the methodological section of this dissertation. However, family businesses do offer a specific opportunity to undertake longitudinal research in the area of management, especially for aspects related to top management.
1.3.7 Conclusion: Family Business as Context for Research

Family businesses provide a different context in which IOCVs are formed. IOC is critical for family businesses as they compete across many industries, face important financial and managerial resource limitations, and can be interesting partners for other businesses.

Due to the ownership structure and the overlap between family and management in family businesses, organizational characteristics can be expected to influence organizational decision-making processes and, thereby, influence the development of the IOCVs of family businesses.

Finally, as the turnover of managers in family businesses can be assumed to be lower than in other business organizations, this allows for the gathering of longitudinal data through interviews with these key managers.

1.4 Limitations of Extant Research on IOC

1.4.1 Introduction

As will be pointed out in the review of extant work, there are still important gaps in our understanding of the phenomenon of IOC that need to be addressed through research.

One limitation, which has been pointed to, is that academic inquiry, so far, concentrates on aspects of IOC related to the formation of IOCVs. However, developments that take place after the alliance has been formed are neglected even though they are crucial to understanding IOVCs (Ring & Van de Ven, 1994). These changes in joint ventures have been observed to be significant and point to the fact that IOCVs are not path-dependent upon their initiation, but changing during their operation. This indicates that the static discussion of formation is an abstraction that might prevent us from understanding true IOC (e.g. Doz, 1996).

Criticism also exists stating that the theories used to study IOC abstract from managerial and organizational aspects, as with decision making, for example. Most models assume one rationally acting organization allying with another rationally acting organization. However, it has been widely documented that the abstraction of the organization as a rational decision-maker is a very broad and dangerous simplification (Allison, 1971; Cyert & March, 1963; DiMaggio & Powell, 1983; Simon, 1945). This makes it critical to move beyond the black box of the united and rational actor, presenting significant implications. This is especially critical in the context of organizational decisions, as it has been argued that processes related to organizational decision making are key to understanding IOCV formation (Fornell et al., 1990; Tallman & Shenkar, 1994).
It is also important to note that, up to now, most studies have separated the phenomenon into sub-phenomena like motivation, control, partner selection and performance. However, studying these sub-phenomena results is like looking at closely related issues, perhaps the same coin, from different sides. Focusing on selected aspects of the phenomenon neglects the potential interconnectedness and correlation of variables. The division of the overall phenomenon into parts can inhibit the ability to find the underlying variables which unite them to those variables that have been studied in great detail up to now. It is, therefore, necessary to take a step back from the analysis of overly limited sets of variables and look at a larger range of variables to further our understanding of IOCVs (Parkhe, 1993c).

Last but not least, and related with the above arguments, the research methodologies used thus far to study the phenomenon of IOC have been biased. These methodologies, while not lacking in the area of rigorousness, can be on the grounds of their appropriateness. Specifically, the use of static, cross-sectional methodologies has not allowed for the evaluation of many of the critical dynamic aspects of IOC (Hamel, 1991; Parkhe, 1993c; Ring & Van de Ven, 1994).

1.4.2 Limitations: Focus of Extant Research

It should be recognized that little research has been undertaken to study issues related to the processes and development of inter-organizational relationships over time. Extant research provides useful insight about conditions leading to the formation of inter-organizational collaborative relationships and can help when making comparative static decisions regarding alternative organizational designs and incentive schemes for different kinds of transactions.

However, this ignores many aspects critical to IOC process issues (Ring & Van de Ven, 1994). The organizational theory literature on inter-organization relationships discusses the importance of antecedent conditions and structural properties of inter-organizational relationships. Yet it does not move beyond that point. The literature that studies the use of international joint ventures form a multinational company perspective also studies antecedent conditions and choice of market entry strategies. In the area of international joint ventures, goals, partner characteristics, conflicts, control and performance are discussed, with emphasis on antecedent conditions or the black boxing process and assuming “static equilibrium” at the outset of the international joint venture (Ring & Van de Ven, 1994).

Although knowing the inputs, structure, and desired outputs of a relationship provides a useful context for understanding IOC, these factors do not reveal how an inter-organizational collaborative relationship unfolds over time. Little work has gone beyond the initiation or formation stage to analyze subsequent stages.

Nevertheless, what occurs after formation has taken place appears to be of critical importance, taking into consideration the evidence regarding the “instabilities” experienced by
IOCVs (Blodgett, 1991, 1992; Geringer, 1986). It appears that inter-organizational collaborative relationships change after they have been initiated. At times these changes are so significant that the resulting relationships have little in common with the initially conceived ones (Blankenburg et al., 1999, Zajac & Olsen, 1993).

Learning, the creation and claiming of value, management of the associated conflict, and the norms arising from the management of divergence of interests are critical to IOC. They can give rise to conflict resolution systems and governance structures (Dyer & Singh, 1998; Ury et al., 1988), and they can also lead to the development of trust. The often referred-to importance of trust points for inter-organizational collaboration underlines especially the importance of processes and their outcome (Parkhe, 1993c; Contractor & Lorange, 1988).

On one hand, it has been argued that governance plays a key role in the creation of relational rents because it influences transaction costs as well as influencing the willingness of partners to engage in value-creation initiatives (Dyer & Singh 1998). On the other hand, trust stems from the growing confidence in a firm's expectations of the future. As trust increases, partners pursuing IOC can act as if the future were more certain (Luhmann, 1979).

Recent empirical studies support the argument that effective governance and trust, in the form of lower transaction cost, may be critical to the generation of rents in inter-organizational collaboration. For example, Dyer (1996) found that General Motors' procurement (transaction) costs far exceeded those of Chrysler, which in turn far exceeded those of Toyota. One reason for this was that GM's suppliers believed GM to be much less trustworthy. Zaheer et al. (1998) found that, in the context of the electrical equipment industry, inter-organizational trust reduced negotiation costs and conflict, having a net-positive effect on performance.

This makes the events occurring after an IOCV has been formed central to understanding and managing international joint ventures (Ring & Van de Ven, 1994).

As such, we need to know more than the input conditions, investments, and types of governance structures required for a relationship. We also need to look at those aspects of the phenomenon that allow us to understand how processes link these elements together. It can be argued that the great majority of scholars researching international joint ventures have ignored process (Ring & Van de Ven, 1994).

1.4.3 Limitations: Theories Studied in Extant Research

An important limitation of extant research on IOC concerns the choice of abstractions used to study cooperative ventures. Most of the models that have been used to study IOC formation conceptualize the organization as a “unitary rational actor”.

The best examples for this perspective are strategic positioning behavior, resource based view, organizational learning perspective, transaction cost theory, economic models
(oligopoly theory, industrial organization models, internationalization models) and network theory that have been used to study international joint ventures and inter-organizational relationships. All these models share the common fact that they assume organizations are acting as unitary rational actors and maximizing their profit goals by choosing an inter-organizational collaborative venture to organize economic activity.

The strategic positioning perspective proposes that by choosing an appropriate partner, competitive positioning can be enhanced in the product market (Harrigan, 1988c). The resource-based approach proposes choosing and adequating a partner so as to combine the resources needed to compete successfully (Grant & Baden-Fuller, 1995) or acquire resources via learning as illustrated by Hamel (1991). Transaction cost economics assume that the decision is based on the criterion to minimize the transaction and production costs for the overall organization (Kogut, 1988). Economic models assume the perspective of a Unitarian decision-maker with a profit maximization goal function. Finally, network theory generates propositions as to how an organization should position itself in the context of a specific industry, in the context of the established IOCVs and in the context of what partner to choose (Garcia Pont & Nohria, 1991; Nohria & Garcia Pont, 2002).

However, these organizational level models do not explain the myriad of interpersonal and organizational factors that affect the formation and development of IOC (Sherman, 1992). To follow a widely used practice of viewing IOCVs as marriages, the decisions involved in IOC are not strictly economic, but also social, psychological and emotional phenomena. Thus, what is understood in most of the research as a legally contracted economic partnership between two or more organizations is, at the same time, a relationship involving many organizational considerations with the partners involved (Shenkar & Tallman, 1994).

Understanding organizations as single actors abstracts from many of the underlying processes that occur within organizations and actually undermine this rational perspective (Allison, 1971) and the criteria applied in the organizational decision-making processes (Ring & Van de Ven, 1994). This can include joint decision making as well as organizational and intra-organizational decision making.

Initial evidence for the importance of this criticism has been provided by a serious of studies. Regarding decision-making criteria, it has been found that in making decisions, not only criteria of efficiency are applied. Instead, criteria of equity play a role in organizational decision making regarding IOC. Doz (1996), Ariño and de la Torre (1996) have all found that the non-economic, psychological criteria of equity are applied in organizational decision-making concerning the participation in IOCVs.

Evidence has also been provided that emphasize the relevance of Tallman and Shenkar's propositions, according to which organizational processes influence decisions in the context of IOC (1994). Fornell, Lorange & Roos provide evidence that the internal commitment of the organization and consensus regarding the cooperative venture within the parent firm
have both a substantial direct, as well as indirect, influence on the subsequent performance of the IOCV (1990).

Finally, it has been argued that organizations might not base their decision-making only on their individual view of IOC. Instead, it appears they might accept a joint value maximizing perspective in the management of the IOCV (Zajac & Olsen, 1993).

These criticisms and initial evidence suggest that there are organizational theories and perspectives that offer important insights into the phenomenon of IOC and international joint ventures. These theories may move beyond the abstraction of the Unitarian actor (Shenkar & Tallman, 1994). This suggests using “fresh” theories and studying the phenomenon at a level of analysis other than that of the strictly organizational.

1.4.4 Limitations: Separation of the Phenomenon into Disconnected Parts

Another important criticism involves the lack of integrative perspective that deals with different issues regarding international joint ventures. As we have discussed in the literature review above, many individual questions are discussed in the area of IOC. However, much of this discussion is conducted without being really integrated and connected with the other research areas (Parkhe, 1993c).

This research weakness is related to the theory-extending approach to the phenomenon used in much of the research carried out on inter organizational collaboration. This has two negative effects. On one hand, each researcher and each research stream can only focus on a very limited set of variables, running the risk of assuming variables and relationships from their investigation, which are critical to the phenomenon under study. Thus, their frame of reference abstracts from critical aspects of the phenomenon resulting in theoretically elegant results that bear only very limited resemblance to real world phenomena. Secondly, this focus on a limited set of variables drives the advance of investigation within research streams that are difficult to relate to one another. This limits the cumulative integration of the findings into the research and results in a rather non-cumulative research effort that offers little insight into crucial questions that might allow for a deeper understanding of critical issues underlying the development of strategic alliances (Parkhe, 1993c).

Up to this time, the discussion of issues linked to performance, instability, motives for venture formation, partner selection characteristics, control and conflict have been much separated, illustrating the implications of this research approach. These aspects have not been discussed together in an integrative way, in contrast to many observations in the field. For example, it can be hypothesized that goals, motivations, conflict, performance and instability are closely interrelated. It has been argued that the strategic goals and motivations of an organization in forming a joint venture determine, in an important way, the partner selection characteristics (Geringer, 1991). It has also been pointed out that the nature of goals in the alliance determines the nature of the conflict between the partners (Hamel, 1991). Finally, it
has been found that the evaluation of performance is determined by the goals of the parent companies of the international joint venture (Ariño, 1995). This makes the separation of these phenomena merely a question of choice rather than one of realism that adequately frames the phenomenon (Parkhe, 1993c).

That these diverse aspects have remained unconnected is good reason for criticism as these aspects should, in fact, be connected to the common phenomenon of IOC. Thus, in the absence of a “connective tissue” that forms a coherent framework, current studies' potential contribution to an overall understanding of the phenomenon has not been achieved (Parkhe, 1993c).

We need to adapt an approach that further develops theory in investigating the phenomenon under study. This requires broadening the focus of research from one that looks at the different issues in an isolated manner to one that studies them together in order to unearth those variables that are central to the phenomenon of IOC (Parkhe, 1993c).

1.4.5 Limitations: Methodological Preferences

One final issue in the area of research on IOC is the issue of methodologies that are applied to the research phenomenon. Empirical work in the area of IOC is dominated by quantitative and cross-sectional studies (Kogut, 1988; Parkhe, 1993c; Van de Ven & Ring, 1992).

Research is dominated by studies that are preoccupied with using quantitative techniques to process quantitative data collected on measured variables to generate hard conclusions with high precision (Hamel 1991).

Deductive quantitative methodologies force the researcher to follow the theory extension approach and to develop measures that, at the stage of limited understanding, are crude proxies for difficult-to-measure variables. In addition, with this focus on specific measurable variables, some of the multidimensionality in causal relationships is lost. Finally, the scope of the research is potentially narrowed to a point at which it does not capture the phenomenon at all.

In order to gain a deeper understanding of the phenomenon under study, this does not appear to be a proper choice of methodology. Applying these methodologies, hypotheses are tested in large samples without observing beforehand whether the underlying mechanisms and concepts provide value in understanding the phenomenon of IOC.

In this case, the problem is not that the resulting theories are not sufficiently tested or of sufficient rigor. The problem is that the theories are not sufficiently developed, for they offer only partial coverage or illuminate only fragments of the phenomenon (Parkhe, 1993c).

This methodological focus inhibits the systematic study of crucial aspects of IOC and international joint ventures (Parkhe, 1993c). That these methodologies have a high potential to
highlight critical concepts in the context of IOC has been demonstrated by the studies of Smith, Caroll and Ashford (1995), as well as by the studies provided by Doz (1996).

Smith, Caroll and Ashford (1995), for example, find the critical role of the emergence of norms within the IOCV and, therefore, provide evidence for phenomena, which in most theories up to now have been abstracted. Doz (1996) provides evidence for the importance of mutual adaptation and the adjustment of expectations in the context of evaluations that follow criteria of efficiency and equality, another phenomenon which most current theories have not taken into consideration.

Therefore, it is argued that a return to longitudinal methodologies and the use of qualitative and inductive studies is necessary for obtaining a deeper understanding of the phenomenon under study. These methodologies do not lead to an early selection of variables and relationships under study. Instead, they lead to the unearthing of these variables and their relationships. In order to gain a well-grounded picture of the phenomenon under study before beginning to analyze variables and relationships with mathematical accuracy and rigorous methods, we need to focus on understanding the phenomenon itself (Parkhe, 1993c; Ring & Van de Ven, 1994; Smith, Carroll & Ashford, 1995; Tallman & Shenkar, 1994).

### 1.4.6 Conclusion: Redirecting Research

In general, joint ventures are complex relationships in which relevant key variables have received meager attention. The primary scope most extant research involves organizational-level what, why, who and where questions, not theoretically grounded how and why explanations.

Following these criticisms, it is necessary to refocus research efforts by looking at new aspects of the phenomenon beyond the antecedent conditions and formation of the inter-organizational relationship, especially in terms of process. In order to better understand IOC, it is important (1) to draw on an alternative set of theories that allow us to capture important aspects of process; (2) to allow for an “integrated” treatment of parts of the phenomenon that are presently discussed separately; (3) to focus on methodologies that allow us to capture the longitudinal dynamic aspects of IOC. Thus, it is time to move beyond methodologies and theories that resolve the widely studied choice of governance and contractual structure. It is critical to study the development of IOCV over time, in order to understand their dynamics and development.

### 1.5 Summary and Research Question

The absolute number of IOCVs and the steady growth of IOCVs implies wide use and relevance to today’s managerial practice. A large and still growing number of companies and practitioners needs to deal with issues involved in the formation, management and termination.
of IOC in its many forms. For practitioners the subject of IOC is of relevance from an organizational and industry perspective. However, the successful implementation of IOCVs is still not well understood.

Although IOC is critical for family businesses, this area has been virtually unexplored in academic work. In the context of family businesses, there appear to be specific aspects associated to the organizational characteristics of family businesses, which might set family businesses apart. These specific characteristics of family businesses can have a significant impact and, therefore, must not be neglected in studying IOCVs of family businesses.

The above review of extant research on IOC suggests that although many studies have studied IOC, our understanding of the phenomenon is rather limited. Until recently, studies focusing on formation and antecedent factors have dominated the area. Recently, however, longitudinal studies and studies focusing on development have been undertaken. These studies point to the importance of developing IOCVs.

This thesis studies the development of IOCVs in the context of family businesses. The research question is:

“How do inter-organizational collaborative ventures (IOCVs) of Spanish family businesses develop along strategic decisions, and how do organizational characteristics of Spanish family businesses influence the evolution of collaborative ventures?”
2 Literature Review

2.1 Introduction

Strategic alliances, joint ventures and IOC have become some of the most relevant topics for managerial practice and academic inquiry over the past decade. The managerial interest in this phenomenon is growing for different reasons: (1) the rate at which the number of IOCVs is increasing; (2) the driving forces behind collaborative IOCV formation are gaining in importance; and (3) the impact of IOC on industry structures and companies’ competitive positioning is becoming more significant. IOC is an interesting topic for academic investigation, as empirical studies and popular business press point to high failure rates, instability and dissatisfaction of participants, implying difficulties on the part of practitioners in managing strategic alliances and joint ventures.

Research has studied IOC in several areas and independent research streams. Academicians in the stream of organizational and network theory are interested in IOCVs as testing grounds for their theories. In another research stream, theories have been tested to explain which companies form under which conditions and why joint ventures and alliances assume the perspective of a multinational organization. In addition, the phenomenon of IOC has been studied in the area of international joint ventures looking at different managerial issues. Learning, as an area, has received much attention. Researchers have tried to understand how skills can be acquired, or how the acquisition of skills can be impeded. Finally, researchers working in the relational view try to understand the generation of inter-organizational rent, as the ultimate result of IOC, and the mechanisms and processes leading to the generation of rents.

We have learned much from this research. We have gained a better understanding of alliance formation in terms of the reasons that drive alliance formation and the variables that are important to partner selection both at the organizational and the industry level. We have made much progress in the performance evaluation of several forms of IOC. We have also gained some understanding of which performance measures are associated with successful IOCVs. The different dimensions of learning (task, partner, managing IOC) have been identified, and we are beginning to understand their importance as well as the mechanisms driving them.

There are still important gaps in extant research that limit our understanding of the phenomenon of IOC. One limitation is that academic inquiry, so far, has concentrated on aspects of IOC related to the formation of IOCVs. In addition, criticism has been directed at the fact that theories that have been used to study IOC abstract from managerial and organizational decision-making. Most models assume a rationally acting organization.
However, it has been argued that processes related to organizational decision making are key to IOCV formation. It is also important to note that studies, thus far, have artificially separated the phenomenon into sub-phenomena. Studying these sub-phenomena as a group is critical to our understanding of international joint ventures. Last, but not least, and related with the above criticism, the research methodologies used to study the phenomenon of IOC have been biased. The use of static cross-sectional methodologies does not allow for evaluation of the critical dynamic aspects of IOC.

Critics of extant research propose to move away from sophisticated economic and sociological models towards the application of managerial and organizational perspectives. They propose to focus on process, moving attention away from antecedent and environmental factors, and on the phenomenon from a holistic perspective. They argue that we need to return to grounded research methodologies in studying these aspects of IOC.

In this context, this dissertation will draw on a sample of Spanish family businesses. Family businesses, as a group, have virtually been neglected in research on IOC until today. This stands in strong contrast to the relevance of family businesses to overall economic activity and the importance of IOC for family business in leveraging limited financial and managerial resources.

Thus far, IOC has been analyzed in a large variety of contexts and different organizational settings. Most samples focus on the joint ventures of multinational corporations and global strategic alliance (e.g. Parkhe, 1991). Only one study has empirically analyzed family businesses in its sample (Renfort, 1974), and only a small number of papers has analyzed the phenomenon in the family business context (e.g. Gallo et al, 2001). In this study, we will study a specific organizational context: we will focus on family businesses.

Reviewing research published to date on family businesses, it can be argued that family businesses may be distinct from the non-family businesses and that strategic alliance dynamics can also be assumed to be affected by the specific characteristics of family businesses, setting them apart from non-family businesses. Therefore, family business contexts and family level phenomena merit consideration, as they potentially limit the extrapolation of findings in the context of IOC of non-family business findings to family business.

The distinctiveness of family business is related to the involvement of the family in the business, specifically in its ownership and leadership/management of the business. Family business specific variables impact ownership, leadership and management and are asserted to have an impact on the overall business. Therefore, they may also have an impact on strategic alliances.

From findings of extant research, it can be asserted that the family will have its main impact on the upper echelons of the family business. Its overall impact will be moderated by
business level and industry level variables, influencing the family and business relationship in general and in the context of alliances.

At the outset, an “Introduction to the field of family businesses” will give an overview of the nature and status of the field of family business. Then we will provide a definition of family businesses and discuss the relevance of family businesses in today's economic environment. Then we will review literature on family businesses, arguing for the distinctiveness compared to non-family businesses focused based on the evidence provided by the research available to date.

Moving beyond the family members and their interaction with the business, researchers have focused on the development of family businesses over time. They propose development models of family businesses from their initiation through the first generation and following generations. These models have not been empirically tested and have not moved beyond the level of assertions. However, these assertions are widely held in the field of family business. The key contribution of researchers focusing on family businesses development is the emphasis on succession as a moment of change, which interrupts relatively stable periods of management during the development of family businesses. This emphasizes the importance of succession in family businesses as the initiator of organizational change and/or failure in the aftermath.

Succession has received much attention from researchers in the field of family business. These researchers have asserted that a large number of family businesses fail after the founder has gone and the first succession event has been completed. This stream provides an impressive amount of studies that highlight the interaction between family level phenomena, the succession and its subsequent impact on the family business. They provide additional evidence that underlines the importance of the family to the business and its specific characteristics. This also points to the locus of family impact on the family business.

Some academics have moved beyond the family and focused on the application of management practices such as control systems and a board of directors within the context of family businesses. On one hand, they find that family businesses apply these tools, structures and methods. However, family businesses do so in a different way than non-family businesses. This provides evidence supporting the fact that characteristics that are specific to family businesses have to be taken in consideration in the application of management practices.

In a related stream of research, researchers investigate the relationship between family business characteristics and business level strategies pursued. They provide evidence supporting the fact that family businesses follow different strategic postures than non-family businesses, without illustrating the underlying mechanisms.

Overall, it can be concluded from the extant investigation of family businesses that the family has a significant impact on the upper echelons of the family business and can, therefore,
significantly influence the business. However, formal systems and structures introduced in the family business as well as industry level phenomena can be expected to mediate the impact of the family on the business. This needs to be taken into account when investigating family businesses.

This chapter is organized into two parts. The first part reviews extant research on IOC, drawing on work done in the field of organizational theory, network theory, work assuming the perspective of a multinational corporation, and research assuming the perspective of the joint venture. Finally, findings on aspects related to learning in IOC and the relational view will be reviewed.

In the second part of this chapter, extant research on family businesses will be reviewed, giving an overview of the field of family business in general and reviewing research on the overlap of family and business issues in the family business. In addition, theories and models describing the development of family businesses and research on succession in family businesses will be discussed, as it illustrates in many dimensions the importance of the overlap of family and business. Before discussing the importance of the specific characteristics for strategically positioning family businesses, planning, control and governance aspects critical to family businesses will be reviewed.

2.2 Extant Research: IOC

2.2.1 Introduction

Inter organizational collaboration has been one of the areas in strategic management to which research effort has been directed in the second half of the 1990s (Gulati, Nohria& Zaheer, 2001). Until today IOC has been studied from different perspectives in several areas of academic interest.

On one hand, IOC is studied from a theoretical perspective, applying and testing theories for their power to analyze and even explain relevant phenomena. In this approach, organizational theorists concern themselves with inter-organizational relationships from an organizational perspective and apply organizational theory to study inter-organizational relationships. Similarly, researchers from the stream of network theory test their theories for applicability at the inter-organizational level.

On the other hand, inter organizational collaboration is studied from the perspective of understanding the phenomenon in order to improve managerial practice providing tangible solutions to managerial problems. In this approach, researchers interested in the phenomenon of multinational corporations study forms of IOC as different modes for undertaking direct foreign investment and entering foreign markets. They apply predominantly economic theories to explain joint venture formation and persistence. In a related approach, a large number of
Researchers study the phenomenon by focusing on those aspects that are critical to the management of international joint ventures. They focus on topics such as the motivation to form international joint ventures, conflict and control in international joint ventures, partner selection and partner characteristics for international joint ventures, and success and instability of international joint ventures.

Finally, learning has received much attention as one of the key processes to IOCVs. Different dimensions of learning regarding the task and the partner have been studied, as well as the development of the skills to form inter-organizational collaborative relationships.

Only recently have researchers started to open the black box of IOC. They are interested in discovering the inner workings of IOC and focusing on relational and process-related issues of IOC. In attempting to understand the inner workings of IOCVs, they open a route to understanding the inner workings of IOCVs as well.

From these research streams, much can already be learned about today’s knowledge. However, these streams also indicate limitations in knowledge and point to areas that are potentially fruitful for future research.

2.2.2 Organizational Theory and IOC

Research on inter-organizational relationships has been undertaken in the area of organizational theory. This research studies the relationships between organizations, of which collaborative relationships are a subset (Oliver, 1990; Ring & Van de Ven, 1994). Researchers in this field are interested in IOC in order to test the power of organizational theories. IOC represents a good subject for this.

Most attention has been devoted to the antecedent conditions of IOC and the structural properties of inter-organizational relationships (Ring & Van de Ven, 1994). For example, many scholars have focused on comparing alternative transaction governance structures (e.g., markets, hierarchies, and mixed models). This includes institutional economists (Coase, 1937; Fama & Jensen, 1983; Williamson, 1975, 1991) organizational sociologists (Powell, 1990; Stinchcombe, 1985) and management scholars (Barney & Ouchi, 1986). In a related stream of research, organizational sociologists have examined the environmental conditions and contingency factors that explain the formation and structure of cooperative inter-organizational relationships (see reviews by Oliver, 1990; Van de Ven, 1976).

Organizational theorists contribute by providing useful insights about environmental and transactional conditions leading to the formation of inter-organizational relationships. These insights are very useful to researchers and decision-makers when making comparative analysis and decisions regarding alternative organizational designs and contractual schemes. Transaction cost analysis provides an especially useful tool for studying these decisions, although it has a significant bias towards one-off transactions, economizing and efficiency, and
abstracts the development of relational governance mechanisms and trust from repeated interaction. This abstraction limits its applicability, yet it succeeds in having significant explanatory power (Ghosal & Moran, 1995; Van de Ven & Ring, 1992; Ring & Van de Ven, 1994).

This research is limited in that it has not moved beyond studying the antecedent factors that lead to the formation of IOCVs. We have a good understanding of the “when’s” and “why’s” of IOCV formation, but we have no understanding of important processes involved in the formation, operation and development of IOCVs (Ring & Van de Ven, 1994).

2.2.3 Network-Theory and IOC

Due to the growing number of IOCVs that have been formed, IOC has developed from the existence of dyadic relationships at the inter-organizational level to the formation of network structures within industries and across industries. This has shifted competition in some industries from the inter-organizational level to the group of organizations versus group of organizations level (Garcia-Pont & Nohria, 2002; Gomes-Casseres, 1994, 1996; Hagedoorn, 1995a, 1995b; Nohria & Garcia-Pont 1991).

One approach to understanding the industry level and group versus group aspects of IOC is network theory. Network theory moves the focus of analysis beyond the dyadic relationship of two organizations to multiple organizations, taking into account the entrenchment of the organizations in the broader environment. This approach takes into account the fact that organizations are competing not in an impersonal market, but in a world where firms are embedded in networks of social, professional, and trade relationships with other organizations (Granovetter, 1985; Gulati, 1998; Glaskiewicz & Zaheer, 1999).

Evidence for the applicability of this perspective and its usefulness in studying IOC has been provided by Hagedoorn, who shows that the number of inter-organizational agreements has grown significantly within several industries and that the interconnectedness of organizations in these industries has increased markedly overtime (Hagedoorn, 1995a, 1995b). Gomes-Casseres provides evidence for the importance of this phenomenon of group versus group competition to the business strategies of individual organizations and their strategic positioning (Gomes-Casseres, 1994, 1996).

Garcia-Pont and Nohria (1991, 2002) provide evidence for the power of network theory in explaining the characteristics of groups and their members. They provide an example of how network theory (combined with the resource-based view of the firm) has high explanatory power in the formation of IOCVs and how it adds industry level considerations.

Aside from the need to access assets, learn new skills or manage dependence on forms, the network perspective has been found useful in explaining IOCV formation. The network-position of an organization is critical as it offers opportunities for partners to enter into
IOCVs. In this context, the network-position of an organization reflects prior partnerships, which results in new opportunities to form new partnerships (Ahuja, 2000).

Another study provides evidence that inter-firm networks can be shaped and designed deliberately. Lorenzoni and Lipparini (1999) find that, in the Italian packaging machine industry, managers of several companies have developed a specialized supplier network and are building a narrower and more competitive set of core competencies for their enterprises. They suggest that the ability to integrate knowledge residing both inside and outside the firm's boundaries emerges as a distinctive organizational capability.

The importance of network position for an organization appears to be especially critical in the context of organizational learning and innovation. Inter-organizational networks have been found to impact the organizational response to environmental threats, and especially strong ties among organizations appear critical to shaping adaptive change (Kraatz, 1998). Aside from strong ties, it has also been found that a central position of organizational units within networks is associated with the unit's ability to adapt and innovate. By occupying a central network position, an organizational unit is likely to access useful knowledge from other units (Tsai, 2001).

These studies provide initial evidence that organizations can actively shape their networks (Lorenzoni & Lipparini, 1999) and that specific network positions (Tsai, 2001) and the reliance on strong ties (Kraatz, 1998) enable firms to enhance their innovative and adaptive capacity. This provides the first detailed evidence supporting the argument that network position is linked to specific outcomes. This is critical, as the network may be used to achieve specific results.

Applying a strategic network perspective into which firms are embedded can lead to a better understanding of firm behavior and performance in general. According to Gulati, Nohria & Zaheer (2000, 205), areas where this might be especially interesting are:

1. industry structure, including the degree of competition and barriers to entry;
2. positioning within an industry, including strategic groups and barriers to mobility;
3. inimitable firm resources and capabilities;
4. contracting and coordinating costs;
5. dynamic and path dependent constraints and benefits.

In the context of IOC, the network perspective can help to better understand how the conduct and performance of firms is significantly influenced by the strategic networks in which they are embedded. According to Gulati (1998, 294), this is expected to be especially insightful regarding:

1. the formation of alliances;
2. the choice of governance structures;
3. the dynamic evolution of alliances;
Therefore, this research stream gives valuable insight as to how industry level phenomena are critical to the formation and termination of IOC. They illustrate the fact that variables at the industry level and beyond the dyad level can have an affect during the formation of an inter-organizational relationship. Concepts from network theory regarding the nature of ties can provide managers with advice on how to position their organizations in their respective factor and product markets.

The strength of the network theory lies in its capacity to look at the overall industry level and emphasize the impact of industry level phenomena for organizations. Its weakness is that it does not focus on individual relationships. We get a good understanding from network theory on how firms need to position themselves with their collaborative agreements within their industries. We do not understand from that perspective how to make individual relationships work.

Still, understanding these individual relationships is critical, as there can be no sustainable network if there are no sustainable relationships at the inter-organizational level. A capability to manage individual relationships is the prerequisite for the development of inter-organizational networks. Here, network theory cannot improve our understanding due to its abstraction and unit of analysis.

2.2.4 Multinational Company Perspective on Joint Ventures and IOC

Much research on international joint ventures has adopted the position of the multinational company, as multinational companies use joint ventures as a mechanism for internationalization and often preferred them to wholly owned subsidiaries (Contractor & Lorange, 1989). This research studies the conditions under which multinational firms adopt given governance structures for internationalization (Buckley, 1990; Franko, 1971).

Most research dealing with international cooperative venture initiation focuses on two lines of argumentation: oligopoly models and internationalization models. The oligopoly models follow a framework of industrial organization and build on models of oligopoly competition (e.g. Franko, 1971; Stopford & Wells, 1972). These works conceptualize joint ventures as the result of bargaining power between a multinational corporation and the local government where the multinational corporation prefers the choice of a joint venture over the installation of a wholly owned subsidiary or contractual relationship. In these models, the choice of organizational form is determined by the parent company and venture external variables, specifically industry structure and regulation (Tallman & Shenkar, 1994).

The second type of models that have been discussed in this context are internationalization models (Buckley & Casson, 1988). Here, issues of imperfect markets for
intermediate goods, particularly knowledge and skills, play the key role in explaining the importance of equity joint ventures (Kogut, 1988). These models view the sum of transaction cost and governance cost as critical in explaining the structural forms of foreign direct investment (Tallman & Shenkar, 1994; Teece, 1986).

These models are helpful in explaining the situations in which equity joint ventures are advantageous for multinational companies from a comparative perspective. They help to understand the phenomenon of IOC in the context of international competition and increasing internationalization (Tallman & Shenkar, 1994).

However, these models have moved very little beyond the matters of joint venture formation and structural choice, offering scant advice regarding the management of IOCVs after their initiation.

2.2.5 Research on International Joint Ventures

Research on international joint ventures focuses on the phenomenon of international joint ventures taking a joint venture perspective rather than a parent company perspective. This research stream does not adopt a general organizational perspective or look at joint ventures from a multinational corporation perspective. Instead it assumes a managerial perspective regarding the joint venture while studies focus on phenomena and problems related to the management of international joint ventures (Parkhe, 1991).

Research in this area has developed along four dimensions. These much-studied issues include: the motives for IOC venture formation (Contractor & Lorange, 1988; Gomes-Casseres, 1989; Harrigan, 1988a; Hennart, 1991; Kogut, 1988); the criteria for partner selection and important partner characteristics (Blodgett, 1991; Geringer, 1991; Harrigan, 1988a; Parkhe, 1993); issues of conflict and control in international joint ventures (Beamish, 1985; Geringer & Hebert, 1989; Tomlinson, 1970, Yan & Gray, 1994) and stability and performance of international joint ventures (Anderson, 1990; Blodgett, 1992; Franko, 1971; Gomes-Casseres, 1987; Kogut, 1988; Parkhe, 1993; Stopford & Wells, 1972).

2.2.5.1 Motivations for Alliance Formation

The motivations that underlie the trend toward IOC have been found to be multiple: Alliances help the partnering firms reduce risks, take advantage of economies of scale, rationalize activities, match complementary technologies, co-opt and block competition, overcome government-mandated investment and trade barriers, initiate international expansion, and achieve vertical quasi integration (Contractor & Lorange, 1986).

The creation of synergies through a joint venture is also an important organizational goal pursued in IOC (Doz, 1988). Another reason that appears to be important in the discussion of why firms form international joint ventures is the acquisition of skills through learning from the partner organization (Hamel, 1991). The rational for alliance formation can be summed up as
following: “Sponsoring firms embrace joint ventures because they are ways to implement changes in their strategic postures or to defend current strategic postures against forces too strong for one firm to withstand alone. Joint ventures permit firms to create new strengths.” (Harrigan, 1988a: 156). Finally, the economizing on production and transaction costs appears to be critical (Kogut, 1988).

The investigation of reasons and motivations to move toward joint venture is helpful for managers in determining the objectives that can be pursued through joint ventures. Also, it improves our understanding of the motives of potential and actual partners in a joint venture. The nature of the goals also underlines the fact that some inter-organizational collaborative relationships are conflict-laden, as the agendas of the organizations involved in the inter-organizational relationships can often be competitive rather than complimentary (Hamel, 1991).

Finally, research shows that the simple notion of goals does not exist in international joint ventures. Goals differ from partner to partner and are probably different for other constituencies involved in the international joint venture. In addition, it has been pointed out that the goals of other constituencies are also part of the partners’ goals in IOC. Therefore any organizational goals become relevant for joint ventures and can be expected to complicate the operation of international joint ventures (Ariño, 1995).

The study of motivations suffers limitations regarding its usefulness to improve understanding of IOCVs. It studies “why” firms enter in IOC or “what” the motivations of firms are. It also explores “which” goals firms pursue in international joint ventures, describing the objectives that can be achieved by relying on this form of IOC.

However, research does not go beyond these questions to study “how” these motivations impact behavior of companies in IOC, nor does it illustrate “how” these objectives can be obtained through the international strategic alliances and “how” IOC needs to be managed to assure the achievement of these goals.

2.2.5.2  Partner Selection and Partner Characteristics

The selection of a joint venture partner has also received attention in joint venture literature. Several studies have discussed partner selection criteria.

The categories found to be important in selecting a partner included “favorable past association”, “facilities”, “resources”, “partner status”, “forced choice” and “local identity” (Tomlinson, 1970); “financial status”, “business compatibility”, “common goals”, “ability to negotiate with the government”, “compatible ethics”, “international visibility”, “reputation”, “commitment to the partner”, “international experience”, “management depth”, “ability to communicate with the venture partner” (Tomlinson & Thompson, 1977); “complementary nature of partners resource contributions”, “past association between partners”, and “relatedness of partners businesses and relatedness of foreign partners and international joint
ventures business" (Awadzi, 1987). This is to name some of the categories that have been studied in order to understand the selection of partnering organizations.

It is common to distinguish between characteristics associated with the operating skills and resources required for the venture success (i.e. "task-related" characteristics) and criteria associated with the efficiency and effectiveness of parent cooperation (i.e. "partner related" characteristics). Task related characteristics refer to those variables that are immediately related to the viability of a proposed venture's operations, regardless of whether the chosen investment mode involves multiple potential partners (for a review see: Geringer, 1991). In contrast, partner related characteristics refer to those variables which become relevant only if the chosen investment mode involves the presence of multiple potential partners (for a review see: Parkhe, 1991).

Several conclusions may be drawn from this stream of research. First, partner selection appears to be an important issue in the formation and operation of international joint ventures since the specific partner chosen determines the mix of skills and resources, operating policies and procedures, and overall competitive viability of an international joint venture. Also, partner selection appears to be a distinct decision within the international joint venture formation process (Geringer, 1991; Tallman & Shenkar, 1994).

The results of prior studies suggest that the criteria firms use for selecting their partners have varied extensively. It suggests that the relative importance of partner selection criteria may be determined, on a contingency basis, by variables associated with the strategic context of the international joint venture and the parent firm. However, extant research has had only limited success identifying the selection criteria that firms utilized, particularly in identifying variables which might explain the relative importance of criteria among international joint ventures (Geringer, 1991).

Overall, this research has generated interesting findings for decision making in deciding whom to form a joint venture with. It offers insight on the issue of partner selection and gives indications for what might be important selection criteria depending on the objectives and the characteristics of the parent company.

However, the interest of this research has, thus far, focused exclusively on the importance of partner characteristics in the formation of international joint ventures. We have moved little beyond the issues related to how partner characteristics are important after the IOCV has been formed (Parkhe, 1991). Different partner characteristics, of one partner and between the partners, might have important implications on the development of IOCVs.

2.2.5.3 Conflict and Control in International Joint Ventures

Some work has been undertaken in the area of management control and the issues related to conflict in IOC. Work in this area is concerned with the question of "how" international joint ventures are controlled and how conflict is resolved and managed. The issues studied
tend to relate to the selection and subsequent impact of control mechanisms on the performance of international joint ventures.

Studies that have focused on control are virtually non-comparable, as control has been defined differently across the different studies. Extent research on control has focused on different dimensions of control: Killing (1983) on extent, Geringer (1986) on scope, and Schaan (1988) on scope and mechanisms. Only recently have attempts been made to reconcile these different approaches towards management control (Yan & Gray, 1994). Findings call into doubt many of the results generated by prior research (Yan & Gray, 1994).

Overall, academic understanding of control is limited. Simple notions of control in terms of equity participation in the joint venture have been overcome. It has been found that control through equity majority is only one of the mechanisms for controlling the joint venture. It is possible to distinguish three dimensions or parameters which compromise international joint venture control: (1) the focus of control, i.e. the scope of activities over which partners exercise control, (2) the extent and degree of control achieved by the parents; and (3) the mechanisms partners use to exercise control. These three parameters appear to be complementary and independent, and they each examine different aspects of control (Yan & Gray, 1994).

Our understanding of control in international joint ventures is still very limited, as we have developed only some understanding of the nature of control in international joint ventures. In addition, we have no understanding of how control allows managers to achieve their overall goals in IOC. We also assume that there is some impact of control on the overall venture, but we have no understanding of how different control structures influence the development of IOC.

2.2.5.4 Alliance Stability and Performance

2.2.5.4.1 Alliance Stability

A prominent theme of research on IOC involves the potential for instability of IOC. It is widely accepted that joint ventures are more unstable than other organizational structures (Blogett, 1992; Franko, 1971; Gomes-Casseres, 1987; Stopford & Wells, 1972; Killing, 1983; Kogut, 1988, 1989). In fact, many authors have found that the ownership structure of alliances and joint ventures is often changed (Gomes-Casseres, 1987; Beamish, 1985; Beamish & Banks, 1987; Bloodgett, 1991, 1992; Franko, 1989; Kogut, 1988, 1989).

The key results of this research stream point to the fact that strategic alliance breakups and redefinitions are driven by many underlying reasons that are often not related to poor alliance performance but triggered by changes in underlying alliance conditions or the achievement of the partners’ goals. The forces that drive structural reconfiguration have been found to be learning processes that exist across partners (Hamel, 1991), growth and
increasing independence of the venture (Prahalad & Doz, 1981) and changes in the competitive environment of the collaborative agreement (Harrigan, 1985).

These findings underline the fact that dissolution and re-negotiation of strategic alliances is not necessarily the consequence of alliance failure. It can also be related to the development of the joint venture and external forces. Therefore, the term “instability” is confusing. "Alliance dynamics“ would be a better label for this phenomenon.

The results of extent research are informative for managerial practice, as they help to understand the nature of the phenomenon and underline the notion of uncertainty and instability, or “alliance dynamics”. However, the findings do not help improve IOC as such, as they give little indication of how to avoid undesired dynamics or take advantage of dynamics of inter-organizational agreements. Today, we have little understanding of how to control undesired dynamics, as the mechanisms that lead to an increased stability have not been identified.

2.2.5.4.2 Successful Ventures and Venture Performance

The topic of joint venture performance has been raised frequently in previous research. Findings indicate that the vast majority of joint ventures does not achieve initial performance expectations (Harrigan, 1988; Killing, 1983, 1988; Geringer & Hebert, 1989; Dussauge & Garrette, 1995). Estimates on the failure rate of joint ventures range from 50% (Porter, 1987; Harrigan, 1988a) to over 65% (Kogut, 1989; Coopers & Lybrand; 1986).

Defining and measuring the performance of alliances has been shown to be difficult tasks. There is no satisfactory way to use simple and comprehensive criteria for success (Ariño, 1995; Geringer & Hebert, 1991; Harrigan, 1985; Lorange & Roos, 1992).

A widely accepted definition of collaborative venture performance is still missing. Beamish (1988) defines a successful joint venture as “a stable, healthy, and profitable business relationship that meets the needs of both partners.” Doz (1988) understands joint venture success as the materialization of the anticipated synergies. Hamel, Doz and Prahalad (1989) identify success as positive shifts in competitive strength for each of the partners of the venture. Anderson (1990) suggests that joint venture performance should be judged in terms of the extent to which the venture meets its objectives. Parkhe (1991) states that a joint venture is performing well when important strategic goals are being fulfilled. Baird, Lyles and Reger (1983) refer to successful joint venture performance in terms of the effectiveness of the joint venture.

Overall, most studies that have examined the issue of alliance performance have used one or more of the following criteria: (1) managerial opinions, (2) alliance stability and duration, (3) stock market reactions to joint venture formation, and (4) financial measures (Ariño, 1995; Dussagne & Garrette, 1995; Geringer & Hebert, 1991).
Validating the concept of performance, it has been found that subjective measures of joint venture performance are valid, that longevity does not fully reflect joint venture performance but can help when subjective measures are not available. It has also been pointed out that caution is necessary when using contractual changes as a measure of joint venture performance and that survival measures are a concept that cannot be used safely as a measure of joint venture performance (Ariño, 1995).

Research on the performance of joint ventures contributes by providing guidelines on how to evaluate IOCV performance. However, this in itself does not help to improve IOC. It does not make explicit how these goals and objectives can be obtained, nor does it provide guidance or concepts on how to ensure the achievement of goals. Furthermore, this research does not illustrate how such goals and objectives influence the development of international joint ventures.

2.2.5.4.3 Reasons that Lead to Successful Alliance Performance

The studies that have approached the question of joint venture success have generally linked levels of performance to explanatory factors describing attributes of the observed alliances. A wide range of variables and dimensions has been studied.

The factors reported to have had the greatest impact on performance are (1) partner asymmetries (Parkhe, 1991), (2) distribution of ownership and control of the joint venture (Yan & Gray, 1994), (3) scope and breadth of purpose of the alliance (Harrigan, 1988a, 1988b) (4) industry structure and competitive context (Kogut, 1988), and (5) communication behavior (Mohr & Spekman, 1994). However, real understanding of the factors that predict successful venture performance has not been achieved (Geringer & Hebert, 1991; Parkhe, 1993c).

This research stream provides us with a list of variables that are associated with venture performance. This is of some help in understanding reasons for the success of IOC. It is, therefore, interesting for managers, as it points to issues that are critical to achieving success in the management of international joint ventures.

The key limitation of this research is that it does not demonstrate how these factors impact on the success of international joint ventures, nor do they show how these factors influence the development of IOC. Finally, the relative importance of these different factors has not been investigated. This results in a long list of issues that need to be considered without providing guidance to their relative importance or the magnitude of tradeoffs and how to control unwanted effects. In order to improve our understanding of the management of inter-organizational relationships, we need to understand the relative importance of the different variables, how these variables influence success, and how they can be controlled in order improve success of IOC through management.
2.2.6 Learning and IOC

Learning is an important area of interest in research on IOC. Researchers have investigated the importance and the impact of learning along three dimensions. The first dimension regards the task of the alliance, which mainly involves learning in order to acquire the skills of the partner in the IOCV. This occurs either through cooperative learning or competitive learning (Doz & Hamel, 1998; Dyer & Nobeoka, 2000; Hamel, 1991; Hamel, Doz, & Prahalad, 1989; Inkpen, 1997; Kogut, 1988; Mowery, Oxley, & Silverman, 1996; Simonin, 1999). The second dimension of learning that has received a good deal of attention is learning regarding the partner's characteristics in a single IOCV (Ariño & de la Torre, 1996; Doz, 1996; Parkhe, 1991). The third dimension of learning that has been studied involves organizations learning to become better in the management of IOCVs, i.e. the development of a skill for executing IOCVs successfully (Anand & Khanna, 2000; Barkema et al., 1997; Kale & Singh, 1999; Simonin, 1997).

The overall result points to the critical role of knowledge in IOC. Although not all IOCVs are learning races, skill learning is an important issue in IOC. Here, a critical role is played by the characteristics of the knowledge to be acquired, such as ambiguity, tacitness and complexity. Learning as well as the operation of IOC is inhibited by cultural and organizational distance. Finally, the ability of the organization to integrate knowledge depends on important organizational characteristics. Initial evidence has demonstrated that organizations learn to form and operate IOCVs with specific partners more effectively.

Up to now, task learning has received the most attention by researchers. Task learning covers the acquisition of skill by one partner from the other in the IOCV. This acquisition of skill can be one of the key objectives in forming an IOCV (Kogut, 1988). This learning can occur either competitively, assimilating the skill of the partner (Hamel, Doz, & Prahalad, 1989; Hamel, 1991) or collaboratively in order to improve skills and diffuse knowledge within the overall group of organizations (Dyer & Nobeoka, 2000).

In the past, competitive task learning has been perceived as especially critical in IOCVs of American and European companies with Asian companies. It was reported that Asian companies out-learned their partners in acquiring their skill (Hamel, Doz, & Prahalad, 1989; Hamel, 1991).

This observation of competitive learning or so called "learning races" have led researchers to investigate the variables that are conducive to organizational learning (Hamel 1991, Khanna, Gulati, & Nohria, 1998), finding that intention to learn and ability to learn are critical in acquiring the skill of the partner. Khanna, Gulati and Nohria (1998) extend this stream of research to provide an analytical framework that describes the dynamics of the learning process in such a 'Learning Race.' They show that firms' incentives to learn are driven by the partners' expected pay-off. They argue that learning success is determined by the amount of
resources that firms allocate to learn from their alliance partner. The resource allocation is, itself, dependent upon the expected payoffs associated with such learning. The magnitude of the pay-off is linked to the degree of overlap between alliance scope and parent firm scope.

Along a related line, research has been undertaken to understand the mechanisms and skills of organizations that are necessary for acquiring the skills and knowledge of the other organization. Underlying processes have been investigated, as they are considered critical to the competitive capabilities of an organization. Simonin (1999) studies the obstacles that make it difficult to acquire task-related skills. He finds that the more ambiguous and tacit the specific characteristic of the knowledge is, the more difficult it is to acquire. Thus, the articulation of knowledge and the definition of best practice are critical to the acquisition of skills. It is still unresolved whether the specificity of knowledge is critical to the acquisition of knowledge. Simonin (1999) and Zander and Kogut (1995) have provided contradicting evidence. Another issue where contradictory evidence has been provided involves the issue of protectiveness in order to avoid the unwanted dissipation of knowledge, according to Simonin (1999) and Baughn et al. (1997). On one hand, it has been argued that organizations can protect their knowledge from acquisition. However, it has also been found that as organizations commit resources to acquiring the skill of the partner, tacit barriers and the partner’s intent to protect the knowledge assimilation in the IOCV can be overcome (Baughn et al., 1997; Simonin, 1999).

Other researchers have studied which organizational mechanisms are conducive to the acquisition of knowledge. Lyles and Salk (1996) found that acquiring knowledge from parents requires a flexible international joint-venture organization. The results indicate that the capacity to learn, mainly with respect to flexibility, creativity and knowledge about employees, is a significant prerequisite to acquiring knowledge from the partner. Also the provision of training, technology, and managerial assistance by foreign parents as well as written business goals and plans were found to be critical. Inkpen’s (1997) case studies of another set of joint-ventures provides evidence of similar antecedents to learning.

This acquisition of skills from the partner has been argued to have a destabilizing effect on the IOCV, as the reason for the initial collaboration was linked to the acquisition of skills by one partner (Hamel, 1991). This has also been found to lead to a shift in the bargaining power in the IOCV, the result of which required a re-negotiation at the very least (Yan & Gray, 1994).

Extant research is much concerned with learning, the acquisition of skills in IOCVs and learning races. However, empirical evidence on the motivations of organizations to enter into IOCVs, changes in ownership and instability of Japanese-American IOCVs as well as the characteristics of knowledge have led researchers to suggest that the “learning race” perspective overstates the dangers of IOC.

The first reason for this is a matter of common sense. Learning races are potentially critical in all inter-organizational agreements were intangible assets and knowledge are
involved. Different IOCVs vary in terms of the likeliness that skill acquisition will be promoted by the partners (Dussauge, Garrette & Mitchell, 2000). However, this is not at all the case in every IOC, as agreements have been formed across many organizational functions, not just those that are concerned with critical knowledge of the enterprise. Also, as discussed before, there are other motivations for entering into IOCVs than simply acquiring the skills of the partner. For instance, the efficient organization of economic activity or the strategic positioning within product markets are both important motivations. This makes it likely that, due to their function or their objective, a large number of IOCVs do not meet the prerequisites of a learning race, lacking intent and/or knowledge.

Secondly, “learning races” within IOCVs are most often conceptualized as races with a relatively fixed stock of knowledge compared to the learning speed a partner achieves in an IOCV. Knowledge, especially in the knowledge generating functions of organizations where learning alliances are assumed to be prevalent, is not a stock, but the output of an ongoing process of knowledge creation (e.g. continuous improvement). It can be assumed that a partner who wants to acquire a specific skill will do so, but in many cases that partner will then find that new knowledge needs to be acquired. Therefore, at least a number of learning races might actually behave differently, as the stock of knowledge constantly changes over time. This constant flow of knowledge might actually lead to stability in the IOCV, as the IOCV becomes constant source of knowledge and innovation.

In addition, the results of the study conducted by Hennart, Roehl and Zietlow (1999) show that evidence from the 1980 universe of Japanese parents of Japanese–U.S. joint ventures does not support the Reich and Mankin (1986) and Hamel (1991) proposed learning races and knowledge acquisition hypothesis. Hennart, Roehl and Zietlow’s findings are inconsistent with the view that the Japanese seek to gain knowledge in IOCVs. In a sample studying alliances with Japanese organizations (who are reportedly prone to engaging in and winning learning races), only an insignificant number of cases where learning races led to the termination or significant changes in IOCVs were found. This refutes the learning races hypothesis in the context of joint ventures with Japanese organizations as well as the learning races hypothesis in general.

The second dimension of learning concerns the partner characteristics in IOCVs. Organizational theorists and researchers in the area of IOC have argued that inter-firm diversity can severely impede the ability of companies to work jointly and effectively. In particular, differences in partner characteristics have often negatively affected the longevity and effective functioning of IOCVs (Parkhe, 1991; Perlmutter & Heenan, 1986).

Ample evidence documents the important role played by inter-firm differences in frustrating IOC (Parkhe, 1991). A large number of studies demonstrate that negotiations are more difficult across cultural groups than within cultural groups (Adler, 1986; Adler & Graham; 1989; Black, 1987; Tung, 1984). Similarly, different management systems can have adverse
effects in IOC (Hall, 1984). Corporate culture can also have an adverse effect (Killing, 1983). Finally, differences in strategic direction of the partners involved can have negative effects on performance (Harrigan, 1988a).

It has been argued that learning, with respect to the partner characteristics, can overcome these differences and lead to a strengthening of the IOCV (Parkhe, 1991).

Doz (1996) provides evidence for the general importance of learning in IOCVs and for the specific importance of partner characteristics related learning. He finds that it is not cognitive learning but rather behavioral learning that is critical to alliance success. When conditions inhibit this behavioral learning (meaning initial structures to prevent cognitive learning from materializing in action), the partner is not able to take advantage of the learned aspects of the IOCV.

This has two implications for learning with respect to the differences between partners. Learning on partner routines and the suitability of these routines allows for the adjustment and the adaptation of these routines in order to suit the IOCV. Learning regarding the specific routines and tasks of partners leads to an adjustment of success requirements. This, in turn, leads to heightened expectations, higher commitment and, ultimately, the success of IOC (Doz, 1996).

Today we have an understanding of the importance of learning in overcoming inter-partner differences for IOC, and we have empirically-derived models of how these factors impact the success of IOC. However, we still lack a general understanding of which dimensions are the most critical and how they can be overcome through learning. However, there has been initial evidence provided which allows for the importance of such learning and the impact that occurs when this learning moves beyond cognitive learning and arrives at behavior learning. This must be taken into account when designing IOCV, as flexibility is required to implement the changes on the bases of learning.

Finally, studies abound on whether organizations learn to manage IOC. Empirical evidence supports the idea that organizations develop a skill for managing their IOCVs over time.

Barkema et al. (1997) find that experiences with domestic joint ventures as well as with international wholly owned subsidiaries can be stepping stones toward the successful launching of international joint ventures. In this context, domestic joint ventures allow firms to learn about partnering. Internationally wholly owned subsidiaries allow firms to operate in foreign settings. Overall, this illustrates that firms can develop skills that enable them to collaborate more effectively.

Anand and Khanna (2000) investigate the existence of learning effects in alliance management. They study whether firms learn to manage international inter-firm alliances better as experience accumulates. They find strong evidence to support the belief that firms learn to
create more value as they accumulate experience in joint venturing. On the other hand there is no evidence that firms learn to create value as they accumulate experience in licensing. These learning effects appear to exist especially in R&D and production joint ventures, but not in marketing joint ventures. Finally, they also find strong and persistent differences across firms in terms of their ability to create value in all the alliance sub-samples. They interpret these as reflecting differences in ‘alliance capabilities’ across organizations.

These findings suggest that the dynamic cross-alliance benefits of entering into a particular partnership cannot be ignored. In addition, the results on differences in cross-alliance learning effects suggest limits to the contexts in which returns on experience are likely to be significant. Finally, the results on the firm effects indicate that it may be important to distinguish between a firm’s intangible, general-purpose skills and its alliance capability: strength in one arena clearly does not imply strength in the other, making the firm’s ability to cooperate a distinct competence (Anand & Khanna, 2000).

Along the same lines, Kale, Dyer & Singh (2002) provide evidence that firms that have greater alliance experience and, more importantly, create a dedicated alliance function with the intent of strategically coordinating alliance activity and capturing/disseminating alliance-related knowledge achieve greater success in alliances. They also provide evidence, that firms with a dedicated alliance function report a 63% rate for successful alliances, whereas firms without an alliance function achieve only a 50% long-term success rate.

From the studies of Barkema et al. (1997), Anand & Khanna (2000) and Kale, Dyer & Singh (2002), it can be concluded that managing IOCVs is a distinct capacity. It appears to be related to experience in the formation and management of alliances (Barkema et al. (1997); Anand & Khanna (2000)). These skills have the greatest impact in joint ventures and tend to be critical in this context. However, information has not yet been provided as to which particular skills these are and how they impact the IOCVs established. To ascertain these skills, we need to move beyond the notion that they are captured in a dedicated alliance function and then identify them.

2.2.7 The Relational View

The importance of IOC has been increasing constantly over the past few decades, and industry organization has moved from the interaction of anonymous organizations via markets into groups of organizations collaborating and competing with other groups of organizations. Consistent with this growing importance in IOC, researchers in the field of strategy argue for the “relational view”, claiming that part of the profitability differences among organizations can be explained by “relational” rents generated at the inter-organization level.

The “relational view” of competitive advantage focuses on dyad/network phenomena (investments, assets, routines and processes undertaken by organizations in the context of IOC) as an important unit of analysis for understanding competitive advantage (Dyer & Singh,
This sets it part from the resource-based view, which explains sustained performance differences of organizations as a result of organizations' heterogeneous resource endowments. The relational view also analyzes different sources for rents than the industrial organization structure-conduct-performance paradigm, which explains performance differences of organizations as differences in the competitive positioning of organizations in their product markets.

Dyer and Singh (1998, 662) define a relational rent as “a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners.” They further elaborate that “… at a fundamental level, relational rents are possible when alliance partners combine, exchange, or invest in idiosyncratic assets, knowledge, and resources/capabilities, and/or they employ effective governance mechanism that lower transaction costs or permit the realization of rents through synergistic combination of assets, knowledge, or capabilities.”

Some researchers even go so far as to argue that one of the implications of organizations is, thereby, not only formulating strategy at the organizational level but also at the inter-organizational level (Dyer & Singh, 1999, 186; Molina, 1999, 184).

As this stream of research is rather recent in its initiation, few theoretical and or empirical studies have been undertaken. In order to judge whether it represents a valuable view, it is critical to see its potential for contribution.

This perspective will prove valuable to the analysis of IOC and its impact on the performance of organizations in the case where it is capable of providing researchers and managers with three results:

(a) An alternative explanation of economic performance with significant explanatory power.
(b) Different explanations of inter-organizational rents drawing on variables and theories other than industry-level explanations based on industrial economics and organizational-level analysis that draws on the resource-based view.
(c) Integrated findings of prior research streams, highlighting their importance for the generation of relational rents as well as the underlying processes and mechanisms.

To make the “relational view” an attractive proposal for academic inquiry in strategy research, it must at least explain inter-organizational performance differences (the greater the impact the more important). It also needs to establish a causal relationship between these inter-firm assets and the performance differences (the greater the impact the more important). If both of these criteria are met, a relational view can be established. This represents more than just a repackaging of knowledge from prior research, and it can compete with the industrial organizations’ resource based view in explaining sustained performance differences between organizations. Thus, the relational view has the potential to integrate findings in other areas of extant research and set them into perspective in the context of IOC.
Several conceptual papers add credibility to the relevance of the relational view. Ring and Van de Ven (1992) analyze the structuring of cooperative relationships and are the first to introduce the concept of “relational contracts” in the context of IOC. In their words, these relational contracts “tend to involve long-term investments that stem from groundwork laid by recurrent bargaining on the production and transfer of property rights among these legally equal and autonomous parties. The property, products or services jointly developed and exchanged in these transactions entail highly specific investments, in ventures that cannot be fully specified or controlled by the parties in advance of their execution. ... Disputes are resolved through internal mechanisms designed to preserve the relationship and insure that ... outcomes sought in the long term relationship are realized” (Ring & Van de Ven, 1992, 487).

They go on to argue that “Relational contracts require a more elaborate internal governance structure (and rely) much more on internal ordering. ... The successful reliance on higher levels of trust ... enables the parties to employ relational contracts in repeat transactions for idiosyncratic assets, even in cases where ex-ante transaction risk is very high.” (Ring & Van de Ven, 1992, 487).

According to their line of argument, the relational view emphasizes the generation of rents, which in other organizational forms (markets and hierarchies) could not be realized due to risk considerations. In other words, partners would not undertake rent generating investments due to the dangers of ex-post-facto bargaining. This points to the value of inter-organizational governance mechanisms such as reducing transaction and production cost by allowing for efficient transaction and minimizing transaction cost (also a potential source of relational rents). Therefore, relational governance structures can allow for effective transactions that lead to value creation and efficient transaction, single transaction cost reduction, and the overall generating of rents.

Zajac and Olsen (1993) come to similar conclusions arguing for the importance of governance mechanisms in generating relational rents. They argue that partners in an IOCV do not only focus on the optimization of their own interest. Instead, partners actually work on maximizing the value of the IOCV in order to maximize the value they can claim in such an agreement (this equals the generation of relational rents). A critical issue in this process is claiming the value generated in IOC, as the claiming and distribution of value is a potential source of conflict in the IOCV.

In addition, Zajac and Olsen (1993) argue that it is critical for organizations to avoid allowing the IOCV to fall apart over this matter of claiming value. They argue that organizations develop specific governance structures, allowing them to protect generated rents by moving beyond those governance structures provided by markets and hierarchies. Organizations invest into governance structures, which protect the valuable relationship of these organizations and are a source of inter-organizational rents. Again, the coincidence of relational rents with relational governance structures should be noted.
Along similar lines, Madhok and Tallman (1998) argue that the distinction between the potential value created in an IOCV through collaboration and the actual realization thereof is crucial. The key is that firms enter into IOCVs because they yield superior value relative to other organizational forms (again relational rents). Yet IOC is prone to failure, as partners do not recognize ex ante the nature and the extent to which transaction specific investments are required to attain these synergies. The realization of the synergistic potential that motivates firms to collaborate closely also requires them to incur greater expenditures in creating and managing the relationship that would otherwise be an arms length relationship.

Finally, Dyer and Singh (1998) propose that (1) relation-specific assets, (2) knowledge sharing routines, (3) complementary resources and capabilities and (4) effective governance are the determinants of relational rents, and they go on to identify sub-processes that facilitate the generation of relational rents.

Only limited empirical evidence for the validity of the relational view has been provided. Evidence for above-average rents has been provided on two accounts by Kale, Dyer and Singh (2002) and by Holm, Eriksson and Johanson (1999).

Kale, Dyer and Singh (2002) provide evidence that IOCVs provide value to the organization. They argue that IOC leads to abnormal stock market gains, providing evidence for potential supernormal rents generated via IOC. These rents could be associated with “relational rents”.

Along the same lines, Blankenburg et al. (1999) find evidence that inter-organizational relationships, when leading to mutual dependence and commitment, lead to the creation of profits. This provides the first evidence in support of the idea that if organizations create inter-organizational relationships with specific characteristics, these relationships can generate supernormal rents for the organizations involved.

One must be careful in the interpretation of these results. They can only be viewed as tentative and initial evidence. Kale, Dyer and Singh (2002) rely on abnormal stock market gains as a measure for supernormal gains. Their study suffers from important limitations. For abnormal stock market returns to be a useful proxy for supernormal rents, the assumption of an efficient financial market is critical. The assumption of an efficient financial market, however, has been criticized by researchers who argue that the market is, at best, a semi-powerful form of efficiency (Milgrom & Roberts, 1992).

Initial responses to strategic events could be very inaccurate. Indeed, there are examples of alliances to which the market responded positively but which ended up in failure. In their study, Kale, Dyer and Singh (2002) work with a sample of alliances showing between a 62% and 66% success rate. Within that sample, financial markets were able to anticipate the management evaluation of alliance success or failure (their proxy for alliance success/failure) in less than 65% of the cases. Even when that the management evaluation is correct, financial
markets are only accurate to a very limited extent in predicting the strategic value of IOC. The inability of financial markets to predict the fate of two out of three IOCVs calls into doubt their efficiency as indicators. In the context of IOC, this casts some doubt about the validity of the arguments and evidence provided by Kale, Dyer and Sing (2002).

The evidence provided by Blankenburg et al. (1999) suffers also from certain limitations that cast the strength of their argument into doubt, as the statistical values obtained indicate that their findings might not be robust and, in fact, barely significant statistical values.

Despite the methodological limitations of these studies, they do provide tentative initial evidence that further researching of inter-organizational relationships will actually yield a valid explanation of sustained differences in inter-firm profitability. Only future research can show whether this initial evidence will be supported or refuted.

The second question raised by the relational view, in order to make it valuable, involves the mechanisms that drive rent generation at the inter-organizational level and on which the supernormal rents are based. Where networks are seen as the locus of knowledge development, the value of inter-organizational conflict resolution mechanisms in reducing transaction cost of business activities provides evidence that there are phenomena at the inter-organizational level (dyad) critical to the overall network.

Dyer and Nobeoka (2000) have provided initial evidence regarding the importance and effect of knowledge sharing routines as well as the importance of governance structure. In analyzing how Toyota developed and now manages its US supplier network, they find that learning occurs at the network level, not at the organizational level. In addition, they provide evidence for specific coordinating mechanisms that facilitate knowledge transfers, since governance mechanisms (1) motivate members to share knowledge, (2) prevent members from free riding, and (3) support transfer of tacit and explicit knowledge. This first evidence provides credibility for seeking relational rent generation, learning and investing in governance mechanisms that facilitate transactions.

Overall, the relational view is still in its initial phase, as it has moved only slightly beyond assertions regarding relational rents. At present, this perspective on IOC has received most of its support from related research streams whose results can be interpreted as supporting the relational view. Future research must provide empirical evidence as to whether the relational view can move beyond borrowing from other research streams to become a distinct research stream.
The relational view has much potential for identifying whether IOC is value generating for the organizations participating and, if so, in which forms. It can further the understanding of the determinants of relational rents. Pointing to issues that are critical to IOC and the subprocesses that lead to the generation of inter-organizational rents, the relational view can identify the processes that need to be formulated and managed. This could help researchers to focus on those aspects that are relevant and provide practitioners with levers to improve the overall value of IOC. However, this research stream has yet to evolve far enough to prove its value for research or managerial practice.

2.2.8 Contribution of Extant Research on IOC

Extant research has made important contributions to our understanding of IOC. We have gained a sound understanding of the environmental conditions and the characteristics of the economic transactions undertaken through IOC to promote the formation of IOCVs. These aspects have received much academic attention in the context of internationally competing organizations and international foreign direct investment. Findings confirm the hypothesis derived from organizational theory and network theory.

In addition, our understanding of issues in the management of joint ventures has advanced from simplistic notions at the outset to a more complete understanding of the different aspects of the phenomenon. Today we know much about what motivates organizations to pursue international joint ventures. We understand that partners are characterized not only by the task characteristics that determine their contribution to the operation of the international joint venture, but by other characteristics that are related to the successful operation of such an international joint venture as well. We understand that simplistic notions of control through equity ownership do not apply and that there are many different ways to control joint ventures. Last but not least, simplistic notions regarding the instability of international joint ventures have been left behind, and we now understand that instability can be a sign of success or failure for one or both of the partners. Our understanding of the evaluation of performance of international joint ventures has also advanced a great deal, as we see that managerial opinions are useful in the evaluation of joint venture performance. Finally, we have progressed in locating the variables that are related to the overall performance of international joint ventures.

Learning has been analyzed as an important process. Learning races, although initially feared, appear to be less prevalent. The ability of an organization to acquire knowledge and skill through an IOCV depends on its intention to do so, its ability to acquire this knowledge, and the characteristics of the knowledge to be acquired. Learning can occur competitively, at the risk of destabilizing the IOCV, or jointly, stabilizing the IOCV. Learning to deal with partner characteristics stabilizes the IOCV. And finally, organizations can learn to manage their IOCVs. The results from learning from experience have been carefully observed, and organizations
that have functions in charge of coordinating the overall collaboration activities outperform organizations (in terms of collaboration success) that do not.

Finally, the relational view, as a rather recent research stream, provides weak evidence that organizations can generate relational rents through IOC and integrates other research streams in identifying phenomena and processes through which organizations achieve the generation of these relational rents. They point to the importance of governance structures that protect investments which are at risk due to ex-post opportunism, specific investments to the relationship, routines through which knowledge is shared and the complementary nature of partners and their resources for a rent generating IOCV.

2.3 The Field of Family Business and IOC

So far IOC has been analyzed in a large variety of contexts and different organizational settings. Most samples focus on the joint ventures of multinational corporations and global strategic alliance (e.g. Parkhe, 1991). Only one study has empirically analyzed family businesses in its sample (Renfort, 1974), and only a few papers have analyzed the phenomenon in the family business context (e.g. Gallo et al., 2001). In this study, we will study a specific organizational context: we will focus on family businesses.

The objective of this chapter is to provide an introduction and overview of the field of family business. We will review the latest research published on family business, along with its relevance to the context of our research. The heart of the argument is that it can be assumed that family businesses are significantly distinct from the non-family businesses due to the characteristics of management and ownership – the upper echelons of the organization. Therefore, the family business context and family level phenomena merit consideration, as they potentially limit the extrapolation of findings in the context of IOC of non-family business findings to those of family businesses.

The distinctiveness of family business is related to the involvement of the family in the business, specifically in its ownership and leadership/management of the business. Family-level variables impact ownership, leadership and management and are asserted to have an impact on the overall business. Therefore, they also have an impact on strategic alliances.

From findings of extant research it can be asserted that the family will have its main impact on the upper echelons of the family business. In the field of family business, much anecdotal and some exploratory evidence has been provided for the overlap of content and process between family and business. In addition, it has been argued (and some anecdotal evidence has been provided to support this) that the development of the business and the development of the family are related from the initiation of the business. The impact of succession in family businesses has received much attention, as change in the management and ownership of the family business has a significant impact on the overall family business.
These differences in the leadership of the family business are also related to the introduction of management systems in the family business. Anecdotal evidence and initial exploratory evidence underlines the fact that family businesses introduce structures and systems later than non-family businesses do. In addition, either structures and systems need to be adapted to the specific needs of the family business (see e.g. planning), or structures that support the integration of family and business need to be introduced (see e.g. the family protocol). The impact of the characteristics of the family business can also be observed in its overall strategic positioning and the implementation of specific strategies, as illustrated in research on strategic positioning and internationalization of family businesses. Although there exists some initial evidence regarding these issues, it is critical to recognize that the overall impact of family business characteristics will be moderated by business-level and industry-level variables.

At the beginning of the chapter on the “Introduction to the field of family businesses", we will give an overview of the nature and status of the field of family business. Then we will provide a definition of family businesses and discuss the relevance of family businesses in today's economic environment. Then we will review literature on family businesses, arguing for their distinctiveness compared to non-family businesses based on the evidence provided by research generated up to now. We will also argue that family businesses make an interesting object for research.

Moving beyond the family members, researchers have focused on the development of family businesses over time. They propose models of family businesses’ development from their initiation through the first generation and following generations. These models have not been tested empirically and have not moved beyond the level of being assertions. The key contribution of researchers focusing on family businesses development is the emphasize on succession as a moment of change that interrupts relatively stable periods of management during the development of family businesses. This emphasizes the importance of succession in family businesses as the initiator of organizational change and/or organizational failure in the aftermath of succession.

Succession has received much attention in the field of family business. Researchers in the field have asserted that a large number of family businesses fail after the founder has been succeeded and the first succession event has been completed. This stream provides an impressive amount of studies that highlight the interaction between the family-level phenomena in succession and their impact on the family business. Thus, they provide additional evidence that underlines the importance of the family to the business. This also points to the locus of the family's impact on the family business.

Other academics have moved beyond the family and investigated the application of management practices like control systems and board of directors in the context of family businesses. On one hand, they find that family businesses apply control, management and governance mechanisms. However, they do so in a different way than non-family businesses.
Overall, family businesses introduce structures later, and the governance mechanisms applied by family business tend to deviate, as the board of directors has been observed not to resolve family business specific issues. Therefore, some researchers have proposed to implement a family protocol in order to address these gaps between legally prescribed and/or widely adopted governance mechanisms and planning practices and those applied in the context of non-family businesses. Finally, in strategic planning, family business-specific issues appear to be critical, thus making them a worthwhile topic of investigation.

In a related stream of research, researchers investigate the relationship between family business characteristics and the business-level strategy pursued. They provide evidence regarding the question of whether family businesses follow different strategic postures than non-family businesses. This evidence is inconclusive, with the majority of studies providing evidence that family businesses follow different strategies than non-family businesses. Based on these inconclusive results, it can be argued that the impact of the family on business is moderated by many variables that are not associated with the family level, i.e. business-level variables and industry-level variables. These variables have not been included and controlled in the studies. All studies have neglected these variables up to now. Therefore, important mediating effects in the context of family businesses have not been accounted for.

Finally, a very small number of researchers has focused on a specific strategic choice of family businesses, i.e. the very relevant option of internationalizing the family business. Overall findings provide evidence for the impact of family businesses and family business characteristics on the international strategy adapted by such businesses. However, studies have not moved beyond assertions and initially sketchy empirical evidence.

On the whole, it can be concluded from the extant investigation of family businesses that the family has a significant impact on the upper echelons of the family business and can, thereby, influence the business significantly. This difference can be hypothesized to make family businesses a specific organizational context meriting academic inquiry due to its relevance.

2.3.1 Introduction to the Field of Family Businesses

In this introduction to the field of family business, we will give a brief overview regarding the nature and state of the realm of family businesses. Then we will discuss and provide a definition for family business. Finally, we will argue for the relevance of the phenomenon of family businesses.

The field of family business is often falsely associated with the general area of the entrepreneur (Litz, 1995). Reviewing entrepreneurial literature and family business literature reveals that entrepreneurism and family business mean two quite different things. Recent works on entrepreneurism point to the central issue of organizational initiative (Covin & Slevin, 1991; Miller, 1983; Rumelt, 1987). Family business, on the other hand, focuses on the
management and continuity of intra-organization family-based relatedness (Dyer & Sánchez, 1998; Handler, 1989; Litz, 1995; Shanker & Astrachan, 1996; Wortman, 1994). This does not only occur necessarily during the initiation of a business, but can also be ongoing when a business is already of a significant size and has moved beyond the status of an entrepreneurial venture. Family business, therefore, refers to a specific organizational context and the question of how the management of the business and the family are interrelated.

Although family firms represent an important form of business in our society, research on the subject is rather limited prior to 1975. Since 1975, the research base has broadened and moved beyond initial investigations. Only when “Family Business Review”, the scholarly journal devoted to family business, was first published in 1988, did interest in the field begin to broaden further (Handler, 1989; Dyer & Sánchez, 1998).

The state of the field can be described as emergent, as the boundaries of the field are not clearly defined and research has thus far only scratched the surface in addressing the specific aspects of family businesses (Handler, 1989; Wortman, 1994). Until now, the research of family business has concentrated on a “very small” segment of issues and topics. Furthermore, there are few empirical researchers in the field of family business (Wortman, 1994).

Several areas of interest have emerged lately to receive academic attention. Most researchers focus on family members and aspects related to the interaction of family members such as interpersonal family and business dynamics. From a business perspective, the most frequently researched question is that of succession and its consequences for the family business. This is followed by business performance and growth, legal and financial issues, organizational change and corporate governance (Handler, 1989; Dyer & Sánchez, 1998).

Questions related to the management of family businesses have received little attention. Furthermore, issues related to strategy of family businesses have been almost completely neglected, especially those concerning international strategy of family businesses and IOC (Dyer & Sánchez, 1998; Gallo et al., 2001; Gallo & Garcia-Pont, 1986; Handler, 1989; Sharma, Christman & Chua, 1997; Wortman, 1994).

Currently, family business research is more descriptive than prescriptive. Most of the literature that has taken a prescriptive approach has done so from the perspective of how to improve the family relationship rather than how to improve business performance. While better understanding the family in the family-business dyad is valid and useful, there are other goals, such as those of the business that deserve to be pursued as well (Sharma, Christman & Chua, 1997). Overall, the field is still in its beginning stages, as many fundamental issues need to be investigated and better understood.
2.3.1.1 Definition of Family Business

Defining the family firm is the first and most obvious challenge facing the family business researcher. Currently, there is a lack of consensus as to what defines a family firm. Although researchers in the family business field agree that, in general, family businesses are different from non-family businesses, they do not agree on a definition of family businesses. This is consistent with several conceptual models which have been developed for the field of family owned businesses, but a unifying paradigm for the field is still lacking (Handler, 1989; Litz, 1995; Habbershon & Williams, 1999; Wortman, 1994).

One can distinguish between two distinct approaches to defining a family business. One is based on the structural characteristics of the ownership/management of family businesses, while the other is based on the goals associated with family and business inter-relatedness by the ownership/management family.

Several authors assume a structural perspective and focus on the degree of ownership and/or management by family members. For example, Barnes and Hershon (1976) assume that “[controlling] ownership [is] rested in the hands of an individual or of the members of a single family” (Barnes & Hershon, 1976, 106). Landsberg, Perrow and Rogolsky defined it as “A business in which the members of a family have legal control over ownership” (Landsberg, Perrow & Rogolsky, 1988, 2). Finally, Stern defines a family business as “[a business] owned and run by members of one or two families” (Stern, 1986, 21). In this view, a firm may be said to be a family business to the extent that its ownership and management are concentrated in a family (Litz, 1995). According to this definition, a business qualifies as a family business regardless of the objectives of the family members involved in the ownership and management of the business, just as long as one family has managerial and ownership control.

However, this is the critical drawback of the structure-based approach, as there might be aspirations present within the firm to increase (or decrease) the degree of intra-organizational family-based relatedness and to manage it consciously. This limitation suggests a complementary approach, oriented less towards the structural nature of the business and more to the intention of the family (Litz, 1995).

Along these lines, Ward defines a family business as “[a business] that will be passed on for the family’s next generation to manage and control” (Ward, 1987, 252). Or as Churchill and Hatten put it, “what is usually meant by ‘Family Business’ ... is either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder” (Churchill & Hatten, 1987, 52). In both cases, it is assumed that the intention to keep the family business “in the family” is of great importance.

This intention-based approach, as we will call it here, has the advantage of the fact that it takes into account the family interest and pursuits as a central matter of family businesses. However, it neglects the fact that the family needs to have sufficient power and control in order
to “impose” its interest on the family business in such a way that its intentions actually have an effect.

The combination of these two aspects leads to an integrated definition: “A business may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve, maintain, and/or increase intra-organizational family-based relatedness (Litz, 1995).”

We will follow this last definition and focus this research on large family businesses in which; (a) the majority of share holdings is concentrated in the hands of a few important shareholders which are relatives; (b) some of the key shareholders are actively involved in the management and/or governance of the business; and (c) there is an intention in the family that the involvement of family members in the management of the business will be maintained in the future.

2.3.1.2 Relevance of Family Business

In order to be an attractive subject matter for research, the phenomenon under investigation needs to be relevant to management practice. One way to gauge the importance of a phenomenon to managerial practice is by monitoring its impact in today’s economic activities.

Determining the impact of family businesses on the national and international economy is no trivial undertaking. Underlying issues that complicate the definition of impact include the general lack of quantitative research (Handler, 1989; Shanker & Astrachan, 1996) and the lack of a unique definition of family businesses (Handler, 1989; Shanker & Astrachan, 1996). In particular, the “intention” of defining the family business makes it difficult to identify family businesses in today’s readily available statistical information concerning economic activity.

Nevertheless, several studies have been undertaken to estimate and provide evidence of the relevance of family businesses in different countries and geographic regions:

Gallo and Garcia Pont (1988) analyze the demographics of Spanish family businesses. They find that family firms account for 59% - 66% of the total number of jobs provided by Spanish companies, with sales of over 2 million Euros. This provides evidence of the importance of family businesses to the Spanish economy.

Klein (2000) provides evidence for the importance of family businesses to the German economy. She finds that 30% of that country’s corporations with more than a 500 million Euro turnover are family businesses.

Flören (1998) provides evidence for the importance of family businesses in the Netherlands. Almost 50% of all Dutch companies with more than 100 employees are family businesses. These generate more than 60% of the total private sector employment in the Netherlands, also contributing 40% - 60% of the overall GDP output.
Shanker and Astrachan (1996) provide evidence for the importance of family businesses to the US Economy. They come to the conclusion that family businesses in the USA contribute between 20% and 50% of GDP and offer between 15% and 59% of all business employment opportunities, depending on the definitions and measures applied.

These national estimates vary widely and are not comparable due to different underlying definitions. Ownership structure is most commonly used as the criterion to define a family business, neglecting management and intention of the family in the business. This occurs because studies are driven by the data available in public statistics. However, such data provide evidence for the relevance of family business, and it can be concluded that the organizational context is critical for the generation of GDP and the generation of employment. Family businesses potentially account for more than 20% and up to 60% of GDP and employment in some national economies.

This implies a potentially very large number of businesses that fall within the definition of a family business. Whether these businesses can actually be labeled family businesses according to our definition cannot be determined from the studies, as there are no measurable proxies presented. However, it can be assumed that, in a large number of cases, family interests are pursued with these businesses.

This provides support for the hypothesis that family businesses are a relevant organizational context in today’s economic environment.

2.3.2 Distinctiveness of Family Businesses: The Importance of Overlap

In order to merit investigation, family businesses need to be sufficiently different from non-family businesses. If this were not the case the differences between family businesses and non-family businesses would matter little to managerial practice and academic inquiry. Also, the findings concerning non-family businesses could (in the case of no significant differences) be extended to family businesses, converting a dedicated investigation of family businesses into a theory-extending rather than a theory-developing undertaking.

Many researchers have provided evidence across a broad range of functions and organizational and managerial aspects that supports the assumption that family businesses are distinct from non-family businesses. In this section, we will begin with the presentation of some of this evidence. Then we will review the underlying drivers of the organizational overlap. Finally, we will discuss the impact of these drivers by focusing on the development, succession, management systems and strategic positioning of family businesses.

In general, authors in the field of family business argue that the challenges in family businesses result from an overlap between family and business issues. Authors who espouse this perspective argue that there are strong interrelationships between decisions in the firm and decisions in the family and that these interrelationships make family businesses different from

2.3.2.1 The Content Dimension of Overlap

According to this perspective, decision-makers in the family business have to make their decisions based on business criteria, as they provide goods and services in competition with other companies in the market. Within the family context, decisions are characterized by strong social ties that are not based on business rational but rather on affection between family members. These two spheres are interconnected in family businesses, as members of the family are also members of the business (Davis & Tagiuri, 1982). The family business-specific management challenges that emerge from this overlap influence not only the business but also the family. In addition, decisions within the family not only influence the family but also influence the business as well (Davis & Tagiuri, 1982; Kepner, 1983). As these two “systems” overlap, the decision-makers have to balance family interests with business interests. In general, it is important to understand the business/family relationship in order to know when to apply which rational and when to integrate or compromise the needs of the family in light of the business sphere. Interdependencies can lead to constraints on the business that require sacrificing business opportunities and efficiencies. The same holds true in reverse in terms of business interests imposing constraints on the family (Hollander & Boulton, 1984).

Many researchers have reported examples of this interdependence between family and business issues. They include examples concerning the goals and objectives pursued by family businesses, as well as family business-specific examples in the areas of human resource management (Landsberg, 1983), financial management and adaptation to strategic change (Kepner, 1983; Ward, 1987).

Family businesses may differ from non-family businesses in that the controlling family’s influence and interests have overriding importance for the goals of their business. This concentration of control might influence even strategic decisions, as family interests and values are incorporated into the goals and objectives established for the firm. Family relationships influence which strategies are considered (Sharma, Christman & Chua, 1997). Definition criteria are affected by family considerations built into the firm’s goals and the choice of alternatives to consider. Family involvement in implementation creates its own set of dynamics, politics and possibilities (Handler 1989).

Kahn and Henderson (1992) provide empirical evidence for the impact of family criteria on business decisions, finding that family firms chose locations that improve the quality of life of the family while non-family firms look for locations with reduced operation costs. Similar emphasis regarding proximity to the end customer market was noted for both types of businesses studied. This points to the fact that family businesses in this sample have traded
cost factor considerations for family considerations, while maintaining customer proximity as a factor that is equally important for them as it is for non-family businesses.

Human resource management in family businesses deals with the incorporation, promotion and compensation of family members in the family business. Business logic suggests the hiring of only those individuals that perform or have a potential to perform well. The compensation and promotion of these individuals should occur according to their performance. Family logic implies that family members should work with family members and that family members should be treated equally, regardless of their performance. Therefore, both aspects need to be considered in making human resource decisions (Landsberg, 1983).

In financial management, the coordination of the business's financial needs and the family's financial needs is critical (Gallo, Tapies & Cappuyns, 1999). For households with established family businesses, the finances of the business and the family seem to be inextricably intertwined (Hayes et al., 1999). There are points in time where funds needed for the business will also be needed for the family. There are also moments when financial policies applied at the family level have an important impact on the financial situation of the business. This requires any kind of financial planning to take into account both the family's necessities and the business's necessities.

Change and adaptation for the family businesses requires that persons change or lose their jobs. However, these changes can be difficult from a family perspective, as they include uncertainty, hardship, and change for some of the family members. This can limit the ability of the family businesses to implement changes that are critical from a business perspective (Kepner, 1983).

The key implication of this perspective on family businesses is that the relationship between family and business needs to be taken into account when studying family businesses. This has the potential to make family businesses very different from non-family businesses. This perspective on family businesses implies that important variables at the family level can be thought to influence the family business depending (a) on how the overlap between family issues and business issues is perceived (and vice versa) and (b) on the involvement level of the family in the business. It is this influence of family-level variables that makes family businesses distinct from non-family businesses.

Overall, due to the overlap of family and business sphere-specific issues and challenges, there is sufficient anecdotal and empirical evidence which supports a differentiation of family businesses from non-family businesses. And these specific content aspects need to be taken into account in decision-making.

2.3.2.2 The Process Dimension of Overlap

Aside from the content dimension of overlap, there is a process dimension of the overlap between family and business in family businesses. This latter dimension has received much
attention in terms of the spill over of “conflict” from the family to the business and vice versa. Also, the matter of “trust” in family business decision making has received attention.

Conflict has received attention in the context of family businesses because it is perceived as a given characteristic for many family businesses. Some authors even label family businesses as “family conflictful” (Kaye, 1991; Levinson, 1983). Harvey and Evans (1994, 331) find that “Family businesses are fertile fields for conflict”. Conflict among siblings as well as conflicts among family members are suggested to have a significant negative impact on the survival of family businesses (Levinson, 1971; Levinson, 1987).

In general, it is assumed that conflict among family members is a threat to the business because it removes focus from critical business tasks and challenges and interferes with what is necessary for developing and running a smooth business. A large number of authors have argued that managing conflict in family businesses is important to the success of family businesses (Dyer, 1994; Kaye, 1991; Sorensen, 1999; Ward, 1997).

Much research has been undertaken to understand how conflict from the family has an impact on a business. Much attention has been given to sibling conflicts. With the integration of family members into the family business, the matter of how the relationships between these family members impact the business becomes critical. It has been suggested that sibling relationships can turn into rivalries that destroy family firms (Friedman, 1991). In fact, Swogger (1993) describes in a case study how sibling relationships can impact the succession process in family businesses.

It is often asserted that more emotions are involved in family businesses than in non-family businesses, especially when decisions regarding the direction of family businesses need to be made. It has been suggested that these conflicts might even result in conflict within the family (Levinson, 1971, 1983, 1987).

Examples have been provided about the moment when business decisions lead to conflict in the family. Davis and Harveston (1999) study the generational shadow of the founder as being one potential source of conflict. They define the generational shadow phenomenon as occurring when the founder or leader to be succeeded still has a role in the business and has not departed completely from the family business. They find that conflict increases in proportion to the number of succession events and in proportion to the amount of time the founder or the individual to be succeeded remains in the business. However, the effect of the founder's succession is stronger than the effect felt in later generations, pointing to the potential that family business succession events hold for disrupting the family and business, regardless of the type of family business.

Although most researchers focus on the process dimension of conflict as a negative characteristic, other researchers recognize the potential of family businesses characteristics. Families might transport their norms into the family business, as family norms for decision
making, conflict resolution or conflict management set the tone for conflict management in the business (e.g., Dyer, 1986). The head of the business and/or the family establishes norms for interaction in the business (Schein, 1983; Sonnenfeld & Spence, 1989). These norms include how decisions are made (Dyer, 1986; Kets de Vries, 1993). Family norms have even more influence when multiple family members work in the business (Kaye, 1991). Families that implement a proactive management approach can provide the basis for a positive problem solving decision-making process in the business (Dunn, 1995). In addition, it has been argued that family conflict can actually be positive (Davis & Harveston, 1999) and that trust among family members is an advantage (Gallo et al., 2001; Tagiuri & Davis, 1996).

This research provides evidence that the interaction between family businesses can have negative and/or positive impacts on the business as well as on the family. These findings underline the importance of the overlap between family and business, setting family-businesses apart from non-family businesses due to issues that are critical to decision making processes and processes in the general context of family business.

2.3.3 The Development and Growth of Family Businesses

Moving beyond the immediate family and its impact on the family business, another area of research studying the interaction of family and business is represented by researchers who have done work on the development of family businesses. Researchers in this area propose models that predict phases of stability and growth for family businesses.

The identification and analysis of developmental stages highlights patterns that offer some predictability over time concerning the development of the business based on the development of the founder, the development of the family, and/or on the interaction between business and family. All developmental theorists share the assumptions about how change and growth occur over time. The phases and stages concept identifies alternating periods of stability and transition/change that occur in response to the shifting and interactive needs of the business, family, and individuals inside and outside of the family and business. The prevailing theme in these studies is that there are predictable periods of stability and intervening periods of stressful transition (Handler & Elman, 1996).

Studies in this area can be divided into two groups of studies. The first group describes the development of family businesses during the tenure of the founder until his departure or succession. The second stream of studies looks at the development of family businesses over several generations.

2.3.3.1 First Generation Models

First generation models study the link between the development of the family/founder with the development of the family business during the first generation. Such research that
focuses on one generation is best exemplified by the studies of Danco (1975), Berenbein (1990) and Ward (1987).

Danco (1975) conceptualizes the development of the family firm as a function of the leader's capabilities and family business needs. In this model, the business surges through the "wonder", "blunder", "thunder" and "sunder"/"plunder" stages, where the relationship between the challenges of the business and the capabilities of its founder are explored. Underlying this is the development of the founder's capabilities, which change and therefore drive the business through different stages. The final result can be an unbalanced relationship between the founder's skills and resources and the requirements of the family business.

Berenbein (1990) studies the professionalization of family firms. He finds that they go through three stages from (1) forming a coalition to establish the family firm, to (2) the emergence of authority and, finally, (3) to the founder's departure. He presents a more chronological developmental model, highlighting the importance of the founder and his hindrances to the process of professionalization. Berenbein goes on to view the founder's departure as a driver of professionalization. The underlying driver is the role of the founder in the business, and as this role develops, the business moves through different stages. Berenbein, like Danco, assumes that at some point the founder does not meet the requirements and criteria of the family business and will be replaced by a professional manager.

Ward (1987) proposes a three-stage development model of the family business. In the first stage the needs of business and the family are consistent, and the owner/manager makes all the decisions. In the second stage, the owner manager remains in control, but the growth of the business and the development of the family's children are of prime importance to the family. In the third stage, business and firm needs come into conflict. In his model, Ward illustrates the importance of the overlap of family and business interests, and he understands the development of the family business as driven by family and business interaction. In his model, this interaction characterizes the development of the family business.

All three models propose an association of some family business characteristics and founder or family-related variables that argue for a relationship between family-level phenomena and the development of the business. Also, they explain why the leader who initially started the family business, will be unsuited to continue in the business in the end. That is about where the agreement among the models ends. They describe different phases through which family businesses pass, each capturing the development of family businesses in a different way while relying on different factors to drive them.

These different underlying factors that drive developmental patterns illustrate that these model are not very robust, as driving forces do not coincide, nor do organizational patterns characterizing the family business's development converge. Also, most of these models do not move beyond assertions, as little empirical evidence is provided as to how often these patterns
have been observed. It is doubtful that the development of family businesses can be reduced to single associations of a small number of variables related to the development of the business and the capabilities of the founder. It is more realistic to assume that the development of a family business is influenced by a large number of variables that extend beyond the founder and/or family business dyad.

In conclusion, these models' lack of empirical evidence, their non convergence and their lack of realism lead to doubts regarding their validity. They are assertions with, perhaps, the benefit of being able to illustrate to founders and family businesses the fact that they have to understand and reconsider their relationship with the business constantly. This alone makes them useful illustrations of specific behavior. However it does not add significantly to our knowledge.

2.3.3.2 Multiple Generation Models

Models describing the development of family businesses over several generations are proposed by Barnes and Hershon (1976), Holland and Oliver (1992), Navin (1971) and Hershon (1975).

Barnes and Hershon (1976) identify three stages through which a company passes over several generations: entrepreneurial, specialized functions, and divisional operations. They propose a link between the generation of the family involved in the management/ownership of the family business and the organizational structure adapted by the family business. The greater the number of generations a family business passes though, the more differentiated the adapted organizational structures need to be.

Holland & Oliver (1992) find support for a three stage developmental model of family businesses. The three stages include control by owner-manager, control shared by family members, and professionally managed firm (linking the control structure of the business to the generations of the family business). In their model, the control of the family business changes over the generations and is associated with the structures adapted by family businesses.

Navin (1971) finds that most companies go through five stages of development: initiator, founder, founder's heir, technicians, and professional management, linking the characteristics of the management team to the generation that is in charge of the business. Here, change at the management team level is associated with the evolution of the family business through different managerial constellations.

Hershon (1975) relates the firm's developmental stages to the family's progression through generations of ownership and management. He studied a sample of 70 family businesses and the patterns associated with the generations of the founding families. Pattern (a) represents the first generation family business. Pattern (b) represents the collaborative or second-generation business, and pattern (c) is dominated by a network of the family. Hershon
links the distribution of ownership and management in the family business to the overall involvement of the family in the family business.

All these writings focus on interactions between founder, family and/or business, in order to show time oriented events and developments in a family business. They also coincide in that change occurs during or after a succession event has occurred and the ownership and management structure has been handed from one generation to the next. They also describe models for how management and ownership within the family business are more and more diffused among family members and include outside members. In some of these models, this leads to the “professionalization” of the family business. In some of the models, this supposes that the family business turns into a non-family business and that family involvement is reduced.

These models appear to converge on the level of the variables that drive the development of the family business, i.e. diffusion, fragmentation of management and/or ownership concentration, leading to the adaptation of more distributed and differentiated organizational structures. They all assume a growing separation of management and ownership as well as a distribution of the roles played by distinct family members. They also assume a more and more professionalized management of the business, characterized by the separation of ownership and management and an increasingly formalized interaction among family members as owners and/or managers of the family business.

There is little empirical evidence beyond case studies on the applicability of these models in illustrating these findings. However, it is a widely held assumption that a timeline of events can be predicted by the stage of development after the founding of the family business, and there is a predictability regarding the nature of ownership and management throughout later generations.

All these models focus on the impact of the family on the upper echelons of the family business. In different ways, they argue that with the movement from one generation to the next, the concentration of ownership is diluted and the identity of ownership and governance are separated. In applying this perspective, they do not move beyond it or extrapolate the impact of the family and governance structure beyond the management and organizational structure. Therefore, they are placing the locus of the impact of family in the family business at the upper echelons of the organizational.

As with the one generation models, they appear to emphasize the driver of different ownership/management constellations in the family business. Other variables will also have a significant impact on the family business and, thus, have an impact on the development of family businesses over time. For example, one can argue that the growth of the family business (relative to the growth of the family) will be critical in the processes described. Here the underlying assumption is that there are many heirs in every generation. Also, the transfer of ownership and managerial decision rights underlie specific assumptions of distribution of
ownership among family members (versus one family member inheriting everything). Both assumptions lead to a wide distribution of decision rights. All these models converge regarding the importance of the succession event for the development of family business. The studies refer either to the departure and succession of the founder in the family business or to the succession of one generation by another as a moment of change in family businesses.

### 2.3.4 Succession in Family Businesses

Findings in the area of succession of family businesses provide evidence for the locus of differences between family businesses in the upper echelons of the family business. Also, the impact of these differences on succession in family businesses has been illustrated.

Among researchers in the field of family business, it is widely agreed that succession is one of the most important issues that family firms must face. Theorists agree that the continuity of the family business depends highly on a successful succession. They argue that succession is, for many family businesses, the reason for failure (Ward, 1987; Beckhard & Dyer, 1983a, 1983b).

In general, succession in family businesses is structurally different from succession in non-family businesses. On one hand, the transition involves a change in ownership as well as a transition of management (in contrast to non-family business where changes in management and ownership are, at most, loosely linked). Also, there is usually a smaller number of potential candidates that are available to succeed the incumbent in a family business than in a non-family business. As the potential candidates are already known, there is potentially more time to develop them. Finally, the interaction between family members, incumbents and successor can be assumed to be somewhat different, as we are not dealing with purely professional relationships but rather ones in which at least some of the actors involved are also related to one another. Overall, this is reflected in different succession processes where family issues play a significant role.

We will review succession literature to illustrate these differences in the family business regarding their upper echelons, focusing on the findings that regard the succession process as well as the variables critical for the succession process. Finally, we will review which factors and circumstances represent an effective succession, as they may bring to light those variables that bear more importance on the succession process than others and draw attention to the specific characteristics of family businesses.

#### 2.3.4.1 The Succession Process

In a number of studies focusing on succession, researchers have investigated the order of events and the involvement of members in the family business. They describe who is involved in which phase of the succession and how actors are generally interacting in a succession.
Based on their observations, Churchill and Hatten (1987) developed a model describing the succession process between incumbent and successor in a family firm. According to them, in the initial stage the incumbent is the only member involved in the family firm. In a second stage, a successor is trained and developed and learns about the business. In a third stage, both manage the business jointly, and finally responsibility shifts to the successor.

A similar descriptive model crafted from the perspective of the successor has been proposed by Longenecker and Schoen (1975, 1978). For them, the succession process begins before the successor enters the business or when the successor might be tangentially aware of the business. The second stage describes the introduction of the successor to the business without working in the business. In the third stage, the successor enters the business, potentially as a part time employee and later than as full time employee. In the next stage, the successor assumes managerial responsibilities. Next, the successor assumes the presidency and formal power of the organization. In the end, or what they term “the mature succession stage”, the successor becomes the de facto leader of the organization.

Handler, in her 1994 study, describes the succession process by focusing on the relationship between the predecessor and the successor. In this study, she finds that in these models the predecessor reduces his involvement step by step handing over more and more responsibilities to the successor. Initially, the predecessor is the sole operator of the family business, with the successor having no role in the family business whatsoever. Then, as the predecessor is still in complete control of the business (having pre- eminent power), the successor takes up minor tasks in the context of the family business. Then tasks are delegated to the successor, and these tasks are increasingly managerial. Finally, the roles among successor and incumbent are reversed as the successor manages the business and the incumbent consults. She finds a “lag” where it takes the successor time to make the final move into the role of the predecessor, implying that the predecessor might hold on to this role for some time because the successor cannot completely fill it.

Several conceptualizations of the succession process have been proposed from observation. From these findings it can be concluded that the succession process in the family business starts much earlier than in non-family businesses. It starts even before selecting or introducing the successor into his position. Even after the successor has taken office, the process has often not been terminated, as the predecessor still needs to depart from the business, turn over all his reigns and leave the business. This makes the succession process a much longer and more rarely occurring process, with different parties and issues involved.

Today much is known about the process of succession, and different descriptions have been provided. Research has begun to investigate the different “sub”-issues of succession in order to delve deeper into succession in family businesses.
2.3.4.2 Variables Impacting the Succession Process

In a related stream of research, authors try to identify all the variables impacting the succession process.

In his study on the succession process, McGivern (1978) proposes five “main” variables influencing the succession process. These are (1) the stage of organizational development passing through initiation, development, growth, maturity and decline; (2) the motivation of owner management to let go, as this willingness to let go is critical to the process, (3) the extension of family domination, as their influence as shareholders may be important, and they have interests in and demands on the business, (4) the organizational climate as it captures the behavior of the members of the business, and (5) the business environment as it captures the business situation in its progression from good to poor.

In reviewing the family business literature, Handler (1994) proposes groups of factors that have an important impact, as they influence the resistance on the succession process. She groups these factors at the individual level, the interpersonal group (family) level, the organizational level and the environmental level. At the individual level, the following variables are critical: health of the incumbent, outside business interests of the incumbent, the incumbent’s ability or inability to disassociate from the business, his ability to delegate control, his perspective regarding life as a retiree, his capacity of self-reflection, and his ability to provide advice and consultation to the successor. At the family level, the following variables are critical: the extent of open communication, trust among family members, perception of heirs’ ability, extent of power imbalance and/or sharing, overlapping of family conflicts and business conflicts, number of potential heirs. At the organizational level, the stability, culture, and functional differentiation of the organization are all critical. At the environmental level, the challenges of the environment on the business, the importance of industry-level variables, and the degree of professional preparation to hold a position all come into play.

Based on a literature review, Handler and Kram (1988) identify those factors that increase resistance to a succession event as well as those that reduce resistance to a succession event. Based on this literature review, they identify factors at the individual, group, organizational and environmental levels. Of key importance to their review is the identification of factors at the family level, which has an immediate impact on resistance towards succession. These factors appear to be family business-specific and set family businesses apart from non-family businesses.

Barach and Granitski (1995) illustrate factors that are critical for the family business. They find that 12 factors can be grouped in four categories of factors. These are the incumbent level, the successor level, the other family member level and the firm level. Barach and Granitski illustrate this model with a case study. At the CEO/incumbent level, the strategic commitment to family leadership as well as the specific offspring, the way joy and pain are
shared with the family, the relationship to the offspring, the reasonableness of expectations and personal characteristics are all of importance. Variables that are critical at the successor level include actual and perceived responsibility, the competence and decision-making capacity of offspring, the relationship of offspring with family and business executives, and the strategic commitment of offspring to the family business. At the level of other participants, their goals, career paths and power, as well as the power distribution among shareholders are all crucial elements. Finally, at the environmental level, corporate culture and organizational structure as well as the matching of offspring's capabilities are critical to the succession event.

These long lists of variables important in the context of family business succession indicate that there is a large number of variables that are specific to the management of family businesses.

It is widely agreed that the incumbent/founder has a significant impact on the succession process and its outcome. He must be willing to let go of his role and is usually significantly involved in the preparation of the successor. In addition, the successor must be suited for the new position in the business, both in terms of his competence as well as in terms of his relationship to the remaining family members. Finally, the ability and willingness of the family to support the successor has also been found to be critical.

Overall, these studies and reviews point to a set of variables that indicate that succession in the case of non-family businesses is actually different from succession in the case of family businesses. The importance of incumbent-successor relationship and the importance of the relationship of the successor to the other family members highlight the specific aspects of family businesses and set family business apart from non-family businesses. These variables and their impact have been further analyzed.

2.3.4.3 Relative Importance of Variables Impacting the Succession Process

Finally, researchers argue for the relative importance of some of these variables to succession, trying to identify conditions that are necessary for effective succession events and/or critical in preparing a succession event.

In keeping with prior research, Ward (1987) argues that grooming the best candidate is critical to the succession process. Danco (1982) asserts that gaining outside experience is critical for the successor and important for successful succession. Kram (1985) suggests mentoring as an important function for career development and succession. Other researcher suggests that effective communication is critical for successful succession (Barnes & Hershon, 1976; Landsberg, 1988; Ward 1987). Last but not least, careful planning is perceived as critical for successful succession (Alcorn, 1982; Beckhard & Dyer, 1983, Malone, 1989; Ward, 1987).

Overall, the findings on the relative importance of succession variables are still inconclusive, and the evidence provided by family business researchers is mostly anecdotal.
However, it is still uncertain at this point what factors can contribute to the effectiveness of the options, let alone their relative importance and how they might work in combination. This is especially true given the lack of studies combining different perspectives and testing them for their relative importance, and this restricts our ability to differentiate on the importance of these aspects. The field has not moved beyond describing the process and identifying the factors and has not been able to describe the importance of the interaction among these variables.

2.3.4.4 Conclusions from Research on Succession in Family Businesses

The arguments raised by the researchers and the convergence of their findings give many of the key arguments credibility, although many of the studies lack rigorous data gathering and data analysis. Despite the lack of rigor and the abundance of anecdotal evidence, the assertions are convincing in terms of the nature of family businesses. Several facts are widely accepted in the area of family business and appear to be plausible, pointing to the specific aspects of family businesses:

(1) Change of leadership in a family business is a very critical event in the history of the family business. This event is widely accepted as critical and commonly associated with the risk of failure of the family businesses. This makes its anticipation critical in the management of family businesses.

(2) The succession process is different from that of a non-family businesses, as it tends to:

(2.1) involve a different constituency, e.g. family members outside the business.
(2.2) have an important personal dimension, as it often involves a change in a father-child relationship, moving the process beyond standard business succession events and involving family dimensions.
(2.3) involve a successor who is not selected but groomed, meaning he is systematically prepared for the leadership role he will take at some point in his career.
(2.4) involve a more limited number of potential candidates that can be chosen than is the case with a non-family business, as only a family member can be chosen to be the successor.

Overall, this points to important differences in the characteristics of the top management team of family businesses, with significant consequences for the family business.

2.3.5 The Management of Family Businesses

Many researchers have focused on the family as the central unit of family businesses, focusing their analysis on the interaction among family members. In another research area, researchers focus on the business aspects of the family business. Research effort has been
undertaken to attain a better understanding of the specific aspects of family business management.

The distinctiveness of family business is related to the involvement of the family in the business, specifically in its ownership and leadership/management. The family-level variables are asserted to have an impact on the management of the business and the overall business. From findings of extant research, it can be asserted that the family will have its main impact on the upper echelons of the family business. This also has an impact on the management of family businesses in terms of governance structures as well as planning and control in the family business. Furthermore, specific characteristics impact the strategic positioning and strategies of family businesses, as exhibited in the context of geographic scope and choice of international strategy for family businesses.

In general, family businesses need to introduce structures and systems to delegate authority as well as coordinate and control business activities. Family businesses need to rely on structures and systems within the business to fuel and organize growth. This is usually due to a lack of management skills and/or resources within the family in preparation for succession and/or the introduction of change in the business (Dyer, 1989; Matthews, 1984). However, it is also widely accepted in the field of family business that owner-managers and family members are reluctant to delegate control and introduce new structures and systems. Reasons for this include the fear of losing control of the business, the belief that structures are not necessary and represent expensive overhead, and/or the inability or unwillingness to delegate due to insufficient knowledge, capability or the desire to maintain secretive operations (Dyer, 1989).

Several related areas investigate the introduction and application of management and control systems in family businesses. The area concerned with the professionalization of family business analyses the introduction of systems, structures and managers, just as in manager-lead businesses.

One important issue in this context is the introduction of corporate governance in family businesses. Researchers in family business have concerned themselves a great deal with this topic. They have studied the corporate governance systems that are in place in some family businesses as well as the effectiveness of these governance structures. They have also investigated whether these governance structures have specific family business-related characteristics.

Another important issue involves planning business activity. In the area of family business, the extent to which family businesses plan has been studied along with which issues family businesses plan for and whether their planning is related to the success of family businesses in general. Finally, it has been studied whether and how planning in the context of family businesses needs to be different from planning in non-family businesses.
A final research stream investigates the nature and development of management control systems in the family business. In this area, evidence has been provided that family businesses introduce structures and systems the way that non-family businesses do. However, they do so later, relying on less structural differentiation compared to non-family businesses at a similar developmental stage.

Finally, strategic positioning has received some attention in the context of family business. Research in this area has focused on understanding the specific strengths and weaknesses of family businesses. Researchers also study whether and how these strengths and weaknesses translate into the strategic positioning of family businesses. In addition, they try to understand whether family businesses pursue specific strategies. In this context, the internationalization of family businesses has received some attention. Findings in this area are interesting in terms of understanding the overall positioning of family businesses, as specific strategies pursued by family businesses establish the connection between the characteristics and the geographic scope of the family business's strategic positioning. In this context, literature on international strategic alliances has received very limited attention. Due to its relevance for this research, it will also be reviewed.

2.3.5.1 Professionalizing Family Businesses

This stream of research studies the professionalization of family businesses. Family businesses are professionalized either through the introduction of structures and mechanisms similar to those applied in professionally managed firms or through changing management teams through the introduction of professional managers. Researchers in this area try to understand how and when family businesses introduce structures and systems to coordinate their activities, moving away from a coordination system which is based on direct supervision by the founder or family members (Liebtag, 1984; Berenbeim, 1990; Francis, 1991).

Liebtag (1984) finds that the founder is the key factor in hindering the introduction of systems and structures in the family business. His timely withdrawal from active management of the business and handing it over to professionals is the most critical factor in transforming a family firm into a professional company. Once the founder has departed, systems and structures can be introduced.

Berenbeim (1990) studies 20 firms which have completed the transition from founder management to professional management. He identifies critical steps and issues in the transition of family businesses from direct supervision to “professional” management. He also identifies issues that are critical to professionalization. Several of the issues he identifies are related to the manner and the timing of the founder’s departure. He finds that the withdrawal of the founder is a critical event and needs to be managed as such. He finds that it is important that structures and processes are in place to assure the continuity of the business without this specific person as coordinator of the different interest groups. Finally, the preparation of the
succession process is critical in assuring that the departure from day-to-day business is timely and unequivocal (Berenbeim, 1990).

The selection and preparation of a successor is also critical. In the first place, he finds that it is necessary to have heirs to assure continuance. However, too many heirs can complicate decision making. The heir needs to undergo rigorous training to assume his responsibility (Berenbeim, 1990).

In addition, clarification of the role of the family in the family business is important to the process of professionalization. According to Berenbeim (1990), it is critical to avoid confusion of family and company roles. Also, the uncoupling of proprietary concerns from managerial concerns and distinguishing between these two interests is important in the context of role clarity. Finally, mechanisms for the resolution of family-level matters are crucial for clarification (Berenbeim, 1990).

The introduction of governance mechanisms and establishing management accountability is the last critical moment in the process of professionalization. Berenbeim (1990) finds that a clear statement of principles on key issues concerning management accountability is important. Management decisions and fundamental values regarding matters of corporate governance, investment/divestment, management of financial resources, employee relations and selection of top managers must be defined. It is important that the board of directors have an active role in managing the business (Berenbeim, 1990).

In his work on the development of family businesses in the U.K., Francis (1991) researches the development of family businesses from beginnings as family businesses into financially controlled institutions. He finds that family businesses develop as professional management and/or financial capital is introduced into the business. He goes on to reveal that only a very small number of families can avoid losing control to outside managers and financial institutions as owners of the business. Francis provides evidence that there is a tendency for family businesses to professionalize during their development (1991).

From this research we learn about mechanisms that family businesses introduce during their transition from a founder/owner managed business to an organization based on systems, structures and roles. Research findings coincide in the importance of the removal of the founder and the eventual professionalization of the business (Francis, 1991).

The number of issues that have been identified as critical to moving from a leadership-driven organizational model to a professional management-driven organizational model can make a transition complex. The factors that have been identified provide an understanding of what is necessary in terms of mechanisms and structures.

However, extant research does not illustrate how these systems and structures need to be adapted to family businesses. It has also not been made clear which of these issues is of relative importance and has the strongest impact in the professionalization of the family
business. Finally, this view addresses the phenomenon of introducing structures and systems into family business from a very general perspective. In this sense, this research is just scratching the surface of the more significant issues involved in introducing specific structures and processes. In this context, research on the application of management and control systems in family businesses can further shed light on the matter under investigation.

2.3.5.2 Governance of Family Business

One of the widely accepted and legally prescribed practices for many corporations is the appointment of a board of directors to assure the proper governance of businesses. In the context of non-family businesses, a board is often assigned to control management and assure that the interest of the shareholder is protected.

In the context of the family business, the situation is potentially different, as it is characterized by a significant overlap of managers, owners and family. This reduces the agency problem involved in the separation of ownership and management and implies a lesser need to make management accountable to the owners of the business. On the other hand, a family business could face governance challenges that are different from those in non-family businesses. This would imply that the boards of family businesses have different tasks and/or work differently from non-family business boards. This might also imply that the governance mechanism would be used in a different manner in family businesses compared to non-family businesses.

Initially there has been much doubt about the functioning of many boards of family businesses (Barach, 1984). Research has set out to understand the effectiveness of boards in the first place and then to improve the functioning of family boards (Ward 1988b).

The majority of researchers have concerned themselves with the composition of the board, i.e. whether to choose inside or outside members. Jain (1980) finds that outside directors can be helpful to small companies in the development of public relations, mediation on a wide range of internal issues, and providing expertise in different areas. Along the same lines, Whisler (1988) finds in his study that outside directors are helpful. Ford (1988) provides evidence that outside directors are perceived as more effective than inside board members. In agreement with the above, Schwarz and Barnes (1991) find strong support for the inclusion of outsiders as members of family-firm boards. Outsiders provide unbiased views and help in establishing networks. Ward and Handy (1988) find that 48% of family firms have outside directors on their boards. Firms find that having outsiders on their board is useful for advice and counsel.

Ward and Handy (1988) provide evidence for significant limitations of family business boards, as only 2% of their respondents reported the usefulness of the board in succession planning (Ward & Handy, 1988). In their survey on Italian business board practices, Corbetta and Tomaselli (1996) find evidence that the board is mainly concerned with matters of
business decision-making, failing to cover matters related to family concerns. To quote them: “For example, the problem of succession is given only a very limited amount of time (1%), and the overall amount of time devoted to family related issues is hardly higher than 12%. With so little time devoted to the issue, it seems difficult to imagine that the board can act as a bridge between the family and the business…” (Corbetta & Tomaselli, 1996, 414). This is not related to the composition of the board. Also, outsiders were found not to be helpful in day-to-day operations and the resolution of family conflict (Schartz & Barnes, 1991).

Overall, these studies provide evidence that the adaptation of board practices has spread widely among family businesses and that, within the context of family businesses, boards offer an important mechanism to assure the accountability of managers to the shareholders. These studies illustrate that, although the board mechanism is useful to the management of family businesses, there are still significant limitations to the ability of the board to govern family business. A board does not address all specific family business “content” issues like succession and “process” issues like conflict among family members.

2.3.5.3 Planning in Family Businesses

Planning is an important activity in managing any business. If there is an important difference between family businesses and non-family businesses, we should observe the issue of planning first and foremost. In this case, planning should either focus on different issues or follow a different process than in non-family businesses. Also, if this planning for important family business-specific issues is critical to a family business, there could be some impact and a correlation to the development and/or performance of the family business.

It has been asserted that strategic planning in family businesses needs to follow a specific process in terms of the steps that are necessary to produce a result (Ward, 1988a; Harris, Martinez & Ward, 1994). Ward (1988a) suggests that for strategic planning in the family business, “the ideal starting point for the planning process is the family itself. The first step is for the family to establish its level of commitment to the future of the business … Is the family willing to sacrifice short-term material gains in order to invest the money in the business? Will family members spend the time it takes to build the business? …(Ward, 1988a, 193)”. He also asserts that family-level processes are critical to the planning exercise, pointing to the importance of family communication in planning (Ward, 1988a).

With succession being a major source of uncertainty and a decision of long-term impact in family businesses, many authors suggest just how critical it is to plan for such a succession (Salomon & Lockhardt, 1980; Malone, 1989; Ward, 1988a). This makes succession a specific planning issue with strategic importance for family (Sharma, Chrisman & Chua, 1997).

In order to understand the importance of succession planning in family businesses, researchers have investigated whether succession planning, itself, makes a difference in preparing for a better succession and whether it has an impact on the family business. Some
evidence has been provided to support the idea that succession planning promises positive benefits for family businesses. For example, Salomon & Lockhardt (1980) find that families that maintain a future orientation and plan for the transfer of holdings are successful in maintaining rich and what they call “respectful” family relationships. So initial evidence supports the hypothesis that succession planning might have an important positive impact on the family business.

However, that there is no “simple” association between succession planning and successful succession is illustrated by the research of Malone (1989). He finds that the level of strategic planning, perceived family harmony, presence of outsiders on the board of directors, and the internal locus of control in an owner/manager are positively associated with high levels of continuity planning. His study finds a significant correlation between the size of the business or age of owners and the level of continuity planning, making succession planning not only a singular exercise but placing it within the wider contexts of organization planning, management, governance and strategy. Jones (1982) compares family firms engaged in strategic planning to those that are not. Family firms that undertake planning engage in environment scanning, identifying future opportunities and involving family members in the planning process. These firms are more successful than those that do not engage in planning. Again, succession planning is correlated to other variables.

These findings point to the importance of planning by taking into account the specific characteristics of family businesses, e.g. planning for succession. Succession, as such, probably does not stand as a single influencing factor but is correlated with many other “managerial” mechanisms introduced and adapted to the needs of the family business.

2.3.5.4 The Family Protocol

The specific governance and planning necessities of family businesses limit the usefulness of the standard board of directors and standard planning methodologies in the context of family businesses.

The recognition of this limitation has led researchers in the area of family business to propose the introduction of a family business-specific governance instrument which assures that these specific needs are addressed (Gallo, 2000). Similarly, authors have suggested implementing instruments and mechanisms that allow family businesses to plan for specific aspects in the family business (Harris, Martinez & Ward, 1994).

One tool which has been observed to be prevalent and used by many family business consultants due to its impact on the overall family business is the family protocol. The family protocol is a specific instrument of formalized family and business planning based on Ward’s proposals and approach toward strategic planning in the family business. It combines strategic planning and the incorporation of family issues in the business planning process.
It addresses the fact that family members need to reach an agreement on how to confront the challenges of running a family business. It provides a process for family members that allows for smoother decision making and reduces the potential for the negative impact of conflict. Several researchers coincide in their belief that results need to be consolidated in a document (Gallo, 2000).

Despite some differences among authors, there appear to be similarities in the definition of these findings regarding the content of the family protocol. There is agreement on the fact that the document should include a definition of the rights and obligations of ownership, a description of the mechanisms for the transfer of ownership in the family business and a clarification of the importance of shareholder meetings. In addition, issues that are critical to the interaction of family and business such as compensation, the use of the firm’s resources in the family, communication rules, and mechanisms to resolve conflict are included (Gallo, 2000).

There is wide agreement that the process of composing these protocols is much more important than their content, as the protocol invites family members to buy into the family business vision, reinforcing their sense of ownership of the decisions and documents (Gallo, 2000).

There is agreement throughout the field of family business that a specific mechanism needs to be created to address the issues of planning and governance in the context of family businesses. This need to plan for family business specifics illustrates, once again, that these characteristics set them apart from non-family businesses. A practice has been designed to address these needs for governance in the context of content and process overlap in family businesses.

2.3.5.5 Systems and Structures of Family Businesses

In this research stream, researchers try to understand when family businesses introduce certain control structures and how this compares to non-family businesses. They find that family businesses introduce systems and structures at a later juncture than non-family businesses, relying on less formalized and complex structures at the outset.

With his study, Geeraerts (1984) is the first to provide evidence that there is actually a difference between the organizational structures and systems that family businesses apply and those of non-family businesses. In his study, Geeraerts (1984) creates controls for size differences between family businesses and non-family businesses in addition to evaluating issues of family/owner managed and professionally managed firms. He finds that all owner-successor and founder-successor managed businesses are similar in terms of the organizational structures adopted and differ more significantly jointly from professionally managed firms. In addition, he finds that firms that are professionally managed adopt more differentiated structures and systems. At the same time, professionally managed firms are
more horizontally differentiated; more formalized and have a higher level of internal specialization when they are managed by professional managers.

Daily and Dollinger (1993, 1994) investigate the extent to which family firms and non-family firms differ regarding the structural, process, and performance dimensions of their professional counterparts. They provide evidence for significant differences between these two groups on structural and process dimensions. They find that family firms use significantly fewer formal internal control systems. This may be due to the fact that the family prefers to maintain personal control rather than rely on impersonal, formalized procedures to monitor employee behaviors and firm processes (1993, 1994). However, one drawback of their study is the relative size difference between family businesses and non-family businesses in their sample. Unfortunately, the non-family firms were significantly larger than the family firms. Therefore, they offer size as an alternative explanation for their findings, while size has not been controlled in the explanation of difference in control systems adapted by family businesses.

Moores and Mula (2000) study the application of market, bureaucracy and clan-based control mechanisms during the evolution of family businesses. They differentiate between clan-based, bureaucracy-based and market-based coordination mechanisms. They conceptualize the development of family business as an advance through the following stages: entrepreneurial, collectivity, control, and elaboration of structures and adaptation. Their findings support their general proposition of the dominance of a particular control strategy that coincides with each stage of development, establishing a relationship between the control mechanisms applied and the developmental stage the overall business is in. They find that family businesses, in their beginning phases, apply clan-based mechanisms. They then move to bureaucracy-based mechanisms before finally applying market-based mechanisms when they become a more complex organization.

The evidence provided by Moore and Mula (2000) supports findings on changes in the organizational structure during the development of family businesses, as described in the multigenerational models. The systems that family businesses apply are closely related to the stage of development the family business has reached, indicating that not all family businesses adapt similar structures. Instead, different family businesses adapt similar and different structures according to their development.

Overall, there has been some evidence provided that family businesses apply management mechanisms. These mechanisms applied in family businesses are different from those of non-family businesses, as family businesses rely less on formalization. According to the findings of researchers, family businesses rely on more centralized management systems.

In the context of family business, it can be concluded that, like non-family businesses, family businesses rely on structures and control systems. They do not rely exclusively on management through the direct supervision of the founder and/or family members. Family businesses support direct supervision with structures and processes. In addition, these
mechanisms are adapted according to the ownership/governance structure of the family business. Again, this illustrates their relationship to the specific management and ownership structure of the family business. Therefore, it is possible to observe the effect of the management/ownership structure on the control and management mechanisms adopted by the family business.

2.3.6 **Family Business Strategy**

The ultimate impact a family can have on a business is on the overall strategic positioning in their markets. One of the key tasks of the board of directors (and/or other representatives of the businesses shareholders) and top management of any business, whether a family business or a non-family business, is making of strategic decisions. Therefore, the strategic positioning of a family business might be different due to its specific characteristics. This might imply a specific conduct in their product or factor markets.

The area of strategic management in family business has been virtually overlooked (Harris, Martinez & Ward, 1994; Sharma, Christman & Chua, 1997; Wortman, 1994; Ward, 1988b). Only a small amount of research has been undertaken in attempts to understand strategic management and strategic positioning in family businesses. However, extant research can highlight the differentiating characteristics of family businesses. Looking at differences in the strategic positioning of family businesses, it is possible to understand general differences between family businesses and non-family businesses. The choice and implementation of specific strategies in the context of family business can help to understand potential differences between family businesses.

2.3.6.1 **Strategic positioning of family businesses**

Despite gaps in research, theorists have repeatedly asserted that strategic planning processes and the resulting strategies of family firms differ significantly from the processes and strategies of non-family firms (Ward, 1988a; Harris, Martinez & Ward, 1994). These differences are argued to have a significant impact on the strategic decision-making and the outcomes of strategic decisions for these organizations.

Researchers have begun to examine issues related to family firm strategy. In their review of strategic literature to family business, Harris, Martinez and Ward (1994) provide a list of those family business characteristics that may be advantageous for family businesses. These include the following:

(a) Slower growth and less participation in global markets (Gallo, 1995)
(b) Long-term commitment (Danco, 1975)
(c) Less capital intensive (Friedman & Freidman, 1994)
(d) Importance of family harmony (Trostel & Nichols, 1982)
(e) Lower cost (Walker & Henderson, 1993)
Although this list of observations has been provided, the impact of these factors has not been specified, and an analysis of how common these factors are among family businesses has not been undertaken.

Recently, research has been extended to understand and assess the competitive advantage of family firms, applying the resources-based view (Barney, 1986; 1991; Conner, 1991; Cool & Schendel, 1988; Habbershon & Williams, 1999; Nelson, 1991; Nelson & Winter, 1982; Teece, Pisano & Shuen, 1990; Wenerfeld, 1984). The resource-based view of the firm provides a theoretical framework for understanding the potential relationship between family firm-specific processes, sustained competitive advantage and performance for the family firm. According to the resource-based view provided in strategic management, assets need to have specific characteristics to enable a business to generate sustainable above-average rents. It, therefore, provides the logic of how family business-specific characteristics could actually impact strategic positioning, competitive advantage, and performance differentials in their respective industries.

Family businesses could hold specific resources at the organizational level that are associated with the specific governance and management structures that might qualify as a strategic resource according to the resource-based view. The decision making process in family business as well as the nature of controls and organizational structure might give the family business a specific strategic advantage which could also result in idiosyncratic firm strategies and sustained superior performance.

Without providing empirical evidence, authors have asserted, that specific human resources or human resource management approaches of family businesses might be the basis for the development of such resources and/or organizational characteristics and (Habbershon & Williams, 1999).

In a related stream of research, studies have compared the strategies pursued by family businesses and non-family businesses to evaluate whether there are significant differences between the strategies pursued by family firms and non-family firms.

Daily and Dollinger (1993, 1994) investigate the extent to which family firms and non-family firms differ regarding their strategic positioning. They find significant differences between these two groups in terms of the strategies pursued. They find that family firms are more likely to follow a defender strategy and less likely to follow a reactor strategy than non-family firms. This implies that there is a difference in terms of strategic positioning of family businesses. This also implies that family firms are less likely to engage in growth oriented strategies. This finding is consistent with anecdotal evidence supporting the fact that family firms engage in less risky
and less aggressive strategies than non-family businesses. In this case, the specific characteristics of family businesses result in a competitive disadvantage.

Donckels and Froehlich (1991) have studied the values, attitudes, goals and strategies of small and medium-sized businesses in different European countries. The results identified differences in strategic behaviors based on ownership structure. Results suggested that family businesses are more risk averse, especially in the area of innovation. They find that family businesses value and pursue the goal of financial independence. Donckels and Froehlich also provide evidence that family businesses are less growth-oriented, rely less on socioeconomic networks, and are generally more conservative in choosing strategic alternatives. However, in terms of functional strategies, family businesses do not differ to a large degree from non-family businesses.

Daily and Thompson (1994) examine the relationship between ownership structure, firm strategy and growth of family businesses. They do not find significant differences in the strategic posture between family and non-family businesses. They base their conclusion on different ownership/management structures, differentiating between 2nd generation family firms, founder managed firms, owner managed firms and professionally managed firms. In addition, they do not find an effect of ownership structure or strategic posture on firm growth. These results are inconsistent with prior studies. However, the results of the study are of limited validity and cannot be generalized due to the sample size of 122 firms, of which less than 13 firms were professionally managed businesses.

Gudmudson, Hartman and Tower (1999) do not find support for the hypothesis that family and non-family firms differ in their strategic orientations. However, they do find some differences across industries, e.g. family businesses emphasis industry leadership less when selling consumer goods than when selling industrial goods.

As the discussion illustrates, family business literature describes the influences of the family on the strategy of the business implemented. However, it does not show how family characteristics influence the strategic positions adapted. Results of initial empirical evidence do not provide conclusive results on whether or not family businesses are different in their strategic positioning. These results neither refute nor confirm this hypothesis. Instead, they suggest that the relationship between ownership and strategic positioning may be more complex than initially assumed. Research in this area has not moved beyond anecdotal evidence and initial cross-section studies. Some studies confirm the anecdotal evidence and assertions commonly accepted within the field of family business. However, evidence is inconsistent due to the different operation of variables and the limited accounting for mediating variables such as industry context.
2.3.6.2 Internationalization of Family Businesses as a Specific Growth Strategy.

One of the competitive challenges family businesses confront is the globalization of the economy. Family businesses need to expand their business activities internationally in product and/or factor markets (Gallo & Garcia-Pont, 1996). In terms of business strategy, the internationalization of businesses is a critical question of the business’s product, and/or factor market scope. Therefore, understanding the impact of family characteristics on the decision to diversify geographically could help to understand the impact on one dimension of strategic positioning in the family business.

Although a substantial amount of literature addresses growth and internationalization of large and global enterprises, family businesses have not been given similar attention. Still, it is one of the strategic choices for family businesses, which has received at least some, although limited, attention (Wortman, 1984; Davis & Harveston, 1999). By understanding the relationship between specific family-level characteristics and the internationalization of family businesses, it is possible to understand the impact and the consequences that characteristics of family businesses have on their own competitive positioning. This might further our understanding of the significance of differences between family businesses and non-family business.

Gallo and Sveen (1991) are the first to identify that internationalization represents a significant change for the family business. They assert that family businesses are probably slower to embrace internationalization, especially during the first and the second generations. They point out the fact that the strategies and objectives pursued by family businesses are narrowly focused on customer needs in local markets. This hinders the internationalization of family business. The organizational characteristics of family businesses do more to hinder than to help internationalization. On one hand, family members are not able to understand the relevance of internationalization. On the other hand, family members are not interested in pursuing internationalization, as new managers must be recruited, and/or organizational change will reduce their power. Finally, structures and systems of family businesses are usually not prepared to support internationalization. However, strong management in family business can be a lever to promote internationalization. In addition, the interest of family members to increase their role in the business leads them to embark on internationalization. Gallo and Sven identify the family business culture as a limiting factor, as it is embedded in the local environment. Finally, in this initial and exploratory study, Gallo and Sveen find that the generation in which the business is and the characteristics that the family have are associated with the degree of internationalization of the family business. With this study, Gallo and Sveen (1991) are the first to provide evidence of differences between family businesses and non-family business with respect to the internationalization of operations.

In their sample, Gallo and Estapé (1992) identified that family businesses started the internationalization process later and pursued internationalization slower than non-family
businesses. Gallo and Estapé (1992) provide initial tentative evidence for a difference in the internationalization of family business.

Davis and Harverston (1999) provide evidence for the hypothesis that the internationalization of a first generation founder-managed family businesses is associated with the age and the level of education of the founder as well as the investment into technology and the use of the internet. They provide evidence that the characteristics of the founder have a significant impact on the geographic strategy pursued by a family business.

Building on the work of Gallo and Sveen (1991), Gallo and Garcia-Pont (1996) undertake a cross-sectional analysis of family business internationalization. They further specify factors at the family business level which drive and inhibit the internationalization of family businesses. Gallo and Garcia-Pont confirm that family businesses focus on their product development in their home market with a specific technological disadvantage. The application of this specific technological advantage seems to be at the root of internationalization of the family businesses. At the same time, they find that latter generation family businesses have a higher degree of internationalization.

In their study, they identify the uncertainties generated in the context of internationalization as being among the key hindrances to the family business. When a family member lives in one of these other countries this uncertainty is reduced significantly, and the internationalization of family business is, thereby, facilitated. They find that a core rigidity arises from opposition within the family business that resists internationalization. In this study, Gallo and Garcia-Pont (1996) provide evidence supporting the fact that characteristics at the family level influence the geographic scope of the strategy pursued by the family businesses, confirming findings from earlier work.

Okoroafo (1999) surveys family businesses in the United States for their international activity. He finds that family businesses do not monitor the international market place and do not establish international business relationships. He also suggests that family businesses export less than other firms in the same region (51% versus 60%). This study does not move beyond statistical evidence, and it does not provide explanations for the differences between family businesses and non-family businesses.

Gallo et al. (2002) find three variables to determine the success of internationalization of family businesses. First, these businesses need a product with superior potential to serve as the engine of internationalization. Second, they need to have the will to expand the business, although this might put strain on the resources of the family business. Finally, they need to carry out the adaptation of the organizational structure to ensure and support this growth. It was also found that in order to internationalize the family business with speed and efficiency, a high level of commitment towards the internationalization strategy, self confidence, and the development of the required management capabilities were all critical. Those businesses that lack these capabilities could develop and internationalize them later.
Overall, these studies provide evidence that family businesses internationalize differently than non-family businesses in that they tend to do it later. It has been asserted that the structure of family businesses has specific advantages, and/or disadvantages that promote or hinder their internationalization. Specifically, the characteristics both of the leader and the family have been identified as having an impact on the internationalization of the family business. These studies also provide evidence that the organizational structures adapted by family businesses hinder internationalization, as the organizational structures necessary to support such internationalization are not provided.

How family business internationalization is related to the characteristics of family businesses has not been studied as of now, although different elements for this have been proposed. We can conclude that family business can be assumed to be different regarding their positioning in international markets. At the same time, however, we have not understood how this is connected to the specific characteristics of the family business.

2.3.6.3 Family Business and IOC

IOC is one of the options of businesses in order to pursue their internationalization (Parke, 1991; Tallman & Shenkar, 1994). Although IOC appears to be a relevant phenomenon within family businesses this area is virtually unexplored in academic work (Gallo et al. 2002; Wortman, 1994). Up to now, most samples focus on the joint ventures of multinational corporations and global strategic alliances (e.g. Parkhe, 1991). Only one study has empirically analyzed family businesses in its sample (Renfort, 1974). Only a small number of papers has analyzed the phenomenon in the family business context (e.g. Gallo et al, 2001). This lack of research in IOC does not reflect the relevance of this alternative form of undertaking business activities in the context of family business.

Research on family business has provided anecdotal and initial empirical evidence that point to the fact that family businesses are different from non-family businesses. The content of decisions as well as the decision-making process are different due to the overlap of family and business. Change in the leadership of the family businesses, or succession, is highly critical for the development of the family business. Also, organizational structures and systems adopted by family businesses as well as strategies pursued can be hypothesized to set family businesses apart from non-family businesses. The impact is significant in that the strategic positioning of family businesses might be different from the strategic positioning pursued by non-family businesses. Family businesses adopt less risky strategies and pursue internationalization differently than non-family businesses. Therefore, family businesses offer a different organizational context in which IOC is pursued.

That the organizational context matters during venture formation and venture evolution in IOC has received limited attention in the existing research on IOC. Some authors have argued that organizational characteristics might have an important impact during IOCV
formation (Gulati, 1995; Parkhe, 1993c; Tallman & Shenkar, 1994). It has also been argued that partner characteristics are critical during the development of IOCVs (Doz, 1995, Hall, 1984; Parkhe, 1991; Pucik, 1988, Ring & Van de Ven, 1994). Finally, decision-making characteristics have been linked to the outcome of IOC (Fornell, Lorange & Roos, 1990). However, up to now, little empirical evidence has been provided on how the organizational context influences the formation and development of IOCVs. With the exception of two studies, IOC in the context of family business has not received any attention at all (Rentfort, 1974; Gallo et al., 2002).

The organizational characteristics of family businesses could have an impact on the formation of IOCV. The decision to form an IOCV can be assumed to be the result of a complex decision-making process (Fornell, Lorange & Roos, 1990; Tallman & Shenkar, 1994). This decision-making process is influenced by a large number of organizational-level variables. Most models of IOC conceptualize the organization as a Unitarian, single minded rational actor, abstracting from the actual decision-making process. However, actors matter in the context of IOC, as “champions” are critical during the formation of the IOCV (Tallman & Shenkar, 1994). These actors have different degrees of access to information by virtue of their divisional, functional and interpersonal affiliations. Also, perceived benefits and costs of IOC might vary. The role of individual discretion is also critical in the context of IOC due to the importance of the champion in the IOCV formation process.

Therefore, organizational aspects can play an important role, and differences related to the specific organizational characteristics of family businesses might have a significant impact on the decision to enter into an IOCV (Fornell, Lorange & Roos, 1990; Tallman & Shenkar, 1994). In this line, Gallo et al. argue that due to the involvement of family members in the family business and in the IOCV, family business characteristics could influence partner selection and the legal form of the IOCV. Family businesses might have an interest in dominating the IOCV to ensure control over the venture and, therefore, adopt specific legal structures. Also, family members could play a critical role as “champion” in the IOCV as board members or managers within the IOCV (Gallo et al., 2002).

In addition, due to organizational characteristics, family businesses could display different patterns in IOCV formation than their non-family business counterparts. The specific governance structures and management practices in family businesses, with their higher degree of centralized decision making and less formalized structures, could have an impact in the formation of IOCVs (Gallo et al., 2002).

Also, organizational characteristics could have an impact on the evolution of IOCVs (for a review: Parkhe, 1991). In the context of IOC, partner characteristics have received attention. It has been argued that diversity of partner characteristics can render interaction in an IOCV ineffective. In the context of IOC, both management practices and organization have received attention (Hall, 1984; Pucik, 1988). Among the major differences that have been noted are the
style of management (participatory or authoritarian), delegation of responsibility (high or low),
decision making (centralized and decentralized), and reliance on formal planning and control
systems (high and low)." Parkhe (1991, 590).

It has been hypothesized that these characteristics, when leading to diversity, will be
negatively related to the longevity of the IOCV. Therefore, it could be argued that IOCVs
between family businesses and non-family businesses are difficult to pursue due to the
organizational differences between the two types. On the other hand, IOCVs among family
businesses might face fewer difficulties due to the similarities of their parent organizations.

In longitudinal studies, organizational characteristics also have been found to be
important in the evolution of IOCVs. Doz (1996), for example, finds that learning regarding the
partner characteristics, specifically regarding routines and tasks in the context of IOC, is critical
to the evolution of IOCVs. Learning leads to an assessment of how well-suited the partners’
routines are to the tasks that need to be performed and how to make them more effective. This
learning allows the partners to modify the initial conditions of their alliance in order to make it
increasingly effective over time (Doz, 1996).

In addition, it has been suggested that organizational characteristics are critical in the
context of learning within IOCs. The less formalized and the more flexible the IOCV, the easier
it is for the partner to engage in behavioral learning, as there is enough flexibility to adjust
organizational structures and systems to those matters that are relevant in making the IOCV
more efficient. Also, the importance of family members and their ability to implement decisions
rapidly due to the centralization of power and decision making might play an important role in
the development of IOCVs. This assumption is based on the idea that they might be able to
undertake the necessary changes more rapidly and, thereby, exhibit faster behavioral learning
(Lyles & Salk, 1996; Lane, Salk & Lyles, 2001).

Ring and Van de Ven (1994) study the developmental processes of cooperative inter-
organizational relationships. They argue that endogenous safeguards are critical to
cooperative inter-organizational relationships. These endogenous safeguards are the result of
the interpersonal relationships emerging between the primary actors during the development of
the IOC. However, in organizations there will be a difference between role and personal
relationships, as persons may act as agents of their organizations. In the context of family
businesses, family members involved in the formation and development of IOCVs are also
potentially the principals of the organizations when acting on their behalf. Therefore, they might
rely to a lesser extent on formalized contracts or external safeguards, as they are the
principles of the organization. In the context of IOC of family businesses and due to the
involvement of family members therein, the reliance and development of endogenous
safeguards might be significantly different than is the case with non-family businesses. This
might lead to a faster emergence of endogenous safeguards, as the relationship is
institutionalized quickly through (a) personal relationships, which increasingly supplement
weakly-developed formal role contracts, and (b) psychological contracts which increasingly substitute for formal legal contracts, and (c) formal agreements which increasingly mirror informal understanding and commitments. This development and institutionalization might take on different forms in organizations where managers are from family businesses rather than non-family businesses.

Finally, there might be a relationship between the organizational characteristics of family businesses and the outcomes of IOCVs. Fornell, Lorange and Roos (1990) study the venture formation process. They research how the strategic decision-making process at the parent company level influences the performance of the collaborative venture. They find that internal commitment to and consensus regarding the cooperative venture within the parent firm have a substantial direct, as well indirect, influence on subsequent performance. With the higher degree of centralization of decision-making within family business, it might be more possible to obtain a high degree of internal commitment to a strategic option than it would be within non-family businesses. Due to this effect, once family businesses have committed themselves to pursue IOCVs, they might have a higher possibility for success due to the ease with which internal commitment towards an IOCV can be achieved.

Overall, extant research on family businesses and IOC suggests that family business characteristics could have an effect on the formation, development and outcome of IOCVs. The differences inherent in family businesses, the relevance of IOC to family businesses and the potential of family businesses as partners in IOCVs, make it worthwhile to study the formation, development and outcome of IOCVs among family businesses.

2.3.7 Conclusions

Family Businesses represent an organizational context in which IOCVs differ from the organizational contexts investigated up to now. This prevalent type of business is relevant in today's economies around the world, both in developing and developed countries.

As stated in the introduction to this chapter, research in the area of family business is in many respects still scratching the surface. It is still undeveloped in terms of the methodologies used and the conclusiveness of findings regarding the subject of family business.

However, research in the field of family business converges strongly and provides evidence that family businesses are significantly different from non-family businesses in those aspects concerning ownership structure and management. They are also different in terms of the processes surrounding the upper echelons of these organizations.

It has also been argued that, due to the overlap of family and business interests and the concentration of power in the founder, family businesses are quite different from non-family businesses. This makes the relationship of family members and the issue of succession critical for family businesses.
The adaptation of management practices to the specific necessities of family businesses is also critical, as family businesses adapt organizational structures and processes that are different from those of non-family businesses (they are less complex, more informal and more centralized). Family businesses apply governance structures differently than non-family businesses do, and they might introduce processes and mechanisms that are specific to the context of family businesses. They would do this to compensate for the shortcomings of those mechanisms that are widely adapted by non-family businesses to the requirements of their own context.

The question of whether the specific characteristics of family businesses make them different in their strategic positioning from non-family businesses has not been resolved due to contradicting empirical evidence. Internationalization has received some attention as one dimension of strategic positioning, with initial evidence underlining the fact that some family business-specific characteristics have an impact on this dimension of strategic choice and, therefore, should have an impact on overall strategic positioning.

However, IOC is critical for family businesses, as the latter are competing across many industries and facing important financial and managerial resource limitations. They may also be interesting partners for other businesses. This makes strategic alliances of family businesses an interesting research issue. It is as a neglected area, yet it is relevant to the strategy of family businesses and an interesting issue for the field of family business. It might also provide additional evidence regarding the management practices applied by family businesses, the functioning of the family business as such, and the impact of family business characteristics on strategic alliances.
3 Methodology

3.1 Introduction

IOC is “a major topic of interest and relevance in the present organizational world” (Smith, Carroll & Ashford, 1995: 20). However, there is little evidence on the development and dynamics of collaborative agreements or the development of relational dimensions, especially governance structures and the processes which occur at the organizational level (Parkhe, 1993a; Smith, Carroll & Ashford, 1995; Yan & Gray, 1994). Researchers recognize the need for qualitative research that allows for better understanding of important issues in the development of collaborative ventures (Parkhe, 1993a; Smith, Carroll & Ashford, 1995).

The research methodology chosen in this dissertation is a retrospective, longitudinal, qualitative case study design occurring at several research sites. It addresses these proposals as well as the limited knowledge regarding IOC in family businesses.

Since there is a relative scarcity in the number of studies with longitudinal designs that move beyond the formation of IOCVs and scrutinize variables other than instability and performance, we can still expect to contribute to the growing body of research.

One of the key criticisms in the field of family business involves the lack of rigor often displayed in undertaking such studies. Often times, criteria for sample selection are not stated, data-gathering methodologies are not explained, underlying assumptions are not brought to light and study limitations are not made explicit (Wortman, 1994; Handler, 1989). This study attempts to improve on these points through a clear consideration of methodological questions and explicit explanation of the methodology applied.
3.2 Methodological Choice

There is no one research design that is always appropriate. Thus, the researcher's choice is critical. The choice of methodology is determined by the research question, the nature of the phenomenon and extant knowledge (Miles & Hubermann, 1984; Miller, 1992: 21; Yin, 1989). Our research design is based on case study design, as this is an appropriate methodology for theory development when the understanding of the real world phenomenon is limited (Yin, 1981). As this dissertation deals with events that occur over time, a longitudinal and retrospective approach was chosen. The data gathered and analyzed is qualitative. In order to make the study more robust, multiple cases were analyzed.

Patterns of causality are extremely complex in most real world administrative situations, inter-organizational collaborative relationships and family businesses (Hamel, 1991; Parkhe, 1991). In these situations, a deductive-analytical approach forces the researcher to reduce the phenomenon by defining proxies for difficult-to-measure concepts, to ignore much of the multi-causal causality of relationships and to narrow the scope of research so that theory can be employed to analyze the research problem. The strength of this approach lies in the power of abstraction in the underlying theories. One of the dangers in following deductive logic is that much of the potential value of research in understanding the real world phenomenon can be lost. This occurs when abstractions force the researcher to focus on issues that are of little apparent relevance to actual practice (Hamel, 1991). In the areas of strategic management, strategic alliances and family business, this represents a rather important criticism, as these fields are not characterized by their theoretical elegance, but by their relevance to practice (Hamel, 1989; Parkhe, 1991; Rumelt, Schendel & Teece, 1994).

Current arguments on research in IOCVs claim that a sufficient understanding of the important aspects of the phenomenon has yet to be reached and that, in order to advance research, theory generation through more exploratory studies is needed before further deductive studies can be applied to the research phenomenon (Hamel, 1991; Parkhe, 1991). In the area of family business, there is still a rather limited understanding of the phenomenon of which studies have only scratched the surface in many ways. This is especially important in the area of IOC where, up to now, we have not moved beyond the generation of hypothesis (Gallo et al., 2002; Handler, 1989; Wortman, 1994).

In this situation, case study methodology appears to be the appropriate choice for two reasons. Good theoretical work demands some familiarity with the phenomenon under investigation on the part of the researcher (Roethlisberger, 1977). Case study designs facilitate this familiarity by using direct observation, personal interviews, as well as document and archival sources to gather data. It also forces the researcher to immerse himself in the study's environment.
Case study methodology also appears to offer advantages in researching exploratory and theory-generating research questions. Such methodology allows for the study of operational links between concepts over time, rather than observing frequencies and incidents. In studying contemporary events such as IOC, case study research allows for the use of direct observation and interviewing in addition to historical sources, thereby offering the researcher additional data-gathering opportunities. Finally, through careful sampling, case study allows the researcher to undertake quasi-experimental research. However, the research setting cannot be controlled, nor can the behavior for this research be simulated (Yin, 1989).

This study uses a multiple case design that allows for the replication of findings in several case studies. A serious of cases is treated as a serious of experiments, each case serving to confirm or disconfirm the inferences drawn from the other cases. The goal is to obtain more compelling evidence and make the overall study more robust. To achieve this, the selection of the individual case sites is critical, as it determines variation across cases and the ability to generalize findings to an overall population (Yin, 1981; Eisenhardt, 1989, 1991).

The study’s research design is longitudinal, as it focuses on events that occur at different points in time. Some events have occurred in the past, and others are still ongoing in the present. This approach allows the researcher to make inferences and develop propositions about effects over time regarding the phenomenon studied (Yan & Gray, 1994; Yin, 1989).

The study is retrospective, and several reasons precipitated this decision. First, an observation of the development of IOC is beyond the resources of a single doctoral dissertation. Second, direct observation might cause observer effects. Third, the study’s data-intensity could lead to access requirements and, therefore, to biases in research site selection. Finally, the confidentiality of strategic decisions in strategic alliances limits opportunities for direct observation.

Strategic decisions take time (Pinfield 1986; Quinn, 1980), and their occurrence is difficult to predict. These decisions tend to occur discontinuously (Mintzberg, 1973; 1978), and strategic alliances usually develop over many years (Doz, 1996; Yan & Gray, 1994). This renders real time longitudinal observation unfeasible. Historically, it has also proven extremely difficult not to influence ongoing processes in real time studies and maintain a legitimate presence in the field. It has been shown that managers quickly become accustomed to seeking advice from researchers and asking them to intervene in the process as a quid-pro-quo for allowing further observations (Doz, 1996; Mintzberg, 1973; Roehtlisberger, 1977).

Finally, access considerations are an important issue. Organizations’ and informants’ willingness to report information about their individual experiences and grant access to the researcher might be related to the performance of the organization and research-related inter-organizational issues. Inter-organizational conflict (Yan & Gray, 1994) in the alliance and intra-organizational politics might exclude companies from a data-intensive sampling. Organizations with unlimited resources who perceive themselves as outstanding performers might be willing
to collaborate in more data-intensive studies. Finally, confidentiality issues play an important role. When decisions are ongoing, the researcher needs to develop much rapport with the involved organization, limiting access opportunities. This poses restrictions and limits the opportunities for direct observation. Therefore, the retrospective case study design proved most appropriate in choosing a methodology.

The study uses an embedded design in which analysis within cases and across cases occurs on several levels, as addressed by the research question. In this dissertation, several levels are included: (1) organizational characteristics of the family business, (2) organizational decision-making in the family business, (3) specific strategic decisions and (4) development of a strategic alliance. This allows for the separation of effects at the various levels of analysis (Yin, 1989).

For the purpose of this study, the choice was made to start with a structured research framework that would fit without the constraints of deductive methodology (Miles & Hubermann, 1984). The data gathered in the field was mainly of a qualitative nature, and no scaling systems were developed to quantify the available data. The advantage of such an approach is that fewer “reduced” data are maintained in the form of basic “code words”. Thus, the researcher refers back to the basic code of the information (Miles & Hubermann, 1984).

The qualitative approach to data gathering is often criticized as lacking rigor and, as a methodology, is easily criticized on the grounds of meta-methodological considerations (Gunnarson, 1991). To counter these criticisms, this study follows the rigorous case study methodologies suggested by Yin (1989) and Eisenhardt (1989, 1991) as well as data analysis methodologies suggested by Miles and Hubermann (1984). In addition, we attempt to be as explicit as possible within the limits of the confidentiality agreements with the organizations, the development of the framework, the fieldwork, the data, and the analysis of data.
3.3 The Overall Approach

Before entering the field, a research framework was defined by drawing upon literature on strategic alliances, family business and strategic decision-making, as presented in the prior chapters of this dissertation. The rational for defining this research framework was to give greater focus to the research and data-gathering effort in order to avoid being overwhelmed by the volume of data (Eisenhardt, 1989, 1991; Mintzberg, 1979; Miles & Huberman, 1984). Access considerations and the limited time of the informants also made us consider a relatively structured approach. For the selected elements, extant research underlined the potential importance of the concepts for this study.

In the second step, the organizations and relevant data sources for the study were defined. Several criteria were used to limit extraneous variation and to define the generalizing limits of the study. However, several tradeoffs had to be made.

Simultaneously, the instruments for data gathering were developed. These instruments were relatively structured questionnaires to be used in interviews with managers of the organizations being studied (see Appendix #1). These interview guides were critically reviewed by three IESE faculty members with experience in qualitative research methodology, qualitative research in family business and qualitative research in strategic alliances. Access to several organizations was also negotiated at this time.

After these preparations, we entered the field to conduct interviews and gather data at the different research sites. The analysis of the data from the cases began in December 1996, parallel to the process of gathering further data in order to take advantage of data-gathering flexibility (Eisenhardt, 1989, 1991; Glaser & Strauss, 1967; Miles & Huberman, 1984). Initially, this was limited to within-case analysis, following the methodologies proposed by Miles and Hubermann (1984).

The next step was the generation of write-ups for each of the research sites, which are included as case descriptions in the second part of this dissertation. These write-ups were reviewed by the informants to ensure a clear understanding of the data at the company level (Quinn, 1980). The initial case write-ups were finished in summer 1997. Later we began with cross-case analysis, again following the methodologies proposed by Miles and Hubermann (1984).

This process was repeated in beginning of spring 2002 and ended in summer of 2002 for those businesses where access could be reestablished.

From the case write-ups, the results of within-case analysis, the results of the cross-case analysis as well as extant literature, propositions were developed.
3.4 **Case Selection**

In this dissertation, we undertake the case analysis of three joint ventures of Spanish family businesses. The table describes the major characteristics of the family businesses and the partnerships analyzed. The names of companies and individuals have been changed to ensure confidentiality.

We considered several factors in selecting the cases. First, the businesses we selected were businesses of significant size, as we were not interested in small family businesses of a semiprofessional or artisan-like character.

Second, we selected family businesses that were (or were about to become) at least second-generation family businesses in order to avoid entrepreneurial ventures that might not endure after the founder left the business.

We selected businesses that had concentrated their activities in defined, single sectors so as to ensure that the relationship between holding and strategic alliance companies was not merely a financial one. We also sought businesses in which there were interdependencies between the alliance and the family business in terms of operations, technology, and/or clients.

We aimed at family businesses that had a well-defined holding structure so that, based on the position of individual business managers, it was clear who the key decision makers were. It was with these managers that we arranged interviews before entering the company and compared similar organizational contexts.

In addition, the family businesses chosen for this study were limited to Spanish family businesses in order to avoid extraneous variation that might be derived from differences between business cultures across countries.

Finally, access to the informants proved to be an important consideration. By nature of the study’s design, we needed the attention of managers involved in family matters as well as the formation and management of the alliances. This was a critical consideration, as top managers have little time, and strategic decisions require an important degree of confidentiality (Quinn, 1980).

Access considerations did not allow us to maintain a high level of consistency in terms of partner nationality or the external industry environment. The alliances eventually chosen for this study represent among the very first cases wherein family businesses agreed to be interviewed and provide access to internal decision-making regarding strategic planning and the creation of alliances (For a description of the sample see Tables 3-1, 3-2, 3-3, 3-4).

We approached seven large family businesses, of which three agreed to participate in the study. Initial discussions with the four family businesses that declined to participate helped
us gain a deeper understanding of important issues at the family and inter-organizational level which, in turn, helped us further refine the research instruments.

### Table 3-1: Company Characteristics – Description of Family Businesses Included

<table>
<thead>
<tr>
<th>Company</th>
<th>Carparts</th>
<th>Leather</th>
<th>Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>diversified producer of car parts</td>
<td>diversified tanner of animal skins</td>
<td>diversified road transportation and logistics services provider</td>
</tr>
<tr>
<td>Holding-Structure</td>
<td>Holding company with horizontally related subsidiaries</td>
<td>Holding company with vertically related subsidiaries</td>
<td>Holding company with horizontally related subsidiaries</td>
</tr>
<tr>
<td>Alliance Experience</td>
<td>several domestic and foreign international joint ventures over the last few decades</td>
<td>several domestic and foreign international joint ventures over the last few decades</td>
<td>one international joint venture and several national and international IOCVs</td>
</tr>
</tbody>
</table>

### Table 3-2: Company Characteristics – Involvement of Family of Family Businesses Included

<table>
<thead>
<tr>
<th>Family</th>
<th>Carparts</th>
<th>Leather</th>
<th>Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>90% ownership in the two families running the business</td>
<td>60% family ownership</td>
<td>100% family ownership, with founder holding largest majority of the company.</td>
</tr>
<tr>
<td>Board</td>
<td>families are represented in the board of directors</td>
<td>family is represented in the board of directors</td>
<td>family is represented in the board of directors</td>
</tr>
<tr>
<td>Management</td>
<td>several family members hold management positions in the business, both at the holding and subsidiary level</td>
<td>several family members hold management positions in the business, both at the holding and subsidiary level</td>
<td>one offspring works in the company and the second offspring is expected to enter the business at the holding level</td>
</tr>
<tr>
<td>Generation</td>
<td>second generation</td>
<td>beyond third generation family business</td>
<td>first/second generation family business</td>
</tr>
</tbody>
</table>

### Table 3-3: IOCV Characteristics of Family Businesses Included

<table>
<thead>
<tr>
<th>Alliance</th>
<th>Carparts</th>
<th>Leather products</th>
<th>Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>car parts</td>
<td>tanning</td>
<td>road transportation</td>
</tr>
<tr>
<td>Partner</td>
<td>German Family Business</td>
<td>Greek entrepreneur, later Greek export bank (contributed besides capital)</td>
<td>German Family Business</td>
</tr>
<tr>
<td>Formation</td>
<td>beginning of the 1980's</td>
<td>end of the 1960's</td>
<td>beginning of the 1980's</td>
</tr>
<tr>
<td>Participation</td>
<td>50% / 50%</td>
<td>initial 50% / 50%, changing later</td>
<td>50% / 50%</td>
</tr>
</tbody>
</table>
Table 3-4: Strategic Decisions of IOCV of Family Businesses Included

<table>
<thead>
<tr>
<th>Decisions</th>
<th>Carparts</th>
<th>Leather</th>
<th>Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Formation of the joint-venture</td>
<td>Formation of the joint venture</td>
<td>Formation of the joint venture</td>
</tr>
<tr>
<td>(2)</td>
<td>Changing the product market of the joint venture</td>
<td>Changing the partner of the joint venture</td>
<td>Internationalization of the joint venture</td>
</tr>
<tr>
<td>(3)</td>
<td>Changing the plant strategy of the joint venture</td>
<td>New investment into the joint venture</td>
<td>Changes in the internal structure of the joint venture</td>
</tr>
<tr>
<td>(4)</td>
<td>-----</td>
<td>-----</td>
<td>Changes in the organizational structure of the joint venture</td>
</tr>
</tbody>
</table>

3.5 Data Collection

The data addressing the research questions were gathered from three sources: interviews, documentation and archival records. These three different research strategies were used to different extents, depending on the research site.

The main sources of data were the interviews with executives of the different organizations. These interviews were pre-structured using questionnaires. Company internal documents and archival records were collected using different sources, according to the access granted by each company. Obtaining access to direct observations proved difficult. Documents and records were used to triangulate the information obtained in the interviews.

3.5.1 Personal Interviews

Interviews were conducted with informants responsible for strategy formulation and management of strategic alliances. Wherever access was granted, family members were interviewed. When access was not granted, managers closely related to family members were chosen as informants. The key consideration was interviewing informants that had participated directly in the formation, negotiation and management of strategic alliances. The interviews ranged between 45 minutes and three hours. The average interview lasted about one hour and fifteen minutes. See table for the distribution of the interviews.

The first on-site interview was always with a manager who had been designated as the contact to help coordinate the study at the company. During this interview, we obtained background information on the company, its history, the current strategy pursued, the
involvement of the family, the alliance strategy followed by the company, and descriptions of the company's strategic alliances.

The remaining interviews included ones in which we were able to meet with managers involved in the holding company. In each company, we managed to interview several managers at the corporate center of the family business, a fact that distinguishes this study from other studies in Family Business. However, we were not able to secure many interviews with presidents and CEO's because of their time limitations and our limited status as researchers (for an overview of interviews conducted see Table 3-5).

As the interviews progressed within a company, less time was spent on learning about the company and its alliances in general, and more time was spent on the details of the selected alliance and selected decisions. As the relationships developed, it was possible to solicit more sensitive information regarding the different aspects of the investigation.

Data collection at a site was terminated when no new information surfaced regarding that site or when the companies did not grant additional interviews of their partners.

**Table 3-5: Interviews Conducted**

<table>
<thead>
<tr>
<th>Company</th>
<th>Interviewees</th>
<th>Taped Interviews</th>
<th>Total Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carparts</td>
<td>President</td>
<td>seven</td>
<td>nine</td>
</tr>
<tr>
<td></td>
<td>Divisional Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-Family Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leather</td>
<td>Family Manager of Alliances</td>
<td>ten</td>
<td>twelve</td>
</tr>
<tr>
<td></td>
<td>Non-Family Manager of Alliances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>Head of Finance</td>
<td>eight</td>
<td>eleven</td>
</tr>
<tr>
<td></td>
<td>Head of Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>External Consultant</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3.5.2 Interview Protocols

The first part of the research question, concerning the association of alliance characteristics and organizational characteristics with strategic decision making, was addressed by gathering and analyzing information on alliance strategy, family business characteristics and strategic decision making. First, information about the family business’s alliance was gathered. The data included information about the characteristics of the family business such as ownership structure, involvement of family members in the board of directors, involvement of family members in the management structure of the business, and involvement of family members in the alliances and alliance management. It was also asked whether there had been important changes in these areas in the company’s past. Information about the alliances themselves was collected as well. Such information included the alliance’s activities, characteristics of the alliance partner, contributions of these partners to the alliance, objectives of the partners in the alliance, ownership and management structure of the alliance,
and the history of the alliance. Third, information was gathered concerning standard operating procedures in decision making within the strategic alliance. This information included the managers involved, procedures followed, and criteria applied to decision making (see interview guides: #1, #2, #3, #4).

The second part of the research question - how organizational characteristics influence the development of strategic alliances - required in-depth analysis of the development of a strategic alliance in each of the sites. In separate interviews, the history of each alliance was reviewed carefully, gathering information regarding starting conditions, key difficulties in formation and development, key decisions regarding the alliances and development of the alliances after decisions had been undertaken. Here, information similar to that described above was gathered. However, we attempted to establish a timely order for the decision to form the alliance and the development of the alliance. Regarding each of these decisions, data on the necessity of each decision were collected, as were data on decision making and data on the impact of the decision on the overall alliance (see interview guides: #1, #2, #3, #4).

Finally, information regarding specific strategic decisions and their impact on the alliance was gathered. We studied how the decision surfaced, then how alternatives were developed, selected, and authorized. Information gathered regarding the decision’s impact on the strategic alliance included information about the changes in the characteristics of the alliance task, the ownership and management alliance’s structure, and the relationship of the partners in the strategic alliance (see interview guides: #1, #2, #3, #4).

The schedule of interviewing was modified during the investigation. The number of interviews was later increased according to feasibility with respect to managers of the different companies, and the content of the interviews was expanded in order to improve and deepen the understanding of the individual sites for this dissertation. With advancement in fieldwork, the interviews began to follow a more open format, as thinking out loud, open conversation and discussion proved more fruitful than interviews adhering to the questionnaire structure (see interview guides: #1, #2, #3, #4).

3.5.3 Other Sources of Information

Company internal documents and archival records included company promotional material, descriptions of organizational structure, informative flyers, and selected material about the IOCVs. Such material included contracts, letters and faxes exchanged with the alliance partner where companies granted excess to these documents. We were offered some of this material to keep. In other instances, we were asked to consult materials that only remained on company premises. This material was of different availability and accessibility according to the research site. The purpose of gathering this material was to triangulate information obtained in the interviews.
In addition to this, information about the industry, the family businesses, the inter-organizational cooperative agreements and the alliance partners was collected using various databases. These outside sources were included in the case study database. Such material had a varied degree of availability across the different research sites and was used mainly to triangulate the information obtained in the interviews.

Obtaining access for direct observation was not granted in any of the cases. This was not surprising because, in general, strategic decision making is a complex process involving different parts of the organization. It can also be assumed that strategic decisions regarding alliances are confidential due to the negotiation aspects of the decision-making situation. Finally, the importance of family business-related issues and the confidentiality demanded by informants made the systematic use of direct observation across the different organizations difficult. Therefore, we attempted to gain access for direct observation, using only the impressions gained rather than attempting to triangulate observations with other data. Due to the confidentiality of this information, it was not included in the case study database.

3.6 Data Analysis

Data analysis began when we were still in the field and was reinitiated after we entered the field for a second time in 2002. Analysis during data collection allows for the fieldwork cycle to fluctuate back and forth between thinking about the existing data and generating strategies for collecting new and, often, better quality data. It can prove a healthy corrective device for blind spots, and it makes analysis an ongoing, lively enterprise that is linked to the energizing effects of fieldwork. Furthermore, ongoing analysis permits the production of the interim reports that are an essential part of most studies (Miles & Hubermann, 1984).

The first step in data coding was the generation of case write-ups (see part 2 of the dissertation). The next step involved a comparison of the individual cases along the dimensions of the research framework. Finally, a comparison was made of the different case histories.

First, we coded all the data into a number of categories according to the proposed theoretical modal (Yin, 1989). These categories include (1) characteristics of the alliance task, (2) characteristics of the alliance partners, (3) characteristics of the relationship between the alliance partners, (4) characteristics of the family business, and (5) development of the collaborative agreement over time. Table X provides examples of data coding.
Table 3-6: Categories for Coding of Data

<table>
<thead>
<tr>
<th>Coding Categories</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>alliance task</td>
<td>The objective of the alliance was the access to cheap, quality raw materials.</td>
</tr>
<tr>
<td>alliance partners</td>
<td>The partner is a German business that does the same thing we do in Germany.</td>
</tr>
<tr>
<td>relationship between partners</td>
<td>We always had a good relationship with the partners, where we discussed problems and decisions openly.</td>
</tr>
<tr>
<td>development of the collaborative agreement</td>
<td>In 1989, we changed and started not only to sell the products to Spanish customers but also to German customers.</td>
</tr>
</tbody>
</table>

Second, we created subcategories using classifications adopted in previous research, when this was appropriate. For example, differences of the partners were classified along the different categories suggested.

3.7 Validity

The problems regarding the acceptability of case studies within fields where quantitative designs dominate result from the methodological stance that qualitative and quantitative researchers have adopted (Archer, 1988). Critical academics have compared case studies to Rohrschach inkblot tests in which the researcher can arrive at varying results in response to the same research question and the same data (Ragin, 1992). However, there is a wide variety of mechanisms to ensure that the key considerations for reliability and validity are met.

Reliability relates to whether “the operations of a study can be repeated with the same results” (Yin, 1989: 41). Reliability threats, therefore, were minimized by documenting the major steps of this research project, including procedures and techniques used in gathering and analyzing data.

Internal Validity relates to obtaining correct operational measures for the concepts being studied and establishing a causal relationship “whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships” (Yin, 1989: 40). In qualitative research, the primary checks on internal validity occur among informants themselves and between these informants and archival sources, i.e. triangulation. The idea is that multiple and independent measures, if they reach the same conclusion, provide a more accurate portrayal of the phenomenon under study (Jick, 1979). Therefore, only the data that are consistent across informants and sources are reported here.
To assure the accuracy of the interview data, we conducted member checks in which
the original informants verified the individual case studies about their companies and the
development of strategic alliances.

External Validity is concerned with the generalizability of the research findings. Results
of case studies are not generalizable to populations. Therefore, their external validity to an
overall population is limited. However, the development of propositions for future research is
the objective of this research, not the generalization of findings. When using case studies, “the
investigator’s goal is to expand and generalize theories (analytical generalizations) and not to
enumerate frequencies (statistical generalizations)” (Yin, 1989: 21).

For scientific discovery, rigorous statistical generalizations are important. However, in
order to undertake such statistical generalizations, it is necessary to have something on which
to generalize. This something is developed from theoretical elaboration which is later found to
be applicable in specific case settings and/or appropriately sampled settings by means of
statistical hypothesis testing. Theory elaboration, then, needs to be grounded in systematically
gathered and analyzed data (Glaser & Strauss, 1967; Strauss & Corin, 1990, 1994; Mintzberg,
1978; Pettigrew, 1979). Therefore, external validity does not pose a threat to this dissertation.

3.8 Limitations due to Methodological Choice

Several limitations are important in the interpretation of research results and in drawing
subsequent conclusions. These relate, mainly, to the sample selected to conduct the study, the
data available to make inferences and the nature of the informants in the study.

First, the empirical research reported in this dissertation is based on data from
collaborative ventures with Spanish family businesses. Characteristics that are idiosyncratic to
Spanish family businesses, such as national regulatory environment and specific cultural
patterns, may effect the research results. Therefore, generalizations to other collaborative
ventures should be made with caution.

The results of this research cannot be generalized. Achieving generalizability would
require testing across a larger number of Spanish or non-Spanish family businesses. Second,
the strategic alliances selected in this dissertation are all in operation. Therefore, the
dissolution of the IOCVs has not been observed, although the decision to terminate a strategic
alliance represents an important strategic decision. This limits our longitudinal analysis of the
evolution and strategic decision making of these IOCVs.

The analysis conducted in this dissertation is partly based on retrospective data, which
might have introduced an additional source of bias resulting from faulty memory or
retrospective sense-making on the part of the informants. However, this problem is not critical
because, in most cases and for most variables, multiple sources of data were available and data triangulation among the sources revealed a high level of consistency.

3.9 Presentation of Results

The results of the data-gathering and data-analysis process will be presented in the second and the third part of the dissertation.

The first step in data analysis was the production of individual case studies. The objective of this step is to display data in a structured fashion, to allow verification through informants and prepare further analysis. The results will be presented in the appendix with an emphasis on data description.

The second step in the analysis involves a within-case analysis. This step includes an initial systematization of the findings, using the pre-defined conceptual framework. It is followed by an analysis of the development of the different strategic alliances. Finally, the timely interaction of the framework elements will be studied. The goal of this analytical step is to draw and verify conclusions about a single case.

The third step involves an analysis across the different sites and along the different variables of the conceptual framework employed in this study. The analysis will occur at the decision level, the alliance level and the business level.
4 Results

4.1 Introduction

This chapter will present the findings of the analysis and comparison of the three cases. Although the logic of analytic induction was strictly followed – the cases were analyzed one by one in an incremental manner – because of space limitations, we report only the final version of the model. The data is displayed in the appendix of this doctoral dissertation.

In the following to these paragraphs we will review each of the categories and variables found to be of importance and compare them across the different cases, highlighting key concepts of the constructs and what we observed in the data. For better reading Table 4-1 illustrates the overall model derived from the cases studied.

Table 4-1: Model
4.2 Antecedents to Formation, Adaptation and Development of IOCVs.

Across the three cases, we identified several antecedent factors that were critical to the formation, adaptation and development of the IOCVs during their lifetime. Four factors were found to be critical to the foundation and the development of the IOCVs:

(1) Availability of endogenous safeguards to the partner. This dimension captures to which extent and how the partner had developed endogenous safeguards prior to the formation or adaptation of the IOCV. The availability of endogenous safeguards varied across the cases, and captures to which extent the partners were able to rely on mechanisms of internal ordering in the management of the IOCV. The availability of endogenous safeguards was negatively associated with the degree of reliance on exogenous safeguards (contracts) in the governance and management of the IOCV.

(2) Complexity of operations and resulting requirements for coordination. This dimension captures the complexity of the operation in establishing and achieving the desired outputs in the IOCV. This dimension captures the challenges in making the IOCV operational after its foundation or adaptation. These requirements arise from the need to integrate the contributions of the venture partners into the IOCV and/or to integrate the venture processes with the processes of one or both of the partners to achieve the desired outputs of the IOCV.

(3) Exposure of investments to potential ex-post bargaining. This dimension captures the transaction cost associated with the investment undertaken in the IOCV. The dimension focuses on the degree to which the investments undertaken by the partner were subject to potential ex-post bargaining. The initial and incremental investments undertaken by the partners in the IOCVs had different characteristics. Some initial investments were large, risky and specific in nature making them subject to significant ex-post opportunism and bargaining by its partner. Other initial and incremental investments did not have any of these characteristics, as they were rather small, little risk associated with them, and were not specific of the IOCV.

(4) Characteristics of Corporate Context. This dimension captures the characteristics of the corporate context. Two dimensions were observed to be critical in the context of IOC. One dimension describes the mechanisms through which the IOCV was managed, whether the parent relied on formal mechanisms and/or direct supervision. The second dimension observed to be critical in the context of the management of the IOCVs was the centralization/decentralization of the decision making regarding the IOCV.
4.2.1 **Availability of Endogenous Safeguards to the Partner**

Evidence supported the importance of the availability of endogenous safeguards as an antecedent to the formation and adaptation of the IOCV. The availability of endogenous safeguards varied across the cases, and captures to which extend the partners were able to rely on mechanisms of internal ordering in the management of the IOCV. The availability of endogenous safeguards was negatively associated with the degree of reliance on exogenous safeguards (contracts) in the governance and management of the IOCV.

Partners relied to a highly varying degree on endogenous safeguards. Some relied significantly on internal ordering prior to adapting the IOCV, while other partners relied on exogenous safeguards in the IOCV. We also observed that endogenous safeguards during the formation of the IOCV could not be developed by the partners on short notice, but were available or were not available. These endogenous safeguards could develop either in the context of longer collaboration, or could be provided by outside partners. In the case where neither an ongoing relationship between the partners existed, no endogenous safeguards to rely upon could be developed in short time. Endogenous safeguards could not be developed readily and easily. This made their availability antecedents to the formation and adaptation of the IOCV (see Table 4-2: Availability of Endogenous Safeguards).

In the case of TRANSPORT during the foundation and later during the development of the IOCV, the Spanish family business relied to a significant extend on endogenous safeguards. Conflicts were resolved relying on internal ordering making contracts less important in this context. The internal safeguards had been developed among the partners prior to the formation in the exchange of traffic and gained in significance during the development of the IOCV as the partners relied endogenous safeguards to resolve conflicts.

Endogenous safeguards were also available in the case of CARPARTS. Although in that context they were not developed among the partners prior to joint venture formation, but were provided through an outsider, who had proposed to use an IOCV to enter the Spanish market. Also this outsider had provided potential partners in the Spanish market, and was willing to source as the first customer from the IOCV. In this case of a brokered relationship the endogenous safeguards were provided through an outsider. Later these endogenous safeguards developed further, as the partners operated the IOCV and gained further importance in the governance of the venture.

In the third case, the case of LEATHER, there was no reliance on endogenous safeguards during the formation of the IOCV. Nor did these endogenous safeguards develop during the lifetime of the IOCV. LEATHER relied from the initiation of the IOCV heavily on exogenous safeguards. During the formation of the joint venture neither of the partners had developed these safeguards as the partners had not maintained any business relationship prior to the formation of the IOCV. Nor were these safeguards provided through an outsider, as
the outsider involved in the formation of the IOCV was just providing the contacts between the two organizations, but did not get involved in the matchmaking between the partners. Also endogenous safeguards did not emerge among the partners of the IOCV.

Table 4-2: Availability of Endogenous Safeguards

<table>
<thead>
<tr>
<th>Safeguards</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>RELIANCE</td>
<td>SIGNIFICANT</td>
<td>SOME</td>
<td>NONE</td>
</tr>
<tr>
<td>RELIANCE</td>
<td>Early in the partnership partners rely on endogenous mechanisms in managing and resolving conflicts.</td>
<td>Early in the partnership, partners establish both exogenous basis for collaboration with availability of endogenous mechanisms.</td>
<td>Partners at no point in time rely on endogenous mechanisms, always operate via contracts.</td>
</tr>
</tbody>
</table>

4.2.2 Complexity of Operations and Resulting Requirements for Coordination.

We also observed that the complexity and the implied necessity for increased coordination among the partners was a critical antecedent to the formation and adaptation of the IOCV. This dimension captures the challenges in making the IOCV operational after its foundation or adaptation. These requirements arise from the need to integrate the contributions of the venture partners into the IOCV and/or to integrate the venture processes with the processes of one or both of the partners to achieve the desired outputs of the IOCV.

The needs to coordinate the operative activities among the partners in order to get the IOCV operational and to generate the potential benefits of the venture, were quite different for the three cases studied. In some IOCV the need for coordination was very low, as the activities of the partners neither require joint production, nor the set-up of a joint production facility. In other cases the need for coordination was important, as partners had to set-up a joint facility, and/or had to coordinate the activities of the IOCV along the value chain. The operations were vertically integrated, and down-stream divisions depend on the products of the IOCV.

In one case the need for operational coordination was very low, as the interdependence between the partners was low, due to the nature of the car transport business. On the contrary in the other two cases the interdependence of the partners in coordinating operative activities
was rather high. In one case both parties needed to integrate their contributions (local know how and production technology) in the start-up of a new facility, to assure the cost competitive production of the final product car keys. In the second case the coordination of the different contributions of the partners was embedded in a more complex context, as the operation was assumed to produce inputs for downstream divisions. This lead to a higher need for operational coordination beyond the production process and demanded more coordination in the operation of the IOCV (see Table 4-3: Operative Requirements of IOCV).

In the case of TRANSPORT, the need for coordination at the operative level was limited during the formation and the adaptation of the IOCV. Initially the partners were committing a small number of trucks, which were subject to the load assignment process each of the partners was applying for his side of the traffic pipeline between the German and the Spanish market. Later this was extended to new markets. Further there was little interdependence and little need to coordinate the production process of both companies. Later the network operated was extended. However the key complexity still remained in assigning different trucks to routes and loads, not increasing the need for inter-organizational coordination significantly among the partners.

On the contrary in the situation of LEATHER the partners had to take into consideration two aspects in managing the IOCV. On one hand it was critical to operate the plant to achieve a high level of output quality. This required that the partners coordinated their activities in the setup and operation of the initial plant. The contribution of one partner in terms of his local knowledge, and of the second partner in terms of his technical knowledge had to be integrated in the setup of the plant. In addition after this initial integration was achieved and the plant would be operated, the operation of the plant would have to be integrated into the overall operation of the LEATHER group in order to assure quality inputs to the downstream divisions of LEATHER. It is important to recognize that the quality of the output of the IOCV, was critical to the downstream divisions of LEATHER. This complicated the task of setting up and establishing the IOCV and asked for addition coordination of operating activities after the IOCV had started to operate.

In the case of CARPARTS the partners had similar to the case of LEATHER to deal with the integration of production technology and the ability to manage in a Spanish environment, as the partners had to integrated local knowledge and foreign production technology in the start-up of a new plant. But as the key manufacturing venture was an independent unit; a new business to enter into for CARPARTS, and dealing with specific contracts in the Spanish market for the German partner, neither inputs nor outputs were transferred to the German partner or the Spanish parent. This made the need for operational coordination important during the start up of the venture, but not so critical during the operation of the IOCV. In this sense the CARPARTS case, covers an intermediate position, compared to the other two cases.
Table 4-3: Operative Requirements of IOCV

<table>
<thead>
<tr>
<th>Operative Requirements</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>complexity and interdependence of IOCV operations</td>
<td>SIMPLE</td>
<td>LIMITED</td>
<td>COMPLEX</td>
</tr>
<tr>
<td>Little interdependence among business units and pattern of operation rather simple.</td>
<td>Division requires coordination at the divisional level, however no interdependence with other operative units in group.</td>
<td>Due to difficult to observe quality of products, and high interdependence of downstream and upstream divisions in determining product quality.</td>
<td></td>
</tr>
</tbody>
</table>

4.2.3 Exposure of Investments to Potential Ex-Post Bargaining

The initial and incremental contributions of the Spanish partner differed significantly in the degree it was subject to potential ex-post bargaining by its partner. One of the key antecedents to the development of the IOCV were the characteristics of the investments that needed to be undertaken by the partners during the formation and the incremental investment of the partners during the adaptation of the IOCV.

The initial and incremental investments undertaken by the partners in the IOCVs had different characteristics. In one case the initial investments were large, risky and specific in nature making them subject to significant ex-post opportunism and bargaining by its partner. In another case the initial and incremental investments did not have any of these characteristics, as they were rather small, little risk associated with them, and were not specific of the IOCV. The third case displayed these characteristics to a limited degree.

Size of Investment. The initial and incremental investments between the partners in the joint venture differed in terms of the size of the investment that both partners needed to undertake in the joint venture (see Table 4-4: Exposure of Investments to Ex-Post Bargaining).

In the case of TRANSPORT the initial investment undertaken by the partners were small, as each company had to invest eight trucks into the joint venture. For both of these companies this did not represent even more than 2% of the overall transport capacity of the overall company. It was therefore negligible from an overall business view. Incremental
investments were similarly of small size in absolute terms (with the exception of the investment into the French facility) and in relative terms regarding the IOCV.

In the case of LEATHER the initial investment was valued at approximately 10 million PTAs, which at the time the joint venture was formed represented an important overall investment for the Spanish company and for the Greek bank involved in the joint venture. The contribution of the second Greek partner was also important as he contributed his existing operation to the joint venture. This was perceived as a significant financial commitment made by the Spanish family business, and also a significant investment in the context to the overall operations of LEATHER. In addition, incremental investments would have required significant investments.

In the case of CARPARTS’s joint venture with HUF the company had invested into a plant for approximately 60 employees, which represented for both companies with more than 1,000 total employees each, a small overall plant size and therefore a rather medium overall investment. Also, the start of the second plant required a medium investment.

*Specificity of Investment.* The starting conditions of the three joint ventures in the study also differed regarding the characteristics of the investments that needed to be undertaken by the partners. In some of the inter-organizational collaborative relationships the investments reflected irreversible commitments of resources to the joint venture, making it difficult for the partners to revert their decision to enter into a joint venture. In other cases the commitment of the assets to the joint venture was easily reversible, such that both partners could undo the joint venture at limited cost (see Table 4-4: Exposure of Investments to Ex-Post Bargaining).

In the case of TRANSPORT, the joint investment into trucks represented a non-specific initial investment, as each company could use eight trucks without any difficulty in its other operating areas. The trucks could be transferred without any difficulties to the TRANSPORT car transport business, as their capacity could be compensated through a reduction of on a daily basis externally contracted “spots”. This did not change significantly as the partners expanded operations, as incremental investments were not specific.

In the case of LEATHER the initial investment was specific to the operation in Greece, the companies investment was site specific. It could not be removed from the production site once it was set up. Also the equipment was specific to the tanning industry, such that there was little alternative use of the equipment. The equipment had been partly developed by LEATHER, making it also specific in terms of the training of key employees. Last but not least, there were a small number of partners in Greece that would have been able to manage such a production site, making a sale of the operation and/or change of partner difficult. Any later changes in the plant would have been specific to the plant, and therefore specific in themselves.
In the case of CARPARTS the investment was site specific to a limited extent. Investments into equipment were made, which could only be reversed with difficulty, as movements would lead to the incursion of significant cost. The equipment installed was therefore somewhat specific to the venture and site. However, there were other potential companies in Spain that could have been able to manage a plant in the Spanish market, as during its formation the plant had a customer, and this customer was also willing to work with other Spanish partners. Therefore the investments undertaken by CARPARTS was less specific than the investments undertaken by LEATHER and more specific than the investments undertaken by TRANSPORT. This also applied to the incremental investments, which would be made into the plant, and for the start of a second plant.

*Uncertainties involved in the initial investment.* In the case of the joint ventures the levels of uncertainty associated with the investments into the joint ventures was rather different. One of the IOCVs had already assured customer contracts, and the partners had already worked with another. In another case, the partners had a joint customer. In the third case uncertainty was very high, as the partners had not worked jointly, and as customers still had to be procured. (see Table 4-4: Exposure of Investments to Ex-Post Bargaining).

In the case of TRANSPORT, the partners invested in a rather certain business opportunity. Both partners invested these eight trucks as they had found that there was a sufficient traffic volume on the route and that the trucks could be utilized at a high loading factor without important difficulties. The partners had established the potential of the business opportunity, as they had operated the route prior to venture formation. Also the partners had developed a structure of how to interact in the joint venture, both in terms of coordinating the business operations and in terms of inter-organizational coordination and decision making. Overall, the formation decision was characterized by very limited uncertainty concerning, the potential of the collaborative venture as such and the operation of the venture. Also incremental investments were only undertaken when market demand had been ascertained and an initial contract had been obtained, such that the short-term use of these assets was assured. The only exception to this approach, was the investment into plant and property equipment in France, which was important to address the French market.

In the case of the LEATHER group the situation was rather different. The partners had little indications about the potential of their investment. One reason was related to the characteristic of the industry, prices, sales volumes and supply availability varied much in the markets for raw material and final products. Another issue was that the partners did not know much about each other’s ability to fulfill the agreed regarding their contributions to the joint venture. Finally, neither the mechanisms to coordinate the operating nor the mechanisms for inter-organizational coordination had been tested before the joint venture was formed. Overall, the situation was characterized by a high degree of uncertainty regarding partner characteristics, regarding the business opportunity and the interaction among the partners.
Similarly, due to the nature of the production process incremental investments to be undertaken were rather risky as they implied rather long term horizons as capacity could be adjusted only slowly to demand. However demand and supply markets changed with much volatility over the lifetime of a plant. This made incremental investments risky.

In the case of CARPARTS, the situation was characterized by less uncertainty than in the case of LEATHER, as the relationship between the partners was brokered through a third party, uncertainties were reduced. The broker provided certainty regarding the business opportunity, through his commitment to be a customer of the joint venture. Through his involvement in the formation process (the broker suggested CARPARTS as one of several partners), he showed that there were indications that both organizations had the competencies to fulfill a collaborative agreement. Overall, the situation was characterized by some uncertainty regarding partner characteristics, the mechanisms for interaction among the partners, as the partners had not invested jointly into a plant operation prior to this joint venture. Incremental investments into the production line were undertaken, when a new contract for the provision of looks was obtained. In these situations, there was little uncertainty involved in the investment, as the demand for the final product was ascertained. The investment into the second plant however was more risky for the partners involved in the joint ventures. Here again the initial investment into plant implied some important risks, with regard to the development of demand for this second facility and the suitability of Portugal as a production location.

Overall in the case of TRANSPORT we were dealing with investments which were not exposed to ex post bargaining among the partners in the IOCV, as these assets were not specific to the IOCV and could be deployed elsewhere. This was somewhat different in the case of LEATHER, as here the German partner contributed machinery to the IOCV, which would be costly to move to another location in Spain. However this investment was only somewhat specific to this IOCV, as other partners were available in the Spanish context, and the equipment could actually be transported. Finally in the case of LEATHER the investment was subject to significant ex-post bargaining. This had also been experienced by the parent organization in other IOCVs that LEATHER had formed in other international markets prior to the one formed in Greece.
Table 4-4: Exposure of Investments to Ex-Post Bargaining

<table>
<thead>
<tr>
<th>Investment Characteristics</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>INSIGNIFICANT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments are non-specific to IOCV and are not subject to ex-post opportunism.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments are specific to IOCV and are subject to potential ex-post opportunism.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIGNIFICANT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments are highly specific to IOCV and are not subject to significant ex-post opportunism.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2.4 Corporate Context of the IOCV

One of the key antecedents to the formation and adaptation of the IOCV was the corporate context in which the IOCV was operated. Two dimensions were observed to be critical in the context of IOC. One dimension describes the mechanisms through which the IOCV was managed, whether the parent relied on formal mechanisms and/or informal mechanisms combined with direct supervision. The second dimension observed to be critical in the context of the management of the IOCVs was the centralization/decentralization of the decision making regarding the IOCV.

Formalization of the management of the IOCVs. The three corporate centers managing the IOCV differed significantly in their reliance on informal systems and direct supervision of the operation of the different operating units and their decentralization of decision making. One of the corporate centers was characterized by the reliance on formal systems to a very high degree, informal mechanisms did almost not exist and direct supervision was not used in the context of this IOCV. The other extreme case relied in the management of the different division mainly on direct supervision of the management team, and to a very limited extend on formal mechanisms in the management of the IOCV. The third case applied both formal systems and direct supervision in the management of the IOCVs divisions and direct supervision (see Table 4-5: Corporate Context of IOCV).

In the case of TRANSPORT, formal coordination, planning and control mechanisms to manage the corporate center and to coordinate the different business areas were not developed. The corporate center organization was characterized through direct supervision of
the different divisions of the organization through the management team. For example the organization had no corporate planning and control systems. The management team did not manage according to quantifiable goals, which were linked to their incomes or other incentive systems. There was limited formal planning for the different divisions of the organization, beyond operational planning. Only cash planning was undertaken. Management acted as it saw fit. The planning and coordination systems applied at TRANSPORT were systems for the planning and control of the operations. Overall, TRANSPORT was characterized by little formalization at the corporate center level for the management of the different. Decentralized in the sense that critical and strategic decisions were made by the management team of the IOCV.

This was contrary for the LEATHER group. Here formal planning and control mechanisms formed an important part of the overall corporate management of the group. This is exhibited in the context of the corporate planning, where financial planning and budgeting systems played an important role in the management of the different divisions. Also the coordination across divisions was undertaken through a transfer pricing systems. In addition, the relationships between the corporate center and the operating divisions was managed through the board of directors of the different divisions. The members of the management board were represented on the boards of directors of each of the company's subsidiaries and joint ventures, taking up formal responsibilities. The corporate managers were assigned to those subsidiaries, which were part of their divisions. They represented the interests of the LEATHER group and the interests of their respective divisions. Also the transfer of professional managers across the different divisions underlined the formal structure of the LEATHER organization. There was some planning of the transfer of managers inside the company. Overall, in the case of the LEATHER group, formal mechanisms for the management of the overall group played a more important role.

CARPARTS relied to a stronger extend than TRANSPORT on formal coordination mechanisms across the different divisions. Still, the mechanisms the group relied upon in the management of the overall group were less formalized than the coordination mechanisms used in the LEATHER group. Besides the formal coordination mechanisms, CARPARTS's corporate center promoted the use of informal and “not formalized” relationships in the coordination of the overall group. For example there were planning and coordination system at the corporate center: Planning systems only applied to very specific decisions, mainly investment decisions. Except for the investment decision there were few formal mechanisms. Overall, CARPARTS covered an intermediate position, between the informal and on direct supervision based coordination system applied at TRANSPORT and the more formalized approach to manage the overall group applied at the LEATHER group.

Centralization of the management of the IOCVs. The second dimension capturing the characteristics of the corporate center found to be critical in the context of the IOCV, was the
degree to which critical decisions regarding the IOCV were made at the corporate center versus by the management of the IOCV. On one extreme the venture management effectively made the critical decisions of the IOCV. In a contrary case, critical decisions regarding the IOCV were made at the corporate center, removed from the management of the IOCV. (see Table 4-5: Corporate Context of IOCV).

In the case of TRANSPORT, corporate and joint venture managers were identical. Resource allocation decisions were made at the board of directors level, as the owner as the president of the board of directors, decided which investments for the different business areas were undertaken. The management team made the remaining decisions. This allowed the management team to make key decisions regarding new market-entry, competitive positioning within markets, changes in the value provision and in the relationship with the joint venture partner, without the involvement of the owner. Overall, here important decision making regarding the management of the joint venture was residing with the management team, which managed the day to day operations of the joint venture and was involved in the management of the relationship between the two partners.

Also the management of the IOCV was very centralized in the context of LEATHER. Here the corporate center had created a group of employees that focused on all aspects related to the management of the relationships with the joint venture partners in the groups' different joint ventures. Also for most of the time, a board member was directly involved in the decision-making regarding the management of partner relationships with the collaborating partner organization. This board member exercised close supervision over the joint venture through his involvement in the special unit at the corporate center. Here decision-making concerning the interrelationship between the partners was taken from the operational managers of the joint venture. The key initiative regarding the development of the joint venture came from the corporate center. Also, the decision to exchange the manager of the joint venture was a corporate center decision. Finally, the initiative to relocate the operation was taken at the corporate center. Therefore in the case of LEATHER, we could observe a strong centralization of decision making regarding the joint venture.

In the case of CARPARTS, a divisional manager coordinated all the activities of the joint venture. He was responsible for the relationship of the joint venture to the corporate center. To the corporate center the division manager was responsible for the financial returns and the (sales) development of his division. He was regarded as an entrepreneur, as he had to find and develop new business opportunities. However, he acted within the definition of the business as broadly prescribed by the corporate center of the group. The manager was thereby bound to the wider corporate strategy of the group. This gave him significant decision rights in the context of the joint venture. For example the initiative to undertake changes in the joint venture was his. For example, suggestions for important changes had their origin at this level. CARPARTS reflected characteristics, which were unlike in the case of LEATHER.
However delegation of decision rights did not go as far as in the case of TRANSPORT. In comparison to the other two cases the company represents an intermediate type.

Table 4-5: Corporate Context of IOCV

<table>
<thead>
<tr>
<th>Corporate Context</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>degree of formalization and</td>
<td>INFORMAL &amp; DECENTRALIZED</td>
<td>MIXED</td>
<td>FORMAL &amp; CENTRALIZED</td>
</tr>
<tr>
<td>centralization of corporate</td>
<td>Leading overall group via</td>
<td>Corporate Center relies on some formal planning mechanisms, however units are independent in day-to-day management.</td>
<td></td>
</tr>
<tr>
<td>decision making processes</td>
<td>direct supervision, little</td>
<td></td>
<td>Well established bard structure, with coordination mechanisms and complex legal structures.</td>
</tr>
<tr>
<td>regarding IOVC decisions.</td>
<td>formalized planning and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>management processes.</td>
<td>management processes.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3 Family Business Characteristics

In studying the context of the family business and the corporate center of the Spanish parent to the IOCV, the characteristics of the family involved in the family business and the characteristics of the overall business were reviewed.

Regarding the Family business, we studied the ownership and management configuration of the family business, to understand how the business was controlled and managed. Dimensions which were investigated were (1) age/generation of the family business, (2) number of family members involved in the family business in roles of owners, managers and employees, (3) Concentration of Ownership in the family business and (4) conflict among family members in the family business.

Regarding the characteristics of the corporate center, we studied the size of the family business, and the interrelationship between business units in this context.
4.3.1 Family Business Characteristics

The family business varied in their characteristics regarding age, number of family members involved, ownership structure and conflict among family members (see Table 4-6: Family Business Characteristics).

While one family business was rather simple structured along these dimensions, other family businesses were rather complex in terms of the family involvement. One family business was still in its first generation, with two family members involved and a high degree of ownership concentration giving it a comparatively simple management structure.

On the contrary another family business was several generations old, with multiple generations of family members involved in the family business, distributed ownership structure and significant conflict among family members in the business, resulting in a rather complex ownership-management structure of the family business.

Family Business Characteristics: Age/Generation. The oldest of the three group's included in our sample was LEATHER. The parent company had been founded in the year 1792. The company was over two hundred years old. The company had undergone multiple succession events. The group was in the seventh generation. Family members from the seventh, sixth and fifth generation were involved in the Family Business.

The second older company was CARPARTS, as the company had been founded in 1949. The company was founded by two brothers in law. One of the founders had retired from the company and had no role in the management of the Family business, the second founder was as the president of the CARPARTS group. Eight members of the second generation had been incorporated in the management of the Family.

With some difference in age, however many different characteristics, TRANSPORT was the youngest family business in our sample. The company had been founded in 1954. One member of the second generation had recently been incorporated in the management of the family business. The company had not undergone a succession event, and the second generation had not been incorporated in the management of the family business.

Family Business Characteristics: Number of Family. members involved in the management of the Family Business. In the three family businesses different numbers of family members were involved in the Family business as owners and, or managers.

In the case of TRANSPORT there were two family members involved in the management of the Family business. The father and founder was the president of the board of directors of the family business. He participated in investment decisions taken in the family business. The daughter did not hold a managerial position. She supported the board of directors in its future activities. The third family member, the son was to be incorporated after he finished his studies in economics. No family member had retired from the Family Business. This was the least complex family structure within a business in our sample.
We observed more involvement of Family members in the management of the Family business in the case of CARPARTS. Here nine family members were involved in the management of the Family business. These family members held positions as the president of the group, worked as divisional managers and plant managers, or headed or collaborated in different corporate functions. The younger family members had been incorporated into the family businesses during the last ten years. One family member, one of the initial owner-managers, had retired from the family business.

We observed the strongest involvement of family members in the LEATHER group. Here over the life time of the joint venture a larger number of Family members had been involved in the family business. At times more than 10 family members had been working in the family business. These family members had held positions as presidents of the group, as owner-managers, as heads of the divisions, as plant managers, as managers at the corporate functions of the group. Also positions were changed among family members in the family businesses. In addition, the accumulated number of family members that had worked in a managerial function at the LEATHER group had been many more.

**Family Business Characteristics: Ownership Structure of the Family Businesses.** The importance of ownership structure for organizations has been discussed in the area of agency theory. The coordination of the goals of the owners, the principles, with the decisions of the managers, the agents, has received much attention in the research on organizations. In the area of family business the characteristics of the ownership structure is assumed to have special characteristics that influences the family business characteristics. Therefore we look at the ownership structure of the three family businesses.

The simplest ownership structure of the three businesses studies is represented by TRANSPORT, here the founder owned about 95% of the capital, the remaining was in the hand of his children. This gave the owner full control of the family business. In this case the owner during many years had been involved directly in the management of the family Business. The management team, except for one exception, had worked with him in the family business, before he retired from the direct involvement in the Family business.

The most complex ownership structure was represented in the case of LEATHER. During the development of the joint venture and until the 1990s the company had been owned to equal parts by three brothers involved in the company’s management. Later, at the beginning of the 1990s, this changed as an external investor invested in the group and acquired about 40% of the company’s equity. The Three owners kept their 20% of the ownership of the company. The board of directors was not controlled by the Family, but the voting power was shared among the partners. This had been a condition for the entry of the external investors. In addition, external managers had always held an important role in the Family business. There had always been a large number of managers involved in the
management of the different divisions and activities of the different divisions and operating units.

In the case of CARPARTS the ownership structure was more complex than in the case of TRANSPORT, but less complex than in the case of LEATHER. Here the two founders of the company owned to equal parts about 90% of the overall capital. The remainder was held by friendly outside investors. However, for the near future the management was contemplating to take the company public, to access additional funds to finance the further internationalization of the group. Also outside managers had played an important role in the management of the Family business, however to a lesser extent than in the case of the LEATHER group.

*Family Business Characteristics - Conflict.* Conflict among family members is an important characteristic of Family Businesses. Conflict among family businesses appears to be an important issue, which has even be associated with the failure of Family businesses. This made it an important variable in the study of the family business context of the organization.

In the case of TRANSPORT we did not observe any conflict among family members. In the case of TRANSPORT, it is important to keep in mind that the second family member had entered the business recently in a non-managerial function, and that the third member was to enter the family business in the short term future.

In the case of LEATHER, conflict and difficulties in the management of the Family business relationships were reported in the interviews. Disagreements between the three owning brothers, political struggles and deal making among family members were common. Conflict was perceived by interview partners as an important characteristics of the LEATHER Family Business. The difficulty of resolving it was associated to a poorly functioning board of directors.

In the case of CARPARTS we did not observe any conflict among family members. In interviews managers emphasized that relationships between Family members were harmonious and of little conflict.

*Family Business Characteristics – Complexity of Management Structure.* Overall the three businesses were rather separate in terms of the complexity of the corporate center. While some of the family business centers were rather first generation with a high degree of power concentration other family businesses displayed the characteristics of the distributed family business, with multiple generations involved in the family business.
Table 4-6: Family Business Characteristics

<table>
<thead>
<tr>
<th>Age/Generation</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Generation</td>
<td>IOCV was formed when the family business was in the first generation.</td>
<td>2nd Generation</td>
<td>IOCV was formed when the family business was in the second generation.</td>
</tr>
<tr>
<td>2nd Generation</td>
<td>IOCV was formed when the family business was in the second generation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n-th Generation</td>
<td>IOCV was formed when the family business was in the seventh generation.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Number of Family Members actively participating in management of family business |
|-----------------------------|----------------|----------------|
| Two - Three | Founder and father was directly involved in the management of the family business as a board member. | Nine | Nine family members were involved in the management of the family business. This included roles as board members, managers and non-managerial employees. | Potentially Large |
| | At times more than 15 family members were involved in the management of the family business. This included roles as board members, managers and non-managerial employees. |

| Concentration of Ownership |
|-----------------------------|----------------|----------------|
| Concentrated | Founder controlled more than 90% of equity of the family business. | Closely Held | Two founders controlled more than 90% of equity. Real with friendly partners. | Spread |
| | Equity was spread among family members. Three large family owners kept approximately 20% each. Outside investors had a 40% equity stake. |

| Open Conflicts among Family Members |
|-----------------------------|----------------|----------------|
| None | No conflicts were reported among family members in the business. | None | No conflicts were reported among family members in the business. | Important |
| | Significant conflicts were reported among family members in the business. |

4.3.2 Group Characteristics

Two characteristics of the corporate center appeared to be interesting in the context of the family business. One was the size of the family business, the second was the interrelationship of the different business units managed and owned by the corporate center of the family business corporate center.

**Group Characteristics - Size of the Family Business.** The absolute size of the family business is measured in terms of divisions and subsidiaries, and the number of employees. Size is widely assumed to lead to important managerial challenges within organizations and to lead to increasing formalization within organizations (see Table 4-7: Group Characteristics of the Family Business).

The smallest family business in terms of size in our sample was TRANSPORT. The company had about 500 employees. It was organized into 3 business areas and the corporate center. With these characteristics it had the simplest corporate structure and was the smallest of the three companies studied.

The second largest company at the time this study was undertaken was LEATHER. The group had 950 employees distributed over three divisions. The company at times had had more than 1500 employees, however with the closure and restructuring of its operations since the beginning of the 1990s the company had reduced the number of total employees. The company’s organizational structure included three division as well as several central services. In addition the company at times had coordinated more than 20 operating units in different
geographic locations. The LEATHER group had undergone important shrinking since the beginning of the 1990s which resulted in a reduction of operating units. At the time the joint venture was founded the company was the largest of the three companies studied.

At the time the study was undertaken CARPARTS was the largest company. CARPARTS as a group employed more than 1500 employees. The company had grown steadily from its initiation and had reached this size during the last decade through a tripling of total sales, since its decision to internationalize. At the time the joint venture was formed the company was the second largest of the three family businesses. At the time the company had been founded it had been significantly smaller than the LEATHER group.

**Group Characteristics - Interrelationship among Business Units.** In the area of corporate strategy two kinds of interrelationships are distinguished, one interrelationship represents operating interrelationships, with an operating interdependence between the division of the group in the provision of services and goods. The second type of interrelationships is labeled strategic interrelationships. In the case of strategic interrelationships the interdependencies between the operating units are minimal and the interdependence among the business units refers to the ability of the top management team to manage the different business units of the overall group. As all three companies were concentrating their activities in one sector, we exclude the issue of strategic interrelationships from coding (see Table 4-7: Group Characteristics of the Family Business).

In the case of TRANSPORT interrelationships between the different business areas are low. The key interrelationship represented the "central services" provided to the different companies of the group. This included a common service unit, which serviced the trucks of the different divisions of the overall group. Another shared unit was the corporate center, the management team perceived this as a rather unimportant interrelationship. Overall, there were little interrelationships between the business areas of TRANSPORT.

In the case of LEATHER, the interrelationship among the different units of the overall group was of much importance. The group was dealing with important vertical operating interrelationships between its divisions: The raw materials division provided the key inputs for the production division, which delivered its output to the finishing divisions. Here the degree of interdependence from an operating perspective was rather high. However, this did not apply at the corporate center. The different divisions had few operational interrelationships. Also the corporate center provided central services which were critical to the overall group. Overall, there were important interrelationships between the divisions of the LEATHER group.

In the case of CARPARTS there existed some interrelationships at the corporate center for the overall group. These interrelationships were primarily related to the dealing with the same clients for different areas. However, for the overall company these interrelationships were of a secondary importance.
Table 4-7: Group Characteristics of Family Business

<table>
<thead>
<tr>
<th></th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of Family Business</td>
<td>Small (Less than 500 employees when IOCV was formed.)</td>
<td>Two (More than 500 and less than 1,000 employees when IOCV was formed.)</td>
<td>One (More than 1,000 employees when the IOCV was formed.)</td>
</tr>
<tr>
<td>Interrelationship</td>
<td>Little (Almost no operative interrelationships between business units, except for management and some service facilities.)</td>
<td>Some (Different business units provide products and services to the same clients. Also corporate center drives internationalization strategy for all units (strategic interrelationship).)</td>
<td>Significant (Vertical integration of upstream and downstream business units.)</td>
</tr>
</tbody>
</table>

4.4 Management of the IOCV

Regarding the management of the Family business of the IOCVs, we can observe different patterns. Overall we could observe that the management approach varied differently. Some family businesses took a formal management approach towards the IOCV, relying on exogenous safeguards in the management of the IOCV. Other family businesses relied on endogenous and little formal mechanisms in the management of the IOCV.

Two dimensions could be identified looking at the data collected. They were critical to understand the management of the IOCVs:

1. Source of safeguards in protecting investments: endogenous versus exogenous; and
2. Management of the IOCV: formal versus informal mechanisms.

Finally in preparing and making these decisions, the parent organizations relied to different extent on formal management systems. While some parents could be characterized as highly formalized process, others relied heavily on informal management mechanisms relying on direct supervision, and/or a highly informal approach to managing the units of the business.

Also the reliance on exogenous and endogenous safeguards in implementing these changes was quiet different across the different IOCVs. While some IOCV changes were
accompanied by extended discussion of contractual matters, in others contracts were of secondary importance (see Table 4-8: Management Approach Adopted Towards IOCV).

In the joint venture between TRANSPORT and the German MOSOLF the contractual agreement between the organizations was changed several times. The joint venture itself resulted from a long-term contract between the two organizations. In the first Joint Venture both partners contributed equity as they invested together 50% of the assets through contributing the trucks, which implied a contractual change as the basis during the initiation of the joint venture. Later the two organizations agreed on multiple equity (51%/49%) joint ventures for other geographic markets, which implied the signing of several additional joint venture contracts. These equity relationships where later combined into a global (50%/50%) equity joint venture. Also initially the joint venture was operated as a cost center. Then the joint venture was converted into a profit center, making the distribution of the profit between the partners a critical issue for the joint venture, making contractual changes regarding transfer-pricing mechanisms critical. Contracts in this contrast were according to management of CARPARTS of little importance in the negotiations of the changes. Partners used contracts to mirror changes in the overall business relationship, and contract adaptations did not attract significant management attention. Also when problems arose, contractual issues were rarely discussed, or received attention in the context of dispute settlement.

During the development of the joint venture of TRANSPORT contractual issues were of secondary importance, they followed the changes in the business of the joint venture. Also the managers interviewed at TRANSPORT made little reference to the importance of contractual negotiations. Overall in the case of TRANSPORT we can observe how the contract was adapted to the necessity of the business relationship between the partners.

In the case of TRANSPORT the approach towards the management of the IOCV did not rely on formal mechanisms but exclusively on the direct involvement of the management team in the overall operation. The management team got directly involved in all aspects of the joint venture, as there was no separation between the corporate management team and the operations management team of the joint venture.

In contrast, in the joint venture between the LEATHER group and the group's Greek partners the contract changed little during its overall lifetime. The contract, which had been signed between the partners when the joint venture was formed, had validity in 1996 with no important changes. The contract was critical to the management of the overall relationship between the partners, as much attention was devoted to managing its implications and it was used to resolve disputes among the partners. The alliance team contained several lawyers, who relied heavily on contracts and discussed inter-organizational collaborative issues, drawing heavily on contracts. Overall in the LEATHER case the Spanish partner relied heavily on exogenous safeguards.
In the case of LEATHER, the contract determined in a detailed manner the relationship between the partners of the joint venture. It was as the basis for collaboration among the partners in the joint venture, throughout the joint ventures overall lifetime. It had been the result of lengthy negotiations during the formation of the joint venture. This was consistent with the use of the contract in the management of the inter-organizational collaborative relationship: The contract was used as a mechanism to resolve the conflict among the partners in the joint venture. This made LEATHER a case were the partner relied heavily on formal mechanisms in managing the IOCV.

In the case of LEATHER, the management of the IOCV was driven and managed strongly from the corporate center. A team was dedicated to the management of the different IOCVs and was driving the development of the IOCV. The IOCV was treated within the LEATHER group as any other operation of LEATHER and was subject similar processes and procedures as the other operating units. The corporate team relied heavily on formal mechanisms in managing the IOCV.

For the joint venture of CARPARTS the contract plaid an important role. The partners did not change the contract with which the joint venture had been formed, although some changes had occurred in the joint venture. Important relational issues between the partners were still governed through the contract and remained unchanged over the lifetime of the joint venture.

However, in contrast to the LEATHER case in the actual day to day management of CARPARTS’s joint venture the contract itself played a less important role. The contract was employed as a statement of intent and not a detailed inter-organizational arrangement. The partners made much less use of the contract in the case of CARPARTS than in the case of the LEATHER group.

In the case of CARPARTS intermediate approach could be observed in the management of the IOCV, on one hand relying on formal corporate mechanisms combined with the direct supervision of a manager. On one hand mayor decisions were approved through a board of directors, which consisted of managers from CARPARTS and its partners. This assured some degree of formality in making decisions, as they had to go through formal reviews at the board of directors’ level. However some of the members of the board of directors were directly involved in the management of the IOCV, as they were immediately responsible for the operation of the IOCV. In this context the joint venture had to conform with the corporate rules of the Spanish parent. However through the room given to the venture managers to implement as they saw fit the manager assured that the formal mechanisms could be adapted in the context of the IOCV.
Table 4-8: Management Approach Adopted Towards IOCV

<table>
<thead>
<tr>
<th>Mgmt Mechanisms</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal</td>
<td>Reliance on formal or informal decision making processes by the partner in implementing change in the IOCV. Little reliance on informal decision making processes by the partner in implementing change in the IOCV.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mixed</td>
<td>Discussion and decisions were made in board meetings relying on proposals and formal propositions for the IOCV. Management was based on highly entrepreneurial approach and decentralization.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal</td>
<td>Resolution of proposals and conflict resolution in a highly formal setting. Highly relying on corporate functions and lawyers in conflict resolution.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reliance on safeguards</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endogenous</td>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In order to assure conflict resolution, contracts were not used, discussion and joint problem solving was key.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mixed</td>
<td>Contracts were established to agree on foundation for joint venture. In conflict resolution, contracts were not used. However contracts had boundary function.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exogenous</td>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In conflicts contracts were referred to, they were critical in conflict resolution.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.5 Process of Change in IOCV

Regarding the process how change occurred in the IOCV, we can observe different patterns. Overall we could observe that change processes in the IOCVs varied significantly. We were able to identify different change patterns, some reflecting many changes versus few changes. Also some ventures developed along relatively small changes. Other joint ventures developed along relative large individual changes.

Two dimensions could be identified looking at the data collected. They were critical to understand the development of the IOCVs:
(1) Number of adaptations: many versus few;
(2) Significance of change and size of investment associated with adaptations: small versus large.

The number of strategy changes, we observed across IOCVs varied significantly. While some joint ventures changed their strategic position several times, other IOCVs did not change its strategic positioning during its lifetime.

In addition the changes implemented in the IOCVs differed in their size. In some of the inter-organizational changes the strategic adaptations were rather small, or could be small in the context of the IOCV. In other IOCVs, these changes would have had to be rather large.

Also we could observe a coincidence between the large-few pattern and the many-small pattern. Those IOCVs that changed many times, changed along relative small investment,
while those IOCVs that changed along large decisions did so along relatively few incidents (see Table 4-9: Characteristics of Process of Change of IOCV).

In the case of TRANSPORT, the joint venture changed strategically several times. Initially, the joint venture expanded as the two partners decided to coordinate all their European activities through the joint venture. This lead to the formation of several other joint ventures. In each market additional transport contracts were obtained, each leading to changes of traffic flows for the overall company. This was associated with an assignment of an increasing number of transport capacity to the joint venture, a step-by-step expansion of the joint venture. Also the partners decided to invest into plant, property and equipment in France - a key market. Later the operations were integrated into one IOCV. Finally, with a the loss of cost competitiveness of one joint venture partner, the joint venture was changed from a cost center into a profit center.

In the case of TRANSPORT, the joint venture changed strategically and operationally several times, however all single changes were rather small or medium in size in the context of the development of the IOCV. The initial joint venture, lead to the formation of several joint ventures. In a second strategic change were integrated into an overall group. Finally the joint venture was changed from a cost center into a profit center. In each market additional transport contracts were obtained, each leading to growth of traffic flows for the overall company. This was associated with an assignment of an increasing number of transport capacity to the joint venture, a step-by-step expansion of the joint venture from and the formation of an independent operation. All these changes were relatively unimportant in the moment they were undertaken and lead to small incremental investments. Also they were undertaken in a step-by-step fashion, and lead to an adaptation of the IOCV according to the requirements of the partners.

Overall individually each of these changes was relatively small or of intermediate size for TRANSPORT, as the opening of additional countries and routes was not associated with an investments or the commitment of significant transport capacity. Only with the investment into plant, property and equipment in the French subsidiary, some larger investments were undertaken. Also the integration of the different ventures into one venture was a rather small step in terms of investment and significance.

The case of TRANSPORT adaptations occurred rather often, and individual adaptations were of rather limited size, leading to a pattern of incremental adaptation of the IOCVs.

In the case of LEATHER we could observe only one strategic change, the removal of one Greek partner from the alliance, due to his inability to fulfill contractually agreed tasks. This partner was bought out through the second Greek partner. Afterwards no further strategic changes in the joint venture could be observed, although the reinvestment and the start-up of a second facility would have opened an opportunity to introduce significant strategic change into the IOCV. Several operational changes in the joint venture occurred, including the
reinvestment into production facility and the relocation of the production facility, however they were not exploited in order to adapt the strategy of the IOCV. Overall this IOCV proved to be change few times.

In the case of LEATHER, we observe that in order to implement changes in the strategy of the IOCV rather large investments into property, plant and equipment are required, this made implementing change in this context rather complex. In this context few rather large changes would have had been to undertaken to develop the IOCV. Overall changes in the strategy of the IOCV would have implied rather large investments, making changes in the strategy rather significant.

In the case of CARPARTS we observed two strategic changes and several operational changes. The two strategic changes were first the redefinition of the product market, with the expansions of the product market of the joint venture from the Spanish to the European product market. The second strategic change involved the investment into a second production facility in Portugal. The operating changes were related to the step by step expansion of the production capacity of the facility from one facility employing 60 employees to a facility employing 250 employees. This involved obtaining additional contracts for the provision of the final product to automobile assemblers and the associated expansion of the production capacity of the facility through the investment into additional operating equipment. A third opportunity for strategic change, the adaptation from the European level to a global level, was missed as the German partner did not intend to enter into other markets with CARPARTS, but to pursue globalization of its operations on its own account.

In the case of CARPARTS we observe that some changes in the IOCVs require intermediate investments, as plants had a rather limited critical size, and could be started with a small number of employees, therefore implying only intermediate start-up investments to get the operation functional and running. The decision to change the market focus of the IOCV was also intermediate, as there was some cannibalization associated with the activities of the IOCV.
Table 4-9: Characteristics of Process of Change of IOCV

<table>
<thead>
<tr>
<th></th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of adaptations</strong></td>
<td>Many</td>
<td>Two</td>
<td>One</td>
</tr>
<tr>
<td>Absolute number of changes</td>
<td>of strategy observed in an IOCV.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Significance of adaptations</strong></td>
<td>Small</td>
<td>Intermediate</td>
<td>Potentially Large</td>
</tr>
<tr>
<td>Relative importance of incremental changes in terms of investment, change in strategy and/or partner relationship.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.6 Outcomes of Development of IOCV

We observed strategic changes along three dimensions, the business level strategy of the IOCV, the interrelationship between the partners, and the importance of the IOCV to the respective corporate centers.

Along these three dimensions we observe that the IOCVs develop to different extents. One IOCV changes significantly along all three dimensions including business, corporate and partners’ strategy. Another IOCV does not change significantly at all, along any of the three dimensions, once it was fully operational. The third IOCV was more dynamic than the IOCV, which did not change at all, but less dynamic than the IOCV that changed significantly along all three dimensions (see Table 4-10: Outcome of IOCV Development).

In addition, we observe a high coincidence between the changes along these three dimensions, those IOCVs, which change, do so along the three dimensions, those that do not change are stable along all dimensions. We observe a positive relationship between changes along the three different dimensions of the IOCV.

The joint venture of TRANSPORT expanded through multiple changes far beyond its initial definition. Initially the joint venture had operated traffic between the German and the Spanish market, with a very small number of trucks. In 1996, the joint venture operated offices and routes in several European countries. Also an operation in France had been started. The joint venture extended across several international markets, and had moved from one joint
venture with limited productive capacity committed to it, to multiple joint ventures operating in different international markets. Overall, the joint venture had undergone a significant transformation regarding its business strategy.

The joint venture between TRANSPORT and the company’s German partner had acquired strategic importance for TRANSPORT’s car transport business and for TRANSPORT as an overall group. In the car transport market international traffic volume had been constantly growing. The joint venture was critical to the overall development of the business area of car transport as traffic patterns reflected the internationalization of the car manufacturing industry. Through the joint venture TRANSPORT was able to compete with multinational companies that operated in this market. At the end about 15% of total trucks of the TRANSPORT group were committed to the joint venture. This made the joint venture important for TRANSPORT from a business unit perspective and from a corporate center perspective. Also initially the joint venture was operated as a cost center. Then the joint venture was converted into a profit center. This reflected another redefinition of the relevance of the joint venture to TRANSPORT. It also reflects a changed relationship between the joint venture and the corporate center.

In the joint venture between TRANSPORT and the German MOSOLF the interdependence between the partners increased several times. The joint venture itself resulted from a long-term contract between the two organizations. In the first Joint Venture both partners contributed equity as they invested together 50% of the assets through contributing the trucks. However, this initial investment was very small, compared to the overall transport capacity of the Spanish partner, implying a growing interdependence among the partners. Later the two organizations agreed on multiple equity (51%/49%) joint ventures to enter other geographic markets, which implied increasing interdependence, as new markets were entered across Europe. These relationships where later combined into a global (50%/50%) equity joint venture. Then the joint venture was converted into a profit center, making the distribution of the profit between the partners a critical issue for the joint venture, making issues regarding transfer-pricing mechanisms critical. Again this reflects an increase in inter-dependence between the partners.

This stands in strong contrast to the joint venture operated by the LEATHER group. This joint venture remained as it had initially been defined, with the exception of some corrective action to improve the operational effectiveness of the joint venture, which did not trigger important changes in terms of the business strategy of the joint venture. A reinvestment was also not used an opportunity to change the strategic positioning of the IOCV. Only later on, marketing of the final product was turned over to the parent organization. Of the three joint ventures included in our sample, this joint venture reflected most closely the starting characteristics. Overall the joint venture maintained the business strategy in which it had been initially defined between the partners.
In the case of LEATHER group, the joint venture was not important to neither the corporate center nor to the raw materials division. The joint venture was not important in size to the overall group, as it was one of five operating units, most of them with larger operating capacities. In terms of relatedness important to the overall LEATHER group as the company had larger operations that provided raw materials to the downstream divisions and as the transfer from the joint venture to the other divisions of the LEATHER group was not functioning very well. Overall, in the case of LEATHER the joint venture was neither important to the overall group nor of critical importance to the raw materials division.

In contrast, in the joint venture between the LEATHER group and the group's Greek partners the relationship changed little during its overall lifetime. During this foundation of the unit was a minor unit in the overall consortium of LEATHER, operating rather independently from the remaining units. This did not change during the life of the joint venture. Only at the very end, when the overall structure of the LEATHER group was changed, this did not change the interdependence between the partners, as now the inputs of the IOCV were critical for the downstream divisions of LEATHER.

The joint venture of CARPARTS covered an intermediate position in terms of changes in its business strategy. The joint venture on one hand underwent important strategic changes during its lifetime as the product market definition was expanded to the European market and a second production facility was started. However, the joint venture clearly reflected the initial starting conditions. The adaptations had been of less fundamental nature than the adaptations undertaken in the joint venture between TRANSPORT, but had been more important than in the case of the joint venture of the LEATHER group. Overall, this joint venture covered an intermediary position compared with the other cases.

In the case of CARPARTS the joint venture had gained importance for the corporate center of the group, as the joint venture had been developing slowly from its small size, to become the third division in terms of sales of the overall group (about 25% of the overall corporate group). On the other hand the joint venture was crucial to the business units, as it represented the business unit of the CARPARTS group in this market segment. Also the divisional manager of the joint venture was also a board member of the overall CARPARTS group, highlighting the importance of the joint venture for the overall group. This gave the joint venture a similar importance as the joint venture between TRANSPORT and the German transport, company MOSOLF. The importance therefore had changed. Also the importance of the joint venture for the group had changed, with some decline of the importance, as the German partner did not follow the interest of the Spanish partner to internationalize the operations across the globe relying on the joint venture.

The interdependence between the Spanish and the German partner increased during – as the IOCV on one hand gained in importance for the overall Spanish group, and as the cannibalization of sales from the IOCV cannibalized the market of the German partner. Then
the German partner decided that a further expansion of the IOCV would not be pursued. However, the German partner would expand its operations internationally and to new markets using other means. With this decision the importance of the IOCV for the Spanish partner decreased and the interdependence between the partners in the IOCV decreased.

Table 4-10: Outcome of IOCV Development

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>TRADISA</th>
<th>FICOSA</th>
<th>COLOMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Market Positioning</td>
<td><strong>significant</strong></td>
<td><strong>some</strong></td>
<td><strong>none - little</strong></td>
</tr>
<tr>
<td>Geographic Positioning</td>
<td>IOC business strategy changed from one route, via multiple routes, to network structure.</td>
<td>IOC business strategy changed from one product market strategy to European strategy and to two facilities structure.</td>
<td>IOC business strategy remained unchanged, later change in degree of vertical integration as part of colomer group.</td>
</tr>
<tr>
<td>Vertical Integration</td>
<td><strong>significant</strong></td>
<td><strong>some</strong></td>
<td><strong>none - little</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate Strategy</th>
<th>TRADISA</th>
<th>FICOSA</th>
<th>COLOMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interrelationship with Units</td>
<td><strong>significant</strong></td>
<td><strong>some</strong></td>
<td><strong>none - little</strong></td>
</tr>
<tr>
<td>Importance to Parent</td>
<td>IOC importance for parent organization increased due to growing importance of international traffic and size of the venture.</td>
<td>from minor operation to significant division, also following internationalization strategy of group.</td>
<td>with adaption of corporate strategy of colomer gaining in importance for the overall group and increasing importance of unit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cooperative Strategy</th>
<th>TRADISA</th>
<th>FICOSA</th>
<th>COLOMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdependence of Partners</td>
<td><strong>significant</strong></td>
<td><strong>some</strong></td>
<td><strong>none - little</strong></td>
</tr>
<tr>
<td></td>
<td>from one joint venture none critical for the overall operations of the business, to critical of the overall business unit from cost to profit center.</td>
<td>from purely local focus to European focus, however not to global collaboration. Interdependence increased, not to its full potential.</td>
<td>no change in importance of the overall relationship between the two partners in the inter-organizational collaborative agreement.</td>
</tr>
</tbody>
</table>

4.7 Relationship between Antecedents and Management Approach

Data from all three of our cases support the relationships between the antecedents and management approach. The availability of endogenous safeguards, the task complexity of the IOCV, the exposure of the investment to ex-post bargaining and the characteristics of the corporate center of the family business were associated with the management approach these partners took towards the management of the IOCVs (see Table 4-11: Safeguards and the Development of IOCV).

The availability of endogenous safeguards during the formation and adaptation of the IOCV differed across the cases. In two case endogenous safeguards were available as the partners had maintained a business relationship prior to formation or as the IOCV formation was brokered through an outsider. Only 1 case there were no endogenous safeguards available during the formation.

Accordingly the IOCV was build to very different extend on endogenous safeguards to support its formation and adaptation. In cases were endogenous safeguards were available the parties relied – at least to a limited extend – on them, and managed the IOCV applying
much direct supervision and little formal mechanisms. While in the case where no endogenous safeguards were available the partner relied exclusively on exogenous safeguards and much formal systems in their management.

Table 4-11: Safeguards and Management of IOCV

<table>
<thead>
<tr>
<th></th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Safeguards</strong></td>
<td><strong>SIGNIFICANT</strong></td>
<td><strong>SOME</strong></td>
<td><strong>NONE</strong></td>
</tr>
<tr>
<td>reliance or providing for endogenous safeguards in managing the IOCV.</td>
<td>Early in the partnership partners rely on endogenous mechanisms in managing and resolving conflicts.</td>
<td>Early in the partnership, partners establish both exogenous basis for collaboration with availability of endogenous mechanisms.</td>
<td>Partners at no point in time rely on endogenous mechanisms, always operate via contracts.</td>
</tr>
<tr>
<td><strong>Reliance on safeguards</strong></td>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In order to assure conflict resolution, contracts were not used, discussion and joint problem solving were key.</td>
<td>Contracts were established to agree on foundation for joint venture. In conflict resolution, contracts were not used. However contracts had boundary function.</td>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In conflicts contracts were referred to, they were critical in conflict resolution.</td>
</tr>
<tr>
<td><strong>Mgmt Mechanisms</strong></td>
<td>Decisions were prepared in management meetings and implemented in informal meetings. Little reliance on formal mechanisms, as these had not been established.</td>
<td>Discussion and decisions were made in board meetings relying on proposals and formal propositions for the IOCV. However management was based on highly entrepreneurial approach and decentralization.</td>
<td>Resolution of proposals and conflict resolution in a highly formal setting. Highly relying on corporate functions and lawyers in conflict resolution.</td>
</tr>
</tbody>
</table>

Task complexity and resulting need for coordination during the formation and adaptation of the IOCV also differed across the cases. In one case task complexity was very low, as there was little need for the integration of operations. In a second case the need for operating coordination was inter-medium, as the partners needed to integrate their contributions in order to make the IOCV operational, however the IOCV was a standalone operation. In the third case the need for coordination was high, as the partners did not only need to integrate their contributions, but also had to integrate the IOCV with the downstream activities of one partner (see Table 4-12: Operative Requirements and Management of IOCV).

Accordingly the IOCV was build to very different extend on endogenous safeguards and direct supervision. In cases were the need for integration was low, the partners introduced little exogenous safeguards. While in the case where there was a significant need for coordination, the partners introduced exogenous safeguards and formal mechanisms to manage the IOCV.
Table 4-12: Operative Requirements and Management of IOCV

<table>
<thead>
<tr>
<th>Operative Requirements</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>complexity and interdependence of IOCV operations.</td>
<td>SIMPLE</td>
<td>LIMITED</td>
<td>COMPLEX</td>
</tr>
<tr>
<td>Little interdependence among business units and pattern of operation rather simple.</td>
<td>Division requires coordination at the divisional level, however no interdependence with other operative units in group.</td>
<td>Due to difficulty to observe quality of products, and high interdependence of downstream and upstream divisions in determining product quality.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reliance on safeguards</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance on endogenous and/or exogenous safeguards in adaptation of the IOCV.</td>
<td>Endogenous</td>
<td>Mixed</td>
<td>Exogenous</td>
</tr>
<tr>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In order to assure conflict resolution, contracts were not used, discussion and joint problem solving was key.</td>
<td>Contracts were established to agree on foundation for joint venture. In conflict resolution, contracts were not used. However contracts had boundary function.</td>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In conflicts contracts were referred to, they were critical in conflict resolution.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mgmt Mechanisms</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance on formal or informal decision making processes by the partner in implementing change in the IOCV.</td>
<td>Informal</td>
<td>Mixed</td>
<td>Formal</td>
</tr>
<tr>
<td>Decisions were prepared in management meetings and implemented in informal meetings. Little reliance on formal mechanisms, as these had not been established.</td>
<td>Discussion and decisions were made in board meetings relying on proposals and formal propositions for the IOCV. However management was based on highly entrepreneurial approach and decentralization.</td>
<td>Resolution of proposals and conflict resolution in a highly formal setting. Highly relying on corporate functions and lawyers in conflict resolution.</td>
<td></td>
</tr>
</tbody>
</table>

The characteristics of the investments were another antecedent factor during the formation of IOCVs. The three IOCVs differed significantly regarding the ex-post bargaining of the assets. In one case this risk was very low for the Spanish partner, as assets were not committed/ specific to the IOCV. In a second case the risk was high, however it could be assumed to exit a market to resell the venture. In the third case the vulnerability of the investment to ex-post bargaining by the partner was very high (see Table 4-13: Investment Characteristics and Management of IOCV).

Accordingly the IOCV was build to very different extend on endogenous and direct supervision safeguards to support its formation and adaptation. In cases where the asset specificity was low, the partners introduced few exogenous safeguards or formal systems in the IOCV. While in the case where there was a significant need for coordination, the partners introduced exogenous safeguards and formal mechanisms to manage the IOCV.
Table 4-13: Investment Characteristics and Management of IOCV

<table>
<thead>
<tr>
<th>Investment Characteristics</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specificity and vulnerability of investment to ex-post opportunism.</td>
<td>LITTLE</td>
<td>SOME</td>
<td>SIGNIFICANT</td>
</tr>
<tr>
<td>Investments are non-specific to IOCV and are not subject to ex-post opportunism.</td>
<td></td>
<td>Investments are specific to IOCV and are subject to potential ex-post opportunism.</td>
<td>Investments are highly specific to IOCV and are not subject to significant ex-post opportunism.</td>
</tr>
</tbody>
</table>

Reliance on safeguards
- Endogenous: Contracts were used to mirror joint understanding of partners in the joint venture. In order to assure conflict resolution, contracts were not used, discussion and joint problem solving was key.
- Mixed: Contracts were established to agree on foundation for joint venture. In conflict resolution, contracts were not used. However contracts had boundary function.
- Exogenous: Contracts were used to mirror joint understanding of partners in the joint venture. In conflicts contracts were referred to, they were critical in conflict resolution.

Mgmt Mechanisms
- Informal: Decisions were prepared in management meetings and implemented in informal meetings. Little reliance on formal mechanisms, as these had not been established.
- Mixed: Discussion and decisions were made in board meetings relying on proposals and formal propositions for the IOCV. However management was based on highly entrepreneurial approach and decentralization.
- Formal: Resolution of proposals and conflict resolution in a highly formal setting. Highly relying on corporate functions and lawyers in conflict resolution.

The nature of the corporate context was also a critical antecedent factor to the adaptation of the IOCV. The three Spanish parents to the IOCVs differed significantly in the structure and systems of the corporate center. While some IOCVs represented a corporate center relying on little formal systems, other parents relied heavily on direct supervision thorough the corporate and joint venture staff in the IOCV. Similarly, the corporate centers played different roles in managing the IOCVs. In some of the case decisions were made in a decentralized matter, in the IOCV, in other cases the decisions were made centrally with little reflection regarding the IOCV (Table 4-14: Corporate Context and Management of IOCV).

Accordingly to the different corporate context IOCV was build to very different extent on endogenous safeguards to support its formation and adaptation. In cases were the corporate center was neither centralized nor formalized, the partners relied on endogenous safeguards and direct supervision in the management of the IOCV. While in the case where there was a significant centralization and formalization, the partners introduced exogenous safeguards and formal mechanisms to manage the IOCV.
Table 4-14: Corporate Context and Management of IOCV

<table>
<thead>
<tr>
<th>Corporate Context</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>degree of formalization and centralization of corporate decision making processes regarding IOVC decisions.</td>
<td>INFORMAL &amp; DECENTRALIZED</td>
<td>MIXED</td>
<td>FORMAL &amp; CENTRALIZED</td>
</tr>
<tr>
<td>Leading overall group via direct supervision, little formalized planning and management processes.</td>
<td>Corporate Center relies on some formal planning mechanisms, however units are independent in day-to-day management.</td>
<td>Well-established board structure, with coordination mechanisms and complex legal structures.</td>
<td></td>
</tr>
<tr>
<td>Reliance on safeguards</td>
<td>Endogenous</td>
<td>Mixed</td>
<td>Exogenous</td>
</tr>
<tr>
<td>Reliance on endogenous and/or exogenous safeguards in adaptation of the IOCV.</td>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In order to assure conflict resolution, contracts were not used, discussion and joint problem solving was key.</td>
<td>Contracts were established to agree on foundation for joint venture. In conflict resolution, contracts were not used. However contracts had boundary function.</td>
<td>Contracts were used to mirror joint understanding of partners in the joint venture. In conflicts contracts were referred to, they were critical in conflict resolution.</td>
</tr>
<tr>
<td>Mgmt Mechanisms</td>
<td>Informal</td>
<td>Mixed</td>
<td>Formal</td>
</tr>
<tr>
<td>Reliance on formal or informal decision making processes by the partner in implementing change in the IOCV.</td>
<td>Decisions were prepared in management meetings and implemented in informal meetings. Little reliance on formal mechanisms, as these had not been established.</td>
<td>Discussion and decisions were made in board meetings relying on proposals and formal propositions for the IOCV. However management was based on highly entrepreneurial approach and decentralization.</td>
<td>Resolution of proposals and conflict resolution in a highly formal setting, highly relying on corporate functions and lawyers in conflict resolution.</td>
</tr>
</tbody>
</table>

This suggests the formulation of the following propositions:

**Proposition 1:** The availability of endogenous safeguards prior to the formation/adaptation of the IOCV will be positively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and negatively related to the application of formal mechanisms and exogenous safeguards.

**Proposition 2:** The significance of operational (task) complexity, and the arising need for the coordination between the partners in the IOCV, will be negatively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and positively related to the application of formal mechanisms and exogenous safeguards.

**Proposition 3:** The significance of exposure of investments to ex-post bargaining by one of the partners, and the arising need for protection of investments, will be negatively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and positively related to the application of formal mechanisms and exogenous safeguards.

**Proposition 4:** The formalization and centralization of the organizational context, will be negatively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and positively related to the application of formal mechanisms and exogenous safeguards.
4.8 **Relationship between Family Business Characteristics and Corporate Context**

Two variables were observed to be critical in terms of determining the context of the family business were, see above, the complexity of the family business structure and the complexity of the corporate group, primarily the interrelationship among the different business units that were part of the parent organization.

The complexity of the family business management and ownership structure differed significantly across the three family businesses. While one family business had a rather simple ownership management structure, with two family members involved, a high degree of concentration, the firsts generation involved in the business, and no conflict among family members. Another family business was significantly more complex than the first business, as the family business was of significant age, the number of family members involved large, ownership widely distributed among family members, and significant conflict within the family. The third case covered an intermediate position.

The complexity of the family ownership management structure was associated with a higher degree of formalization and centralization of decision making in the corporate center of the family business. The least complex the family business the less the corporate center relied on formal mechanisms - but informal management and direct supervision and the less the corporate center relied centralization, the more decentralized decisions were made in the family business (see Table 4-15: Family Business Characteristics and Corporate Context).

A similar association was found regarding the complexity of the corporate center. While the family business with a rather simple family structure relied the least on centralization, the family business with the most complex family structure relied to a significant degree on centralization of decision-making in the family business.
Table 4-15: Family Business Characteristics and Corporate Context

<table>
<thead>
<tr>
<th>Age/Generation</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Generation</td>
<td>IOCV was formed when the family business was in the first generation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd Generation</td>
<td>IOCV was formed when the family business was in the second generation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>nth Generation</td>
<td>IOCV was formed when the family business was in the nth generation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Family Members actively participating in management of family business</td>
<td>Two - Three</td>
<td>Nine</td>
<td>Potentially Large</td>
</tr>
<tr>
<td>Concentration of Ownership</td>
<td>Concentrated</td>
<td>Closely Held</td>
<td>Spread</td>
</tr>
<tr>
<td>Open Conflicts among Family Members</td>
<td>None</td>
<td>None</td>
<td>Important</td>
</tr>
<tr>
<td>Corporate Context</td>
<td>INFORMAL &amp; DECENTRALIZED</td>
<td>MIXED</td>
<td>FORMAL &amp; CENTRALIZED</td>
</tr>
</tbody>
</table>

degree of formalization and centralization of corporate decision making processes regarding IOVC decisions.

This suggests the formulation of the following propositions:

**Proposition 4.1:** The complexity of the family context will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.1.1:** The number of family members involved in the family business, as managers and/or employees, will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.1.2:** The number of owners will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.1.3:** The conflict between family members will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.2:** The complexity of the corporate context will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.2.1:** The strategic and operational interrelationship among the IOCV and the business units managed through the corporate center will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.2.2:** The size the will be positively related with formalization and centralization of the family business corporate context.
4.9 Relationship between Management and Process

Another relationship that could be observed in the data was between variables describing the process of change and the variables describing the management approach to the IOCV.

The management approach of the parent organizations to the IOCVs varied. While some parents relied on endogenous safeguards and direct supervision, other parents relied on formal systems and exogenous safeguards in the management of the IOCV. A third family business combined both approaches and relied on endogenous and exogenous safeguards, while assigning a manager full time and relying on formal mechanisms (see Table 4-16: Management and Change Process of IOCV).

Those joint ventures that changes were managed relying on endogenous safeguards and informal mechanisms developed along many small changes. This pattern could be called incremental adaptation of the IOCV.

Those joint ventures that were managed by formally relying on exogenous safeguards developed along few large changes. This pattern could be called strategic adaptation of the IOCV.

Table 4-16: Management and Change Process of IOCV

<table>
<thead>
<tr>
<th>Number of adaptations</th>
<th>Significance of adaptations</th>
<th>Mgmt. Mechanisms</th>
<th>Reliance on safeguards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute number of changes in strategy observed in an IOCV.</td>
<td>Relative importance of incremental changes in terms of investment, change in strategy and/or partner relationship.</td>
<td>Reliance on formal or informal decision making processes by the partner in implementing change in the IOCV.</td>
<td>Reliance on endogenous and/or exogenous safeguards in adaptation of the IOCV.</td>
</tr>
<tr>
<td>TRANSPORT</td>
<td>Many</td>
<td>Informal</td>
<td>Endogenous</td>
</tr>
<tr>
<td>CARPARTS</td>
<td>Two</td>
<td>Mixed</td>
<td>Mixed</td>
</tr>
<tr>
<td>LEATHER</td>
<td>One</td>
<td>Formal</td>
<td>Exogenous</td>
</tr>
<tr>
<td>Number of adaptations</td>
<td>Significance of adaptations</td>
<td>Mgmt. Mechanisms</td>
<td>Reliance on safeguards</td>
</tr>
<tr>
<td>Absolute number of changes in strategy observed in an IOCV.</td>
<td>Relative importance of incremental changes in terms of investment, change in strategy and/or partner relationship.</td>
<td>Reliance on formal or informal decision making processes by the partner in implementing change in the IOCV.</td>
<td>Reliance on endogenous and/or exogenous safeguards in adaptation of the IOCV.</td>
</tr>
<tr>
<td>TRANSPORT</td>
<td>Many</td>
<td>Informal</td>
<td>Endogenous</td>
</tr>
<tr>
<td>CARPARTS</td>
<td>Two</td>
<td>Mixed</td>
<td>Mixed</td>
</tr>
<tr>
<td>LEATHER</td>
<td>One</td>
<td>Formal</td>
<td>Exogenous</td>
</tr>
</tbody>
</table>

- Many:
  - After forming the IOCV, several new markets were addressed jointly. Integration of these joint operations also occurred incrementally.
  - Start-up of new factory implied some initial investment into a new facility. However, additions of capacity in plants is rather incremental in nature.

- Two:
  - Internationalization of IOCV to Europe, and start up of second facility.

- One:
  - Reconfiguration of vertical activity leading to closer integration of Greek joint venture into overall operating activity of the corporate group. This occurred very late in the overall relationship.

- Intermediate:
  - Start-up of new factory implied some initial investment into a new facility. However, additions of capacity in plants is rather incremental in nature.

- Potentially Large:
  - Incremental changes would have taken significant changes in the production technology, as evidenced by reinvestment into new facility was adapted late.

- Formal:
  - Resolution of proposals and conflict resolution in a highly formal setting. Highly relying on corporate functions and lawyers in conflict resolution.

- Exogenous:
  - Contracts were used to mirror joint understanding of partners in the joint venture. In conflict resolution, contracts were not used. However contracts had boundary function.
This suggests the formulation of the following propositions:

**Proposition 5a:** The reliance on endogenous safeguards and direct supervisions will be negatively related to the size of adaptations of the IOCV strategy.

**Proposition 5b:** The reliance on exogenous safeguards and formal mechanisms will be positively related to the size of adaptations of the IOCV strategy.

**Proposition 5c:** The reliance on endogenous safeguards and direct supervisions will be positively related to the number of adaptations of the IOCV strategy.

**Proposition 5d:** The reliance on exogenous safeguards and formal mechanisms will be negatively related to the number of adaptations of the IOCV strategy.

### 4.10 Relationship between Process and Outcome

We observe a coincidence between the pattern of change in the IOCV and the overall change of the strategy of the inter-organizational agreement.

From the data we can observe that those IOCVs which displayed a higher degree of change during their lifetime were those that relied on many small changes relying on informal processes and endogenous safeguards develop significantly. While those IOCVs, which rely on few large changes and formal mechanisms and exogenous safeguards, exhibit a much lesser degree of development over their lifetimes. Overall we can observe different change patterns, and somewhat an association to the development of the IOCV (Table 4-17: Change Process and Outcome of IOCV Development).

The case of TRANSPORT exhibits the most significant change in the overall strategic positioning of the IOCV. This change was associated with many changes in the strategy of the IOCV. In terms of incremental these adaptations required investment rather small amounts, which were implemented relying on endogenous safeguards, as demonstrated by conflict resolution applied when problems emerged. In managing the IOCV the Spanish parent relying to a very limited extend on formal mechanisms and significantly on direct supervision of the IOCV. Due to the direct involvement of TRANSPORT’s management team formal management mechanisms need not be applied in the operation of the IOCV.

In the case of LEATHER, the joint venture did not change significantly during its lifetime. In order to change the strategic position of the IOCV rather large incremental investments would have been necessary. In addition change opportunities were often sought for only in few instances, and windows for change only opened rarely, as significant investments that were sunk in their nature had been undertaken. In addition in managing the IOCV the management team relied heavily on exogenous safeguards, as exhibited in the heavy involvement of the legal team in managing the IOCV. Finally the IOCV was subject to the formal mechanisms...
applied in the LEATHER group and the head of the joint venture had to follow the rules and regulations laid out for the overall corporate subsidiaries of the group.

Finally in the case of CARPARTS, we are looking at an intermediary case. In the case of LEATHER, the joint venture did change during its lifetime. In order to change the strategic position of the IOCV compared to the CARPARTS case intermediate investments were required, however still larger than in the case of LEATHER. In addition opportunities for change were sought for as windows for change opened with the growth of IOCV, as intermediate investments that were sunk to some extent in the context of the IOCV. In addition in managing the IOCV the management team relied on a mix of exogenous and endogenous safeguards, as exhibited in the importance of the contract in founding the joint venture, however its limited importance during the development of the IOCV. Finally the IOCV was subject to the formal mechanisms and direct supervision applied in the CARPARTS group. This mix was associated with intermediate degree of change within the IOCV.

Overall we observe in this data that there is an interrelationship between the process of change observed in the IOCV and the outcomes achieved at the organizational level. Organizations which relied on informal decision making and endogenous safeguards, pursuing change along incremental adaptations of the IOCV were partners in IOCVs that proved to be more dynamic in terms of their strategic positioning.

Organizations, which relied on large changes, associated with significant investments in the inter-organizational changes, relied on exogenous safeguards in governing the inter-organizational collaborative relationship and formal decision making within the venture. These organizations achieved fewer changes in the IOCV, which although they were potentially larger in impact, the IOCV changed less during its lifetime.
Table 4-17: Change Process and Outcome of IOCV Development

<table>
<thead>
<tr>
<th>Number of adaptations</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute number of changes</td>
<td>Many</td>
<td>Two</td>
<td>One</td>
</tr>
<tr>
<td>of strategy observed in an IOCV.</td>
<td>after forming the IOCV, several new markets were addressed, and negotiation of joint operations occurred incrementally.</td>
<td>internationalization of IOCV to Europe and start-up of second facility.</td>
<td>reconfiguration of vertical activity resulting in transfer of Greek joint venture into overall operating activity of the corporate group.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Significance of adaptations</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative importance of incremental changes in terms of investment, change in strategy and partner relationship.</td>
<td>Small</td>
<td>Intermediate</td>
<td>Potentially Large</td>
</tr>
<tr>
<td>Individual Changes were small in size and had a strictly incremental nature.</td>
<td>Start-up of new facility implied some initial investment in a new facility. However, additions of capacity in plants are rather incremental in nature.</td>
<td>Incremental changes would have taken significant changes in the production technology, as exhibited by reinvestment in new facility were adapted late.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Market Positioning</td>
<td>significant</td>
<td>some</td>
<td>none - little</td>
</tr>
<tr>
<td>Geographical Positioning</td>
<td>significant</td>
<td>from one joint venture none critical for the overall operations of the business, to critical of the overall business unit from cost to profit center.</td>
<td></td>
</tr>
<tr>
<td>Vertical Integration</td>
<td>some</td>
<td>from one product strategy to network structure.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate Strategy</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance to Parent</td>
<td>significant</td>
<td>some</td>
<td>none - little</td>
</tr>
<tr>
<td>IOC importance for parent organization increased due to growing importance of international traffic and size of the venture.</td>
<td>from minor operation to significant division, also following internationalization strategy of group.</td>
<td>with adaptation of corporate strategy of LEATHER gaining in importance for overall group and increasing importance of unit.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cooperative Strategy</th>
<th>TRANSPORT</th>
<th>CARPARTS</th>
<th>LEATHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdependence of Partners</td>
<td>significant</td>
<td>some</td>
<td>none - little</td>
</tr>
<tr>
<td>IOC importance for partner increased, also following internationalization strategy of group.</td>
<td>interdependence increased, not to full potential.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This suggests the formulation of the following propositions:

Proposition 6a: The number of changes will be positively related to the overall adaptation of the IOCV.

Proposition 6b: The size of single adaptations will be negatively related to the number of changes, and the overall adaptation of the IOCV.

4.11 Towards an Integrative Model of Antecedents, Process and Outcome

Table 4-18 summarizes our findings regarding antecedents, process and outcomes of IOCVs in the context of Spanish family businesses. The consistent evidence gathered across all the cases studied suggests a direct relationship between antecedents, management, process of adaptation and outcome.
Table 4-18: The Integrative Model

![Integrative Model Diagram]

Though our data are not sufficient to allows to test of the relative importance of each antecedent factor in influencing process, the characteristics of the antecedent factors are related to the process of adaptation of the IOCV:

1. Inter-organizational Relationship: The lack of endogenous safeguards makes the use of exogenous safeguards and formal structures more prevalent during the formation and adaptation of the IOCV.

2. Nature of Venture Operations: The complexity of the operation and the resulting need for coordination makes the use of exogenous safeguards and formal structures more prevalent during the formation and adaptation of the IOCV.

3. Nature of Investments: The exposure of investments to ex-post bargaining and the resulting need for protection of these investments makes the use of exogenous safeguards and formal structures more prevalent during the formation and adaptation of the IOCV.

4. Organizational Context: The centralization and formalization of the corporate context, and the required standardization of behavior of the subsidiaries makes the use of exogenous safeguards and formal structures more prevalent during the formation and adaptation of the IOCV.

In the organizational context antecedent factors, family business characteristics and business characteristics need to be recognized.

1. Family businesses which are owned and managed by complex family structure (large number of family members involved in the family business, multiple generations involved
in the family business, wide distribution of ownership, conflict among family members) rely on formalized mechanisms and a centralization of decision making in the family business.

(2) Family businesses, which are large and operate different units, which are highly interrelated and interdependent among each other, rely on formalized mechanisms and a centralization of decision making in the family business.

Regarding the process of change of the IOCV the management approach applied by the parents’ needs to be recognized:

(1) IOCVs, which are managed relying on endogenous safeguards and direct supervision, develop along many small strategic changes, incrementally during their lifetime.

(2) IOCVs, which are managed relying on exogenous safeguards and formal systems, develop along few large strategic changes, strategically during their lifetime.

Regarding the outcome of change of the IOCV the process of change needs to be recognized:

(1) The IOCVs, which rely on incremental change processes, change their strategic posture, more significantly during their lifetime, than the IOCVs, which rely on a strategic change.

The following propositions summarize the relationships discussed above and depicted in Figure 1. We begin with those propositions summarizing the relationship between antecedent factors and the management of IOCVs during their lifetime:

**Proposition 1:** The availability of endogenous safeguards prior to the formation/adaptation of the IOCV will be positively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and negatively related to the application of formal mechanisms and exogenous safeguards.

**Proposition 2:** The significance of operational (task) complexity, and the arising need for the coordination between the partners in the IOCV, will be negatively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and positively related to the application of formal mechanisms and exogenous safeguards.

**Proposition 3:** The significance of exposure of investments to ex-post bargaining by one of the partners, and the arising need for protection of investments, will be negatively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and positively related to the application of formal mechanisms and exogenous safeguards.

**Proposition 4:** The formalization and centralization of the organizational context will be negatively related to the application of informal management, direct supervision and endogenous safeguards in the management of the IOCV and positively related to the application of formal mechanisms and exogenous safeguards.

Regarding the characteristics of the family business the relationship between the family characteristics and the antecedent factors are proposed to be as follows.
**Proposition 4.1:** The complexity of the family context will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.1.1:** The number of family members involved in the family business, as managers and/or employees, will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.1.2:** The number of owners will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.1.3:** The conflict between family members will be positively related with formalization and centralization of the family business corporate context.

Regarding the characteristics of the corporate center the relationship between the corporate center characteristics and the antecedent factors are proposed to be as follows.

**Proposition 4.2:** The complexity of the corporate context will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.2.1:** The strategic and operational interrelationship among the IOCV and the business units managed through the corporate center will be positively related with formalization and centralization of the family business corporate context.

**Proposition 4.2.2:** The size will be positively related with formalization and centralization of the family business corporate context.

The following propositions summarize the relationship between the management approach and the process of change of the IOCVs during their lifetime:

**Proposition 5a:** The reliance on endogenous safeguards and direct supervisions will be negatively related to the size of adaptations of the IOCV strategy.

**Proposition 5b:** The reliance on exogenous safeguards and formal mechanisms will be positively related to the size of adaptations of the IOCV strategy.

**Proposition 5c:** The reliance on endogenous safeguards and direct supervisions will be positively related to the number of adaptations of the IOCV strategy.

**Proposition 5d:** The reliance on exogenous safeguards and formal mechanisms will be negatively related to the number of adaptations of the IOCV strategy.

The following propositions summarize the relationship between process of changes and the outcomes, overall change, of the IOCVs during their lifetime:

**Proposition 6a:** The number of changes will be positively related to the overall adaptation of the IOCV.

**Proposition 6b:** The size of single adaptations will be negatively related to the number of changes, and the overall adaptation of the IOCV.
5 Discussion of Results and Conclusions

5.1 Towards an Integrative Model of IOCV Evolution

The goal of this dissertation was to explore the development of IOCVs of Spanish Family Businesses. The intended contribution of this project is not the exploration and identification of individual variables concepts and relationships, but their integration into an overall model. Many of the individual variables, concepts and linkages have received attention in the context of family business research, economic theory, organizational theory, IOC and projects studying joint ventures. Here we will argue for the linkage among these variables in the context of IOCVs drawing on corroborating evidence.

Table 5.1 summarizes our findings regarding antecedent factors to the evolution of IOCVs. Our evidence across all the case studies suggest a relationship between several antecedents to formation and adaptation, the management of the IOCV, their adaptation and evolution. Also evidence suggests that the characteristics of the family business are a variable in the organizational context which relates to the development of the IOCV.

Table 5-1: The Integrative Model

In the data gathered for this project, we find that those family businesses, which develop in an “incremental” manner along many small changes, develop more dynamically and are more successful than those ventures which develop along a small number of significant changes/investments.
Change and development of the IOCV are associated with the management approach adopted by the parent organization towards it. An IOCV which was managed in a formalized context and where exogenous safeguards were considered important developed along few large changes. The ventures that were governed relying on informal management mechanisms and endogenous safeguards develop in an incremental manner.

Whether a formal management approach relying on exogenous/contractual safeguards is adopted or an informal management approach relying on endogenous/non contractual management mechanism is adopted, is associated with several antecedents to the formation and development of the IOCV.

Where no endogenous safeguards have been developed prior to venture formation, where the investments are specific and risky, where the operational set up to make the IOCV operative is complex and leads to high requirement of coordination and where the family business is governed through formal systems and structure, formal mechanisms are adopted in the management of the IOCV.

Where family businesses have developed endogenous safeguards with the partner prior to the formation of the IOCV, where the investments are neither specific nor risky, where the operation of the venture is straight forward and requires little coordination due to partner interdependence in the operation of the venture, where the corporate context relies on informal coordination mechanisms and direct supervision, an informal IOCV management approach relying on non-contractual/endogenous safeguards is applied.

In this context family business characteristics were associated with the corporate management structure adopted by the family business. Family businesses which showed less complex ownership and management structures and had little conflict among family members, were characterized by less formalized management structures and systems. Family businesses, which were characterized by complex ownership and management structures, were characterized by a higher degree of formal management systems and structures.

Overall the reliance on formalized versus non formalized (informal) management systems and structures appears to be critical in the management and development of IOCV and connect antecedent factors with the way the venture developed and changed the overall strategic position.

Though our data are not sufficient to allow to test of the relative importance of each component of antecedent factors, they suggest that the overall pattern of the partners need for exogenous safeguards and availability of endogenous safeguards, is highly related to the development path the IOCV takes. In addition the reliance on exogenous/endogenous safeguards is potentially related to the developmental pattern followed by the IOCV.

We will assert here that one of the critical antecedents regarding the development of IOCVs is their management. The reliance on endogenous or exogenous safeguards, and
formalization/informal management approach provides the link between antecedent factors to development and adaptation of the agreements.

Also it appears that different antecedent factors lead to the application of more formal and exogenous mechanisms and other antecedents lead to the reliance on endogenous and less formal mechanisms.

In the following and concluding pages of this dissertation, we will discuss the findings in the context of extant research and integrate the findings from extant research into the overall framework. Concluding this chapter we will discuss the limitations of this study, the intended contribution of this project to the different areas of theory, its potential managerial implications, and potential avenues for future research.

5.2 Discussion of Results

5.2.1 Formalization and Development of IOCV

From the cases we studied, we observe that those IOCVs which develop in the context of a formal management approach and exogenous safeguards, develop to a much lesser extent than those IOCVs which relied upon informal management approach and endogenous safeguards.

Some underlying processes and mechanisms have been identified in organizational theory discussing the nature of formalization and its unintended consequences (March & Simon, 1954; Merton, 1940; Mintzberg, 1970). In longitudinal studies on the development of IOCVs (Doz, 1996; Ring & Van de Ven, 1994) the impact of formalization has also received some attention.

The implementation of formal control systems has been found to identify exactly those behaviors and consequences, which it was expected to prevent (Enzle & Anderson, 1993; Strickland, 1956). The social structures of organizations vary in their degree of formalization. A formal structure is a structure in which the positions and relationships between the members of the organization has been explicitly specified and are defined independently of the personal characteristics of the organizational participants occupying these positions (Scott, 1987).

By contrast, in an organization with an informal structure it is not possible to distinguish between the characteristics of the position and the characteristics of the participants occupying them. In an informal organization, when specific organizational members leave or take their position, their roles and relationships develop and change as a function of their personal characteristics and the interactions that occur among them. In a formalized organizational setting, the exchange of participants goes unnoticed, as the successor takes over role and relationships as defined in the position (Scott, 1987).
Formalization is the basis for efficiency and predictability in and of organizations. It eliminates the variety, which might be introduced when the different characteristics of the individuals determine the process and output of the organization. Formalization assures for the organization predictable outputs and processes regardless of those involved. It thereby reduces uncertainty regarding the final results as behavior and outcomes are regulated uncertainty is reduced. Formalization allows management, prediction and control (Mintzberg, 1979).

However, besides these very important benefits, formalization has severe drawbacks as it has unintended consequences, as it inhibits learning, leads to internal conflict and content for decisions as well as displacement of goals (Gouldner, 1954; March & Simon 1958; Merton, 1940; Mintzberg, 1979; Selznick, 1949).

In the context of the development of IOCVs the dysfunctional organizational learning effects pointed out by Merton (1940) appear to be of special importance. In general, Merton finds that organizational members generalize a response from situations where the response is appropriate to similar situations where it results in consequences unanticipated and undesired by the organization. This is the consequence of the organizational emphasis on reliability in behavior and the formalized mechanisms installed. He points to several primary and several secondary effects. Primarily organizational members reduce their personal relationships. Roles of the organization are internalized by the participants and organizational members develop a tendency to restrict categories used to a relatively small number and to enforce the first formally applicable category rather than to search for possible categories that might be applied and choose among them. These three consequences lead to rigid behavior and a propensity of organizational members to disconnect from the outside. It also leads to a stricter following of organizational rules and roles further strengthening rigidity (March & Simon, 1958; Merton, 1940; Mintzberg, 1979).

However, the adaptation of behavior appears to be of great importance to the development and success of IOCVs (Doz, 1996; Ring & Van de Ven, 1994). Formalization could have negative consequences in the context of IOC as it works against adaptation, which is critical to success in the IOCV.

Doz (1996) finds in his study on the development of IOCVs significant differences between those IOCVs which develop and are successful compared to those IOCVs which eventually fail. He finds that IOCVs which develop successfully over time are characterized by conditions which foster behavioral learning, as they allow managers to better manage the partnership. “Partners in more successful alliances engage in ... a serious of iterative and interactive learning cycles over time, as well as the willingness to make larger and larger, as well as increasingly specific and irreversible commitments.” In this context it was critical that initial conditions regarding task definition, partners routines, the interface between the
organizations and the expectations, could be evaluated and changed in the context of the IOCV (Doz, 1996).

Therefore it can be argued that to some degree the formalization of behavior in the context of IOCV might represent a hurdle to the development of the IOCV. It could hinder learning and could prevent the partners from adapting the IOCV to changed circumstances.

Also it has been pointed out that formalization goes hand in hand with a reduction in the amount of personalized relationships (Merton, 1940). As the formal organization is a set of relationships between offices and roles, the official reacts to other members of the organization not as more or less unique individuals. The official reacts to organizational members as a representative of positions that have specified rights, duties and rules (Mintzberg, 1979; March & Simon, 1958; Merton, 1940).

However the development of relationships beyond the role relationship is of importance in the context and to the development of IOCVs. Doz (1996) argues that it was critical for the development of the IOCVs that participants in the alliance were able to transcend their organizationally-prescribed roles. He finds that while organizationally-prescribed roles provide a safety net early in the alliance (in particular when interpersonal understanding and trust are still low) they become straightjackets later on. Internal bureaucratic politics can make it difficult, potentially dangerous for individuals to step out of their roles (Doz, 1996).

Further attention to the importance of the development of person/informal relationships for the development of the IOCV has been drawn by Ring and Van de Ven (1994). They point out that “Heavy reliance on trust, or a reputation for fair dealing, may lead to a formal agreement defining a ... [collaborative IOCV] ... , that is unenforceable by resort to institutional guarantors (courts, arbitrators).” This implies that agreements which are based on informal and endogenous safeguards, allow to transact differently than those supported by legal institutions. It has been argued that endogenous safeguards are critical in ... [collaborative IOCV] ... “as they allow for greater transaction-specific investments made under conditions of uncertainty, the immediate parties stand to benefit from preserving the relationship.” (Ring & Van de Ven, 1994).

Also Ring and Van de Ven (1994) argue that formalization initially helps, as without a mandate, single individuals are not likely to bind organizations. Role formalization enables individuals to serve as agents of their organization and to bind their organizations. Initially role formalization serves to constrain the actions of the individual, and it increases the predictability of qua persona behavior as individuals take roles as the agents of their organizations (Ring & Van de Ven, 1994). However with time and repeated interactions over time, qua persona behavior could substitute for roles behavior as personal relationships build and psychological contracts deepen. The formal role relationships of individuals with their organizations however do not dissolve as these interpersonal relationships evolve (Ring & Van de Ven, 1994).
These personal bonds, which may develop, may produce trust in the other’s party goodwill. This could give the parties greater flexibility to transcend their organizationally specified roles in adapting to changing circumstances. Although this embedding of friendship ties in addition to formal roles may create some awkward entanglements, it provides dual bases – personal and professional – for the resolution of conflicts (Uzzi, 1996; 1997).

However, in order to allow for this development and complementation of formal with informal roles is that the organizations provides sufficient room for the members involved in the transaction to develop this relationship. For example, the organization needs to provide time for these relationships to develop, as one consequence of turnover among agents is that their replacements may not have any prior relationship with each other, either persona or in their organizational roles. Consequently levels of flexibility that may have existed before are be lost as the agents rely on the formal terms of the agreement and the role designations in resolving matters, that the predecessors has resolved based on trust and psychological contracts. Therefore the strict application of formal mechanisms might limit and even prevent the development of these informal dynamics so critical to adaptation and learning.

Therefore the organizational setting might influence the degree of room and the ability of agents to develop personal relationships in the IOCV, critical to provide communication, conflict resolution and trust to make the IOCV adaptive to the needs of the partners. Without the development of personal and informal relationships, the inter-organizational relationship between the partners could become difficult for the partners to adopt the IOCV and it can transform itself into a legal straightjacket. Greater reliance on trust in the goodwill of the other party could also decrease transaction costs and increase managerial flexibility because the parties will perceive a lower need for a legal document (Friedman, 1991).

Beyond that formalization of the strategic context can have a negative impact on the development of the IOCV. Doz (1996) observes that “over specification” of the strategic context of the IOCV can also hinder the development of the IOCV. Doz (1996) finds that the strategic context can be overly deterministic both in substance and in expectation. In substance partners or one partner can try to specify exactly how the alliance ought to success and where it fits precisely. The second area of over-specification is expectation, when e.g. when one partner expects or fears due to a minority participation the full acquisition of the IOCV or even anticipates this to occur. This initial specification represents formalization in the sense that roles and relationships are formalized and hampers the development of the venture.

One of the sources of uncertainty in the context of IOCVs, is the uncertainty regarding the venture partner to behave opportunistically (Killing, 1988; Williamson, 1986; 1990; Ghosal & Moran, 1995). Contracts, monitoring and formalized safeguards offer mechanisms to detect and protect against opportunistic behavior (Williamson, 1990; 1986; Ghosal & Moran, 1995).

However, it has been argued that these protection mechanisms against opportunistic behavior also have negative consequences for the development of the IOCV, as these
mechanisms might foster opportunism and limit the development of endogenous safeguards among the partners in the IOCV (Ghosal & Moran, 1995).

Ghoshal and Moran make the following case: “There is considerable evidence that the use of rational controls adversely affects the feelings of both the controller and the controllee concerning their relationships. For the controller, negative feelings arise from what Strickland (1958) describes as “the dilemma of the supervisor” viz., the situation when the use of surveillance, monitoring, and authority lead to management's distrust of employees and a perceived need for more surveillance and control (Krugalski, 1970). Because all behavior (especially that which is consistent with management's objectives) is seen by management as motivated by the controls in place, managers develop a jaundiced view of their subordinates.

For the controllees, the use of rational control signals that they are neither trusted nor trustworthy to behave appropriately without such controls. Enzle and Anderson (1993) have provided strong empirical evidence, for example that “surveillance that is perceived as controlling threatens the controllees personal autonomy and decreases his or her intrinsic motivation. … An even more damaging and more likely effect of eroding attitudes is a shift from “consummate” cooperation …. to perfunctory compliance …” (1993: 263).

The consequence of these negative feelings for both controller and controllee is a pathological spiraling relationship. Enzle and Anderson describe: “Surveillants come to distrust their targets as a result of their own surveillance and targets in fact become unmotivated and untrustworthy. The target is now demonstrate untrustworthy and requires more intensive surveillance, and the increased surveillance further damages the target. Trust and trustworthiness both deteriorate” (1993: 263).

These findings from extant empirical research in organizational science and theoretical and empirical analysis of the development of IOCVs provide corroborating evidence and the rational which might explain why those IOCVs which develop within a formal context develop differently than those IOCVs which develop in a less formalized context.

From this findings it can be argued that formalization, contracts and control systems on one hand offer organizations involved in IOCVs the benefit of uncertainty reduction, as they determine and bind the partners behavior formally and make behavior predictable, providing the legal background for legal protection of investments. However, this formalization and predetermination of roles and relationships leaves the inter-organizational collaborative relationship less open to adaptation and development and limits its potential for successful evolution.
5.2.2 Antecedent Factors and the Management of IOCV

5.2.2.1 Prior Relationship and the Development of Endogenous Safeguards

We observed in the case analysis that IOCVs which were formed among partners, who had maintained economic exchange prior to the formation of the IOCV or were introduced by a go-between draw heavily on endogenous safeguards and an informal management approach. The IOCV, which was formed among complete strangers, relied on exogenous safeguards and a formal management approach. The underlying processes and mechanisms have been identified in studies on the development of embedded organizational relationships (Uzzi, 1996; 1997) and in longitudinal studies on the development of IOCVs (Doz, 1996; Ring & Van de Ven, 1994).

Cooperative IOCVs may emerge out of different starting conditions, such as preexisting friendships, institutional mandate, resource dependence, or they may be brokered. Cold Calls - Partners to an IOCV meet in their negotiations as virtual strangers (as in the LEATHER case). In cold calls relationships must be built from scratch, and knowledge about the other partner is acquired exclusively through the negotiation process. Brokered Introduction or Blind Date - In this situation, the initial meeting between the partners is facilitated by an intermediary or a broker. Partners in this context have little first hand opinion of each other but may have an informed opinion from the broker. Thus the partners must still share information and develop a working relationship through negotiations, while the broker involved may facilitate these activities (This is the case of CARPARTS, where the relationship is brokered through an outsider). Prior Relationships – Partners can also establish an IOCV from prior relationships (TRANSPORT) (Gulati, 1995a; 1995b; Uzzi, 1997; 1997; Ring & Van de Ven 1994).

These different starting points differ in the degree to which the partners are acquainted and have had prior interactions. It has been observed that IOCV formation takes different routes, when the partners have established a relationship prior to the agreement (Uzzi, 1997; 1997; Ring & Van de Ven 1994).

These prior relationships have been observed to have two impacts according to research on the development of IOCVs. On one hand they facilitate the formation negotiations. In addition they lead to the formation of an “embedded” relationship (Gulati, 1995; Uzzi, 1997; 1997; Ring & Van de Ven 1994).

Prior relationships can produce positive outcomes. Three characteristics of the partners prior relationships appear to be particularly significant: The duration of the problem solving phase is shortened (Kanter & Myers, 1989). The extent of business knowledge available to the potential partners is greater (Shapiro, Sheppard & Cheraskin, 1992). The degree of trust that develops between the partners (Gulati, 1995; Ring & Van de Ven, 1992; Parkhe, 1993; Uzzi, 1995, 1996) is larger. These mechanisms accelerate the formation of an IOCV.
Furthermore, and consistent with our findings, these non-formal mechanisms relying on inter-organizational collaborative relationships have significantly different characteristics as a different type of relationship develops, which are closely related to the starting conditions. Uzzi (1996, 1997) observes that embedded relationships characterized by trust, fine-grained information transfer and joint problem solving arrangements emerge from two sources, either from being introduced by a third party referral. In this context the go between is critical in creating an embedded relationship. Uzzi asserts that embedded ties can originate from anonymous market ties, but that this source of embeddedness was uncommon in the industry he studied.

Furthermore, Uzzi (1996, 1997) argues that embeddedness increases the willingness of an organization to invest. First, it increases expectations that non-contractual, non-binding exchanges will be reciprocated. Second, social networks reduce the complexity of risk taking by providing structure that matches known investors. Third, network ties link actors in multiple ways (as business partners, friends, agents, mentors) providing a means by which resources from one relationship are exchanged for another. In risky investment situations, these factors adjust for unforeseen events and enable risk taking (Uzzi, 1996; 1997).

Therefore, embedded relationships, one might argue, provide those endogenous safeguards, which do not need to be formalized among inter-organizational collaborative relationships. Thereby, embedded relationships reduce the need for formalization and the reliance on exogenous safeguards between the partners of the IOCVs, and therefore lead to the avoidance of the negative consequences of formalization of IOCVs.

Embedded ties therefore promote, and enable access to certain kinds of exchange that are particularly beneficial for reducing monitoring costs, quickening decision making, and enhancing organizational learning and adaptation (Uzzi, 1996). Prior embedded relationships may be difficult to be substituted by formalization for the reduction of uncertainty regarding partner characteristics, capabilities, and conduct.

Overall, Uzzi’s evidence suggests that the embeddedness of the IOCV and the availability of endogenous safeguards, are linked to the founding conditions of the IOCV. The founding conditions are an important antecedent to the development of the IOCV, as these mechanisms are related to those processes, which allow for adaptability of the IOCV. Thereby, initial embeddedness could be an antecedent to IOCV formation and have an impact on the development of the IOCV.

I suggest to expand this argument, and suggest that the lack of embeddedness implies the introduction or substitution through exogenous/formal agreements. However, these formal agreements have the disadvantage of limiting the flexibility and adaptability of the IOCV, which might hinder the development of the IOCVs.
5.2.2.2 **Transaction Cost and the Reliance on Endogenous Safeguards**

In this study we find that the greater the specificity of the investments and the risks associated and the larger the investment, the more the partners rely on contracts in the management of the IOCVs. Here we need to discuss the nature of the investments and the nature of the contract on which the partners rely in the formation and adaptation of the IOCV.

Transaction cost economics provides a rational for why contracts are critical to the management of inter-organizational collaborative relationships in the context of asset specificity. The field of transaction cost economics argues that “Parties have an incentive to devise safeguards to protect investment in transactions” which suffer from exposure to opportunistic behavior. The application of transaction cost economics has received wide acceptance in the field of IOC (Hennart, 1991).

In doing so, they can among other things rely on supplanting court ordering by private ordering (Williamson, 1986). This suggest the curbing of opportunistic behavior through formalization and the introduction of hierarchical control mechanisms such as monitoring and safeguards, as the only effective safeguards for effective exchange (Williamson, 1990).

Consistent with this observation, we find that the large and the more specific the investments undertaken by a partner are in an IOCV, the more elaborate and the more detailed are the mechanisms which are provided by the partners in protecting the investments undertaken.

Consistent with these findings, we observe in the data gathered in this study that asset specificity and the size of the investment as critical variables. The businesses adopt in line with the suggestion of transaction economics contracts in order to protect their investments. Therefore it appears that the characteristics which lead to the necessity of formation of long-term contract, also lead to the formalization of the inter-organizational collaborative relationship relying on exogenous safeguards and formal management approach.

5.2.2.3 **Task Characteristics and the Reliance on Direct Supervision and Endogenous Safeguards**

Finally, we observe that that task characteristics have an impact on the safeguards adapted by the organization involved in the management of the IOCV.

Task characteristics have received limited attention in the context of research in IOC (Killing, 1988). It has been argued that the complexity of the task is positively related to the organizational arrangement to management the IOCV.

Killing argues that alliances with low task complexity do not face a high level of uncertainty, as the economics are clear at the outset when the IOCV is formed, and activities can be easily specified and monitored from the outset of the IOCV. Therefore the need to monitor the performance of the partner is limited and there is little need for safeguards that the
partner complies with his tasks, no complex organizational mechanisms need to be adapted (Killing, 1988).

Further Killing argues that, in the case endogenous safeguards (in his case trust) are well developed in the context of IOCVs, even when complex tasks are undertaken, the need to implement complex organizational mechanisms is limited. He thereby suggests that task complexity is related to the need for safeguards in the management of IOCVs. Also he points to the possibility that the need for safeguards due to complex tasks, can be compensated by endogenous safeguards (Killing, 1988).

This is consistent with the findings in the cases we studied, where we observed that the more complex the initial alliance task, the more formal the structures which were adopted and the more the partners relied on exogenous safeguards. This suggests that task complexity in the context of IOCVs is a critical antecedent to the adaptation of management mechanisms in the context of IOCVs and to the development of IOCVs.

5.2.2.4 Family Business Characteristics and the Management of IOCVs

The corporate center has received some attention in the discussion regarding the success of IOCVs. From the studies of Barkema et al. (1997), Anand and Khanna (2000) and Kale, Dyer & Singh (2002) it can be concluded that the management of IOCVs is a distinct capability. It appears to be related to experience in the formation and management of alliances (Barkema et al. (1997); Anand & Khanna (2000)). These skills have been argued to have the biggest impact in joint ventures. However which these skills are and how they impact the IOCVs established, has not been provided yet. In understanding what these skills are, we need to move beyond the notion that these skills are captured in a dedicated alliance function, and need to identify these skills.

Also Doz (1996) observes in his study that partners borrow routines from their organizational and strategic contexts that preside over the inception of the alliance. He finds that the organizational contexts have a significant impact on the development of the IOCVs he studies.

These findings suggest that the organizational context as locus of critical IOCV management capability and as source of IOCV management processes is critical. This suggests that it might be important to understand the family business and to identify the organizational context in which the IOCV operates and the mechanisms and processes relevant to the formation and development of the IOCVs.

5.2.2.5 Family Business Characteristics and Formalization and Centralization

In the three cases we studied we found that with increasing age of the family business, increasing number of family members incorporated in the family business, and increasing distribution of ownership among family and non-family members, the formalization in the family
business increases. Also, we find that conflict among family members involved in the management and ownership of the family business is positively associated with the centralization of decisions in the family business. Corroborating evidence from research in family business and organizations sheds further light on this correlation observed.

In the field of family business, it is widely accepted that with the characteristics of the family ownership/management team the family business characteristics change and are adapted. The relationship between family business ownership, family involvement and the management structure has received significant attention in the field of family business (see prior literature review; Barnes & Hershon; 1976; Holland & Oliver; 1992: Navin, 1971; Hershon, 1975). Most research focuses on the relationship between founder, family and/or business to explain the adaptation of organizational forms during the development of family businesses. Also they describe models for how management and ownership within the family business are more and more diffused among family members and incorporate outside members. In some of these models this is associated with the “professionalization” and introduction of formal structures in the family business. This in some of the models subsumes that the family business turns into a non-family business and the family involvement is reduced as formal systems are introduced.

In the context of family business it can be concluded that family businesses rely like non-family businesses on formal structures and control systems. Therefore, they do not rely exclusively on management through the direct supervision by the founder and/or family members. Family businesses support direct supervision with structures and processes.

In addition it has been asserted that formal mechanisms and structures are adapted according to the developmental stage the family business. Researchers illustrate the relationship between management and ownership structure of the family business and systems in the family business. Thereby it is possible to observe the positive effect of the aging and growing and dispersing management/ownership structure on the introduction and formalization of control and management mechanisms adopted by the family business. (Barnes & Hershon, 1976; Holland & Oliver; 1992, Navin, 1971; Hershon, 1975).

The findings in this dissertation are consistent with these findings. With the aging of the family business and the entry of new generations more formal mechanisms are adopted by the family business. Also we observe that the more dispersed the management and ownership structure among family members the more formalized the behavior in the family business through the introduction of structures and systems. We observe that with the aging of the family business and the expansion of the management team the organizational context of the family business is increasingly formalized.

Besides these findings regarding the ownership-management team of the organization another factors which has been found to influence the introduction of formal structures in the family business and organizations is conflict and jockeying for power within the organization.
The power needs of the members of the organization tend to generate structures that are excessively centralized (Mintzberg, 1979). The members of the organization typically seek power, if not to control others than at least to control the decisions that affect their own work. As a consequence the owners and managers of the organization promote centralization to get influence over the business and the outcomes which are critical to their position. Empirical evidence for this is from anecdotal data – but plentiful (Mintzberg, 1979).

Integrating the increasing complexity due to a dispersion of family management and ownership control, the tendency of family businesses to transport conflict from the family sphere into the family business might lead to an overly reliance on formalization of management structures and mechanisms. In the context of IOCVs this can have significant draw-backs for the adaptability of the venture and its performance. Therefore issues at the heart of the family business governance structure could have a significant impact on the ability of the competitiveness of family businesses.

In this context the conflict among family members in the case of LEATHER can be seen as a catalyst for centralization. This might have limited the ability of this family business to develop a corporate group which relied not only on formal management systems, but also on informal mechanisms. The result was an approach towards the management of the IOCV which can be characterized as centralized and relying heavily on exogenous safeguards.

In the case of LEATHER the strong reliance on formalization within the group, was transported into the IOCV. This could not substitute for the lack of family business members to work together. Also the family business members were not able to build endogenous safeguards with their venture partner. Therefore formal mechanisms could not provide those mechanisms critical to the adaptation of the IOCV.

In the case of TRANSPORT a lack of formal management systems and structures combined with the direct supervision of the IOCV, allowed for the dynamic development of the venture and its ultimate success. Here the absence of formalization allowed for the adaptability and dynamic development of the IOCV.

In this context it can be asserted, that family businesses cannot rely exclusively on the introduction of formalized management system and structures in their development. In the family business context it is important to maintain and rely on the informal systems, as those can only partially be substituted by formal systems and structures. They do not offer the same mechanisms for adaptability and development of the family business, as illustrated by the cases investigated in this research.

This implies that family businesses have to take their specific family environment into consideration as it results in a competitive advantage and/or disadvantage. This underlines how trust and relationship among family members pose a threat and/or an opportunity. They
therefore have to be managed carefully and mechanisms and structures adopted by family businesses have to take this into consideration.

The LEATHER case illustrates how the difficulties among the key family members managers and owners cannot be compensated through formalization, and ultimately limit the ability of a family business to develop an IOCV.

5.2.2.6 **Business Characteristics and Formalization and Centralization**

Also we study the size and interrelationships between business units as variables in the context of the IOCV. Size has received significant attention in the context of organizational research (Mintzberg, 1979).

Size (as well as age) has received much attention in its impact on the formalization of business organizations in organizational research (Mintzberg, 1979). The hypothesis that the larger the organization, the more formalized its behavior has been tested empirically with some success (Blau & Schoenherr, 1971; Hall, Haas & Johnson, 1967; Mintzberg, 1979; Pugh & Hickson, 1969; Scott, 1987). In organizational theory it is widely excepted that size of the organization s positively associated with formalization (Mintzberg, 1979; Scott, 1987).

Size can be a significant driver for the formalization of the business organization. This suggest that not only family business characteristics might contribute to the formalization of the family business, but that organizational level variables might also influence the degree of formalization in the family business and might thereby have an impact in the context of the IOCV. Here we believe that they might on one hand moderate, on the other hand might pronounce the effects that the family structure has in the context of the family business. In both cases, it represents a variable, which needs to be controlled for in the context of family businesses.

Again this is consistent with the findings in the cases we studied, where we observed that the larger the family business was, the more formalized were the structures and procedures followed in the different family businesses.

5.2.3 **Imprinting Effect and the Development of IOCV**

In this study we find that the initial conditions are stable during the lifetime of the IOCV and support or hamper the development of the IOCV. This suggests an imprinting effect during the formation of the IOCV.

The impact of founding characteristics on subsequent structure and performance of organizations received initial attention by Stinchcombe (1965). He argued that at birth organizations are “imprinted” as they acquire features at the moment of their founding, which give them a unique character, which cannot be altered afterwards. Scott (1987) has argued that organizations have a tendency “to retain the features acquired at their origin” (Scott, 1987, 161). Therefor it can be argued that those structural features adopted by organizations at birth
are expected to be preserved over the life of an organization, and influence their ability to survive.

The issue of imprinting in organizations has received renewed attention by organizational scholars (Perrow, 1972; Scott, 1987). Of particular interest has been the importance of founding effects on survival as one indicator of organizational performance (Carroll & Delacroix, 1982; Freeman & Hannan, 1983; Hannan & Freeman, 1989; Romanelli, 1989).

Besides this evidence for important imprinting effects, theories drawing on imprinting appear of interest for IOCV development research. The utility of an imprinting theory is that it may explain the development (positive and negative) of organizations based on factors, which (a) are determined at their interception, (b) have a significant impact on the overall development of the organization and (c) can be consciously be decided when taking the decision to enter into an IOCV. These initial decisions might represent commitments during the formation of the IOCVs, which are difficult to reverse by the IOCV partners. Therefore they might determine the development, survival and performance of the IOCV during its later life. Knowing more about these variables can therefore be of great value during the formation of IOCVs, as initial mistakes potentially leading to failure can be avoided.

It might be of value to identify variables, which have the imprinting effect and understand their effect on the IOCV during its lifetime. Understanding the antecedents to the imprinting effect can also help us to better understand the dynamics which lead to imprinting effect, and put the imprinting effect in a larger context of the characteristics of the IOCV.

We provide here tentative evidence that the introduction of exogenous safeguards and formal mechanisms in the management of the IOCV during the formation and negotiation of the IOCV prevent the development of those mechanisms that allow for the development of the IOCV. The unintended negative consequences of formal structures and systems hinders the development of endogenous safeguards and informal management mechanisms which are conducive to the development of the IOCV and limit the dynamics of the IOCV.

Extant empirical evidence in the field of IOC underlines the potential importance of imprinting effects during the formation of IOCVs.

In the context of IOCVs the importance of imprinting effects has received attention. The importance of the imprinting effect has first been implicitly been recognized by a series of studies on joint venture outcomes. Several studies have investigated joint venture equity distribution between the parent companies and outcomes of the development of IOCVs (Beamish, 1984; 1985; Beamish & Banks, 1987; Blodgett, 1992; Geringer & Hebert, 1989; Janger, 1980; Killing, 1983; 1988). However these studies do reach contradictory results regarding the effect of this imprinting.
Another stream of studies tries to link antecedent factors and the outcome of IOCVs. They examined the influence of factors like partner asymmetry, joint venture scope, industry structure, R&D intensity, inter-partner rivalry, and governance structure on the longevity of IOCVs (Harrigan, 1988; Kogut, 1988a; 1988b; 1989). These studies recognize this imprinting effect implicitly through the selection of variables they include study.

More recent work recognizes the imprinting effect explicitly. Doz (1996), for example, has identified the importance of mechanisms facilitating behavioral learning in IOCVs. He finds that “initial conditions (set in terms of task definition, partners’ organization routines, interface structure and partners’ expectations) facilitate or hamper learning … . Learning, in turn, allows the partners to reevaluate their partnership … . Reevaluation then leads to the readjustment to initial conditions and … to a new cycle … . Partners in more successful alliances engage in such a series of iterative and interactive learning cycles over time … “(Doz, 1996, 74). Doz further finds that “alliances can fail in several ways. First, the configuration of initial conditions may block, or at least delay, learning … . Second, initial conditions may allow cognitive learning (understanding how cooperation should take place), but also make the alliance participants more aware of the difficulties of behavioral learning (making the alliance work)” (Doz, 1996, 74). With these findings Doz draws attention to those imprinting effects related to enabling learning among partners. In this model Doz proposes that learning is the engine for the successful development of IOCVs and proposes that those mechanisms which are critical for the development of the IOCV are imprinted during the formation of the IOCV. Following the logic that mechanism for learning and adaptation are defined during the formation of the inter-organizational makes his model an imprinting model for the development of IOCVs.

Also Yan and Gray (2001) have investigated the importance of the imprinting effect and sources leading to the imprinting of specific aspects on the control structures in the context of IOCV. Thereby they expand they focus not on learning mechanisms but control structures and analyze those antecedents which lead to the selection of specific control structures by the IOCV partners. From their findings they propose that political and economic circumstances, initial bargaining power, early success of the IOCV and experience with other IOCVs has an imprinting effect on the control structure (relative contributions, equity contribution, control structure, management control structure) of the IOCV. In this model Yan and Gray identify imprinting effect of specific antecedent factors on the IOCV, not discussing the impact of the mechanism and structures on the overall development of the IOCV (Yan & Gray, 2001).

It can be concluded, that consistent with theoretical considerations in the field of organizational research and research on IOCVs, we provide additional evidence for the importance of an imprinting effect during venture formation. Also we find that family business characteristics are one important antecedent factor, providing evidence for the importance of family business characteristics.
5.3 Limitations

Several limitations of the study need to be acknowledged in the context of the data studied and collected. First the empirical research reported here was based on the data from Spanish-European IOCVs. Characteristics idiosyncratic to the Spanish family business, such as local values or the Spanish/European regulator context might have affected the research results. Second the IOCVs studied in this dissertation were joint venture, which limits the analysis to this specific type of IOCVs. Therefore extrapolation of findings to other IOCVs should be made with great caution. Additional research using longitudinal data from other IOCVs like licensing agreements, and/or marketing agreements is needed to clarify whether the findings of this study can be extended to this context. The propositions and suggested relationships between variables need further test on a larger number of IOCVs and family business. Findings need to be extended to the organizational context of non-family businesses.

A sample related limitation of this study is associated with the selection of the joint ventures for the duration of the IOCVs. Most of the ventures studied were ongoing for more than 10 years, to assure the availability of longitudinal data. However, this duration of the IOCVs studied might not be characteristically for the overall population of IOCVs, as it has been reported that IOCVs often fail, are resolved, or acquired by one of the partners. In addition the sample might not be representative of the overall population as it does not represent the same low success rate than other studies. Two of the management teams judged their IOCVs successful (as they had outgrown initial expectations). Taking into account findings regarding failure of IOCVs of an average of 50%-60% failure, the sample appears to be biased towards successful ventures of long duration. Therefore, including more IOCVs which have been resolved or changed ownership and ventures which are judged non-successful would clarify whether the study could be extended beyond IOCVs which were in place for a longer-time frame.

Methodologically several limitations need to be recognized. First, the analysis conducted in this study is to a large extend based on retrospective data, which might have introduced a bias as a result of faulty memory or retrospective “sense-making” on the part of our informants. We tried to limit this problem relying in most cases and for most variables multiple sources of informants or data. However this was not in the same way possible, as it would have been possible in a real time observation.

Also the data gathered in this study was restricted to the data provided by one party of each IOCV. This limits the analysis of the IOCV to the perspective of one partner. An analysis taking into account the perspective of both partners might have lead to different findings and results.

Finally, we did not control for environmental dynamics, and thereby might neglect an important factor explaining the development of IOCVs. Environmental dynamism might be an
important variable in explaining the dynamics of an IOCV, and thereby moderate the relationships observed in this research, and/or provide for an alternative and/or competing explanation of the findings of this study.

5.4 Intended Contribution to Research

5.4.1 Intended Contribution to the Field of IOC

The initially intended contribution of this study was to explore the development of IOCVs in the context of family businesses. This study is one of a still limited number of studies on the development of IOCVs. It is somewhat more interesting as research on the development of IOCVs in the setting of family businesses is still very scarce.

Related phenomena have been investigated and researched in extent empirical studies and arguments from theoretical studies. Therefore the findings presented in this dissertation do not provide a fresh perspective on the development of IOCVs (Doz, 199; Ring & Van de Ven, 1994; Uzzi, 1996, 1997). However this study provides some tentative evidence which corroborates the findings from prior studies in the field of IOCVs.

Also and this is somewhat new, it connects antecedents to formation, process and outcomes. This eclectic approach leads to the connection and potential integration of different research streams. As prior studies have so far not integrated different findings from different research stream, this might prove interesting (Parkhe, 1991a). Also most studies that have linked antecedents with outcomes do so abstracting from the critical mechanisms, variables and processes (Doz, 1996). We here tried to identify and explore some of the critical mechanisms, variables and processes – formalization and its' intended and unintended consequences.

Finally this study provides some tentative evidence for a potential relationship between outcomes of IOCVs, management approach and antecedents to the formation of the IOCV. Our data are not sufficient to allow testing of the relative importance of each component of antecedent factors. However, they suggest that the partners’ need for safeguards and availability of endogenous safeguards, is somewhat related to the processes and mechanisms introduced during the formation and management of IOCVs. In addition data suggest and extent research corroborates, that the reliance on exogenous/endogenous safeguards, is potentially related to some antecedents to the formation of IOCV. This links antecedents and outcomes through process variables.

5.4.2 Potential Implications for the Field of IOCV

One of the findings of this study and consistent with the other studies, contracts only are part of the coordination mechanisms (Doz, 1996). We find that informal and endogenous
safeguards complement contractual and exogenous safeguards. This implies that in order to study inter-organizational and their development, the exclusive focus on the formal and exogenous misses these other phenomena.

I believe that by varying the organizational context additional findings reveals additional critical variables at the organizational level, which might have an impact on the development of the IOCVs. So far most if the studies have focussed on multinational organizations as parents of IOCVs. The opening of the data-gathering to smaller organizational promises additional and valuable insights into IOCVs and their development.

In many studies antecedent factors had been linked with the outcomes of inter-organizational. However many of the studies reached diverging results, leading to an inconsistent picture.

In this study we provide evidence for a link which might connect organizational context, IOCV characteristics, antecedents to the formation of IOCVs and the development of these ventures. This link might provide an argument for integrating the diverging findings of prior studies linking antecedent factors and outcomes of IOCVs.

5.4.3 Intended Contribution to the Field of Family Business

One potential contribution of this study is that this study provides first empirical evidence how family businesses engage and manage IOCVs. Empirical evidence regarding the use of IOCVs of family businesses is rather limited, despite the relevance of the phenomenon.

Also this study suggest link between the characteristics of the family business and the mechanisms adapted by family businesses in the management of their IOCVs. It is possible to argue that family business characteristics, which are family management and ownership related, have an influence on the management approach adopted by the family business in the IOCVs and the ability to develop endogenous safeguards in the management of IOCVs. Therefore, the characteristics of the family business matter to the development of the IOCVs of Family Businesses.

However, this study also provides tentative evidence that the mechanisms adapted by the family business in managing the inter-organizational relationship are not exclusively determined by the characteristics of the family. Characteristics of the business and in the context of the IOCV are also of importance to the choice of management mechanisms, thereby moderating the influence of the family business characteristics.

5.4.4 Potential Implications for the Field of Family Business

Researchers in the field of family business argue that due to the personalization of family businesses around the members of the family less formal structures are adapted and informal mechanisms are of importance.
It might be this reliance on informal mechanisms which allows family businesses to develop embedded relationships due to the reliance on personal relationships. The organizational characteristics of family businesses might enable the development of their IOCVs.

However this implies that the social relationships within the family business are contributing to the management of the family business, and do not have negative effects in the management of family businesses, as we have observed in one case. Also, other characteristics of family business, like being potentially conflict ridden, also imply a downside for family business and the development of IOCVs.

Therefore these mechanisms in the management of family businesses might result in a specific advantage or disadvantage for the family business, related directly to the characteristics of the family of the family business. This points to the location of some family business related advantages in the family of the family business, directly related to the characteristics of the family.

5.5 Potential Implications for Management Practice

5.5.1 Potential Implications for Management Practice in IOC

The importance of decisions concerning how to form and regarding the initial set up the inter-organizational collaborative has been underlined in extant literature (Tallman & Shenkar, 1994). Apparently during the formation processes critical for the development of the IOCV are initiated. It is critical to understand which decisions and mechanisms start these processes and dynamics. Our findings suggest that the formation of IOCVs is a critical moment, due to its potential long-term impact.

From this research it might be concluded that the formalization of mechanisms and especially contracts in the context of the IOCV has significant advantages in terms of uncertainty reduction and providing predictability. However introduction of formal mechanisms also has some unintended consequences curtailing the adaptability and the mechanisms important to the adaptability of IOCVs. It appears critical that in forming the IOCV, practitioners are aware of the limitations of contracts and the importance and benefits of relying on endogenous safeguards, and manage the IOCV accordingly.

This implies that practitioners need to understand that contractual agreements cannot compensate fully for endogenous mechanisms and safeguards, are no perfect substitute. The limitation of contracts for compensating for lack in endogenous safeguards implies that when endogenous mechanisms are missing – it might not at all be possible to make the IOCV work, as exogenous safeguards do not allow for the adaptation of the IOCVs in the same way as
endogenous safeguards support the adaptation of the endogenous safeguards. However, it is this ability for adaptation, which might be critical after the initiation of the IOCV.

This implies for relationships between partners and partner selection, that in some situations it might be critical to select the partner according to the availability or the capability to develop these endogenous safeguards and mechanisms rapidly. In some situations prior relationship might be more important than the ownership and access to specific capabilities. There might be a tradeoff working with the one partner who has the right capabilities but the wrong type of relationship and the one with right type of relationship but the wrong capabilities. This might especially be an important trade-off in ventures which require significant investments, are complex in their set-up and, or operate in a dynamic environment where early or recurrent adaptation is critical to the success of the venture.

Also, this research points to the locus of capabilities critical to the formation and management of IOCVs are hosted. These capabilities might be related to the ability of the organization to develop endogenous safeguards rapidly in the context of IOCVs. This might be related to some of organizational characteristics of the organization or the team – managers’ ability to establish endogenous safeguards – involved in the management of the IOCV.

5.5.2 Potential Implications for Management Practice in Family Business

From these findings one might suggest that understanding the characteristics of the family business is critical to the development of IOCVs is critical. Manager need to understand how family business characteristics can support or hinder the development of IOCVs and need to take these characteristics into account in the formation and management of IOCVs.

In one case we could observe how conflict among family management lead to formalization and centralization, which had a negative impact on the management of the IOCV. Due to the need of the family business there was a degree of over-formalization and under-socialization of the management mechanisms in the IOCV. We observed that the very formalization posted a disadvantage in the management of the IOCV.

In the two other cases we observed how the reliance on informal structures supported the development of an IOCV. One might argue that the benefit of not overly formalizing the IOCV was at least somewhat related to the characteristics of the family business. The reliance on limited formalization within the family business could have a positive effect outside of the family businesses, in terms of the development of partnerships.

Regarding the before argued importance of IOCVs of family businesses, it seems that there important side-effects in the business conduct of managing family business when working with other business organizations.

This suggests that before entering into an IOCV, in order to allow for its adaptation and to reap its benefits family businesses need to assure that their ownership and management
structure supports the IOCV. In our empirical data, we find one example, where the conflict among the family ownership and management lead to the overly reliance of formalization, and thereby hinders the adaptation of the IOCV. IOC does not offer a solution for family businesses where critical internal issues are not resolved. The resolution of conflict among family members could be a prerequisite for engaging in IOCVs.

5.6 Opportunities for Future Research

For the field of family businesses the impact of characteristics of the family management and ownership on the management mechanisms adapted, especially related to conflict in the family business, appears the most interesting. Here it appears attractive to study the consequence of family and ownership related characteristics and the management mechanisms and its impact on management and development of IOCVs to be the most promising route for further work. This suggest to test the propositions formulated in this study in the context of IOCVs in cross-sectional studies across family businesses and different industries.

For the field of inter-organizational research extrapolation of these findings appears also to be interesting. The findings of this exploratory research draws on the population of Spanish family businesses, who maintain IOCVs – international joint ventures - with several European partners. As this study has drawn on a small number of cases from very specific context, one opportunity lies in replicating cases in other settings. In addition, it appears an opportunity to apply more rigorous measurements in gathering data or a replication of the study. Finally controlling for variables appears an important issue in replicating this study. Last but not least applying cross sectional methodology appears interesting for future research.

In order to further confirm and/or develop the analysis suggested in this study, it might be worthwhile to include non-family businesses in a replication of the sample. Also additional case evidence could be gathered via varying systematically task complexity, asset specificity and or embeddedness of the relationship of the IOCV. Via varying the cases along these dimensions it could be studied whether our propositions prove to be robust. Regarding the data a potentially including both partners characteristics of the IOCV could provide additional evidence on the impact of antecedents to the development of IOCVs.

A second step to improve on this study would be to now that we have further identified the variables and their relationship to study these variables applying more rigorous variable measurement tools, and to rely less on the subjective information provided in a case study. Here the measurement of key variables in the context of few cases could help to further the tools for measuring relevant variables and strengthen the inter-subjective comparability of the findings included in this study.
Last but not least extending this work to a large sample could provide the benefit to generalize the findings to the overall population of IOCVs.
REFERENCES


APPENDIX: QUESTIONNAIRES
STEP 1: RESEARCHING THE IOCVs OF THE BUSINESS

Introduction to the Interview:

This study is an attempt to learn more about IOCV of Family Businesses. We want to know how the characteristics of the IOCV, the characteristics of the family business and characteristics of the decision influence decision making criteria.

Despite the widespread use of strategic IOCVs, we precisely know very little of how strategic IOCV decisions are made and what the factors are that influence these decisions. This study is novel as it looks at how organizational; IOCV and decision specific aspects are related to IOCV decision making criteria at the parent level.

For the purpose of this study strategic IOCVs are defined as long term contracts between the Family Business and another organization, which are important for the performance of the Family Business or are important for the strategic position of the Family Business.

We are studying decisions, especially strategic decisions. In this context we define strategic decisions as decisions, which (1) involve large amounts of resources for example 1.000 million PTAs, (2) have an important impact on the competitive positioning of the firm in terms of vertical integration, geographic product market, degree of diversification, (3) are perceived as important policy decisions of the organization, or (4) change the ownership position and the financial commitment of the Family Business to the strategic IOCV.
Identification of Family Business Characteristics and Key Informants:

Before starting the interview regarding the strategic IOCVs themselves, I would like to know more about your family business. Please answer the following questions briefly.

Business:

1. What industry are you competing in?
2. What are your products?
   - Where do you sell your products?
   - What components do you buy?
   - What is your final product?
   - To whom do you sell your product?

Owners-Managers-Board-Alliances:

3. Who are the key shareholders of your company? (Family vs. Non-Family)
4. Who are the key board members of your company? (Family vs. Non-Family)
5. Who are the key managers of the Family Business? (Family vs. Non-Family)
6. Who are the key managers of the Alliances? (Family vs. Non-Family)
7. Have there been important changes?

Strategic Decision Making:

8. Who is involved in the strategic decisions made in your company? (Family and Non-Family-Members)
9. Who is involved in the IOCV decisions made in your company? (Family and Non-Family-Members)
Locating Additional Interview Partners

In order to study these strategic IOCVs in more detail I would like to talk to managers that have a deep understanding of these strategic IOCVs, and are actively involved in the strategic decision making and day to day management of the strategic IOCVs.

10. Who knows best these topics?
(Family and Non-Family-Members)
Do the managers spend much time in Barcelona?
Can I get access to them?
name, title, job, telephone?

Identification of the Existing IOCVs:

For the purpose of this study, we define strategic IOCVs as long term contracts between the Family Business and another organization, which are important for the performance of the Family Business or are important for the strategic position of the Family Business.

11. Which strategic IOCVs (joint ventures) does your company have? (please list them)
Recording the General Characteristics of the Alliances:

In order to understand the specific aspects of the strategic IOCVs, please describe the IOCVs along the following dimensions.

**Basic Data**

12. Product, geographic market, scope of production?
13. What are the key contributions of the partners?
14. What are the key goals of the partners?
15. Date of Formation?
16. Duration in years?
17. Length of negotiation to form the IOCV?
18. Today’s total investment in millions of Pesetas?
19. Equity Shares of the partners?
20. Board representation?
21. Who is the stronger partner?
22. Is there a Family member directly involved? Who & How?

**Partner-Characteristics**

Please characterize the strategic IOCV partner in comparison to your company?

23. What are the key differences and similarities between the two partners?
   - Nationality
   - Differences in Regulatory environment and industry structure
   - Differences in Corporate Culture
   - Differences in Strategy
   - Differences in Functional Management
Relationship Characteristics

24. Describe the relationship between the two partners?

25. How is the relationship between the two partners managed?

Identification of Strategic Decisions at the Alliance Level:

Introduction

We are studying decisions, especially strategic decisions. In this context we define strategic decisions as decisions, which:

(1) involve large amounts of resources for example 1.000 million PTAs,
(2) have an important impact on the competitive positioning of the IOCV
(3) are perceived as important policy decisions for the partners, or
(4) change the ownership position and the financial commitment of the partners in the strategic IOCV.

We would like to study IOCVs that have been rather active. I would like to know which IOCVs have been the most active ones in the last years.

General Decisions

26. What has been the activity in the regarding:
   changes and decisions regarding the investments in the IOCV?
   changes and decisions regarding the business strategy of the IOCV?
   changes and decisions regarding important policies of the IOCV level?
   changes and decisions regarding the financial commitments of partners?
   changes and decisions regarding the contributions of the two partners?
   changes and decisions regarding the objectives of the partners?
   changes and decisions regarding the benefits of the partners in the IOCV?
   changes and decisions regarding the partnership characteristics?
   overall, what has been the most active ones, along the dimensions?
Locating Further Interview Partners

In order to study these strategic IOCVs in more detail I would like to talk to managers that have a deep understanding of these strategic IOCVs, and are actively involved in the strategic decision making and day to day management of the strategic IOCVs.

27. Who are the key managers in the decision making of the different IOCVs?
   Do the managers spend much time in Barcelona?
   Can I get access to them?
   Name, Title, Job, Telephone?
Introduction

I am studying decisions. I would like to know which decision criteria are used in making these strategic IOCV decisions in your company. Prior research has found that in making decisions with respect to the strategic IOCV, two criteria are important: Efficiency and Equity.

Efficiency can be understood as making the decision in order to achieve an outcome that is advantageous from the economic perspective of the Family business. This implies an emphasis on the interest of the Family Business in the strategic IOCV. The evaluation criteria are whether the strategic IOCV is the most efficient alternative from a Family Business perspective.

Equity can be understood as making decisions in order to achieve a fair outcome in the strategic IOCV from the perspective of the Family Business. Speak, the outcome is fair in for both partners according to the perception of the Family Business. It can be understood as “fair dealing”.

In General:

28. Is there a standard operating procedure to make important decisions regarding the Strategic Alliance? If YES, please explain?

29. What are the criteria that are most important in strategic IOCV decision making for IOCVs in general?

Alliance Level:

30. Is there a standard operating procedure to make important decisions regarding this specific Strategic Alliance? If YES, please explain?

31. What are the criteria that are most important in strategic IOCV decision making for this specific IOCV in general?

Decision Level:

32. Is there a standard operating procedure regarding:
   changes and decisions regarding the investments in the IOCV?
   If YES, explain? What are the key criteria for this decision in general?
33. Is there a standard operating procedure regarding:  
changes and decisions regarding the **business strategy** of the IOCV?  
If YES, explain? What are the key criteria for this decision in general?  

34. Is there a standard operating procedure regarding:  
changes and decisions regarding **important policies** of the IOCV level?  
If YES, explain? What are the key criteria for this decision in general?  

35. Is there a standard operating procedure regarding:  
changes and decisions regarding the **financial commitments** of partners?  
If YES, explain? What are the key criteria for this decision in general?  

36. Is there a standard operating procedure regarding:  
changes and decisions regarding the **objectives** of the partners?  
If YES, explain? What are the key criteria for this decision in general?  

37. Is there a standard operating procedure regarding:  
changes and decisions regarding the **contributions** of the two partners?  
If YES, explain? What are the key criteria for this decision in general?  

38. Is there a standard operating procedure regarding:  
changes and decisions regarding **benefits** of the partners in the IOCV?  
If YES, explain? What are the key criteria for this decision in general?  

39. Is there a standard operating procedure regarding:  
changes and decisions regarding the **partnership characteristics**?  
If YES, explain? What are the key criteria for this decision in general?
STEP 2: RESEARCHING THE FAMILY BUSINESS CHARACTERISTICS

Introduction

In the Family Business literature, the overlap between Family, Owners and Managers in the Family businesses, and the Role of Non-Family Managers has been found to be important for the overall direction of the Business and is seen as important for decision making.

Therefore I would like to know about the Top management structure of the Family Business, and whether changes in the top management team were related to the use of equity and efficiency in Strategic Alliance decision making.

Structure of the Family

1. How many Family members are there in total?
   Is it possible to obtain a list?
   Age and Position in the Family with respect to the Founder?
2. Were there important changes?
3. Had this an effect on the way IOCV decisions were made?
   Which Alliance was Effected? What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   Did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
Structure of the Shareholders

4. Who are the family business members who own the business?
   Who are the Non-Family members who own the business?
   Is it possible to obtain a list? Participation in the business?
5. Were there important changes at this level?
6. Had this an effect on the way IOCV decisions were made?
   Which Alliance was effected? What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   Did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?

Structure of the Board

7. Who are the Family members in the board of directors?
   Who are the Non-Family members in the board of directors?
   Is it possible to obtain a list? Function, Committee, and since when?
8. Were there important changes at this level?
9. Had this an effect on the way IOCV decisions were made?
   Which Alliance was effected? What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   Did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
Structure of Corporate Management

10. Who are the Family members that work in the Corporate Business Unit?
   Who are the Non-Family members that work in the Corporate Business Unit?
   Is it possible to obtain a list? Function?

11. Were there important changes at this level?

12. Had this an effect on the way IOCV decisions were made?
   Which Alliance was effected? What was the change?
   Did this influence the standard operating procedure to make important decisions
   regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   Did this influence the criteria that are most important in strategic IOCV
   decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?

Structure of Business Unit Management

13. Who are the Family members that are in the business Units and Alliances?
    Who are the Non-Family members that are in the business Units and Alliances?
    Is it possible to obtain a list? Function?

14. Were there important changes at this level?

15. Had this an effect on the way IOCV decisions were made?
    Which Alliance was effected? What was the change?
    Did this influence the standard operating procedure to make important decisions
    regarding Strategic Alliance in General or of a specific strategic IOCV?
    If YES, please explain?
    Did this influence the criteria that are most important in strategic IOCV
    decision making for IOCVs in general or of a specific strategic IOCV?
    If YES, please explain?
STEP 3: RESEARCHING THE IOCV CHARACTERISTICS

Basic Data

1. Product, geographic market, scope of production?
2. Has this changed over time?
3. Who is your partner?
4. Date of Formation?
5. Duration in years?
6. Length of negotiation to form the IOCV?
7. Today’s total investment in millions of Pesetas?
8. Equity Shares of the partners?
9. Board representation?
10. Who is the stronger partner?
11. Is there a Family member directly involved? Who & How?

Introduction

I am studying decisions. I would like to know which decision criteria are used in making these strategic IOCV decisions in your company. Prior research has found that in making decisions with respect to the strategic IOCV, two criteria are important: Efficiency and Equity.

In General- Alliance Level:

12. Is there a standard operating procedure to make important decisions regarding this specific Strategic Alliance? If YES, please explain?
13. What are the criteria that are most important in strategic IOCV decision making for this specific IOCV in general?
Task-Characteristics

14. What are your objectives in the IOCV?
15. Has this changed? When & How?
16. Had this an effect on the way IOCV decisions were made? What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
17. What are your partner's objectives in the IOCV?
18. Has this changed? When & How?
19. Had this an effect on the way IOCV decisions were made? What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
20. What is your contributing to the IOCV?
21. Has this changed? When & How?
22. Had this an effect on the way IOCV decisions were made? What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
23. What is your partner's contribution to the IOCV?
24. Has this changed? When & How?
25. Had this an effect on the way IOCV decisions were made? What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
did this influence the criteria that are most important in strategic IOCV
decision making for IOCVs in general or of a specific strategic IOCV?
If YES, please explain?

Management Characteristics

26. What is the ownership structure of the venture?
27. Has this changed? When & How?
28. Had this an effect on the way IOCV decisions were made?
   What was the change?
   Did this influence the standard operating procedure to make important decisions
   regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV
decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?

29. Are there specific contractual clauses?
30. Has this changed? When & How?
31. Had this an effect on the way IOCV decisions were made?
   What was the change?
   Did this influence the standard operating procedure to make important decisions
   regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV
decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
32. Who is on the board of directors of the IOCV?

33. Has this changed? When & How?

34. Had this an effect on the way IOCV decisions were made?
   What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?

35. Who are the key managers in the venture?

36. Has this changed? When & How?

37. Had this an effect on the way IOCV decisions were made?
   What was the change?
   Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
Partner-Characteristics

Please characterize the strategic IOCV partner in comparison to your company?

38. What are the key differences and similarities between the two partners?
   - Nationality
   - Differences in Regulatory environment and industry structure
   - Differences in Corporate Culture
   - Differences in Strategy
   - Differences in Functional management

39. Has this changed? When & How?

40. Had this an effect on the way IOCV decisions were made?
   - What was the change?
   - Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
     - If YES, please explain?
   - did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
     - If YES, please explain?

Relationship Characteristics

(1) Communication Behaviour

41. How do you describe the quality of the information you obtain from your partner?
   - Quality,
   - Information Sharing and
   - Participation

42. Has this changed? When & How?

43. Had this an effect on the way IOCV decisions were made?
   - What was the change?
   - Did this influence the standard operating procedure to make important decisions regarding Strategic Alliance in General or of a specific strategic IOCV?
     - If YES, please explain?
   - did this influence the criteria that are most important in strategic IOCV decision making for IOCVs in general or of a specific strategic IOCV?
     - If YES, please explain?
(2) Conflict Resolution Techniques

44. How are problems resolved:
   Joint Problem Solving,
   Persuasion,
   Smoothing,
   Domination,
   Harsh Words and
   Arbitration

45. Has this changed? When & How?

46. Had this an effect on the way IOCV decisions were made?
   What was the change?
   Did this influence the standard operating procedure to make important decisions
   regarding Strategic Alliance in General or of a specific strategic IOCV?
   If YES, please explain?
   did this influence the criteria that are most important in strategic IOCV
   decision making for IOCVs in general or of a specific strategic IOCV?
   If YES, please explain?
Identification of Strategic Decisions at the Alliance Level:

Introduction

We are studying decisions, especially strategic decisions. In this context we define strategic decisions as decisions, which:

(1) involve large amounts of resources for example 1.000 million PTAs,
(2) have an important impact on the competitive positioning of the firm (in terms of vertical integration, geographic product market, degree of diversification)
(3) are perceived as important policy decisions of the organization, or
(4) change the ownership position and the financial commitment of the partners in the strategic IOCV.

General Decisions

47. What have been the most important IOCV decisions in the last years?
   Have there been large changes in investments in the IOCV? When & Which?
   Has the business strategy of the IOCV changed in the last years? When & Which?
   Have there been important policy decisions at the IOCV level? When & Which?
   Have there been important changes in financial commitments? When & Which?
   Have the contributions of the two partners to the IOCV changed? When & Which?
   Have the objectives of the partners changed? When & Which?
   Have the benefits of the partners from the IOCV changed? When & Which?
   Have there been changes and decisions regarding the partnership characteristics? Who are the persons that can best answer questions about the individual decisions? Is it possible to talk to these persons? (please give two names)

Decision Level:

48. Is there a standard operating procedure regarding:
   changes and decisions regarding the investments in the IOCV?
   If YES, explain?
   What are the key criteria for this decision in general?

49. Is there a standard operating procedure regarding:
   changes and decisions regarding the business strategy of the IOCV?
   If YES, explain?
   What are the key criteria for this decision in general?

50. Is there a standard operating procedure regarding:
   changes and decisions regarding important policies of the IOCV level?
If YES, explain?
What are the key criteria for this decision in general?

51. Is there a standard operating procedure regarding:
changes and decisions regarding the financial commitments of partners?
If YES, explain?
What are the key criteria for this decision in general?

52. Is there a standard operating procedure regarding:
changes and decisions regarding the objectives of the partners?
If YES, explain?
What are the key criteria for this decision in general?

53. Is there a standard operating procedure regarding:
changes and decisions regarding the contributions of the two partners?
If YES, explain?
What are the key criteria for this decision in general?

54. Is there a standard operating procedure regarding:
changes and decisions regarding benefits of the partners in the IOCV?
If YES, explain?
What are the key criteria for this decision in general?

55. Is there a standard operating procedure regarding:
changes and decisions regarding the partnership characteristics?
If YES, explain?
What are the key criteria for this decision in general?
STEP 4: RESEARCHING THE STRATEGIC DECISIONS

Structure Interview Questions

This study is an attempt to learn about strategic decisions regarding the IOCVs of the family business. Despite the widespread use of IOCVs, we presently know very little about how organizations make decisions regarding their IOCVs. This study is novel, as it looks at how specific decisions regarding IOCVs are made: strategic decisions.

All information collected is confidential.

For the purpose of this investigation we study your IOCV with _________________ company and the specific decision to ______________________. The study is interested in how this decision was made. The study is only interested in those aspects of the decision you were personally involved.

1. Going back when the decision of ____________________ first began to surface: How were you introduced to it? How were you informed regarding the details of the issue that made a decision necessary? (please explain)

2. Who were the key decision makers involved in making the decision? (please explain)

3. How far along was the decision process at that time?
   First Identification and Diagnosing of issue
   Development of Alternatives
   Making the Decision
   Implementing the Decision
Identification Activity

The Identification Activity consists of both decision recognition and diagnosis routines.

The *Decision Recognition Routine* starts when opportunities, problems, or crises are first recognized and this triggers or evokes the decisional activity. Often strategic decisions do not present themselves to the decision maker in convenient ways; problems and opportunities in particular must be identified in a stream of ambiguous, largely verbal data that decision makers receive. The need of a decision is identified. There can be a multitude of stimuli.

4. How did the decision problem surface?
5. What did you think were the key issues when the problem surfaced?
7. When the topic surfaced,
   did it appear to be important for the attractiveness of the IOCV for your business?
8. When the topic surfaced,
   did it appear to concern the distribution of benefits and contributions of the partners?
9. What appeared to be more important when the topic first surfaced
   a) the effect it had on the attractiveness of the IOCV for your business?, or
   b) the effect it had on the distribution of benefits and contributions between the partners?
10. When the topic surfaced,
    did it appear to effect the contributions and benefits of your business to the IOCV?
11. When the topic surfaced,
    did it appeared to effect the benefits and contributions of you and the partner
12. What appeared to be more important when the topic first surfaced
    a) the effect the contributions and benefits of your business to the IOCV?, or
    b) effect the benefits and contributions of both, us and the partner
The **Diagnoses Routine** involved the collection of information relevant to the problem, crisis, or opportunity, and the clearer identification of the issue. A decision process is initiated, and resources are mobilized to deal with it. Diagnoses need not to be a formal or explicit routine.

13. How and When was the exploration of the decision initiated?


15. What did you think were the key issues when the problem was first explored?

16. When the issue was first explored,
   - did it appear to be important for the attractiveness of the IOCV for your business?

17. When the issue was first explored,
   - did it appear to concern the distribution of benefits and contributions of the partners?

18. What appeared to be more important when the topic was first explored
   - a) the effect it had on the attractiveness of the IOCV for your business?
   - b) the effect it had the distribution of benefits and contributions between the partners?

19. When the issue was diagnosed,
   - did it appear to effect your contributions and benefits to the IOCV?

20. When the issue was diagnosed,
   - did it appeared to effect both partners' benefits and contributions to the IOCV?

21. What appeared to be more important when the problem first surfaced
   - a) the effect on your contributions and benefits to the IOCV?, or
   - b) the effect on both partners’ benefits and contributions to the IOCV?
Development Activity

The development activity consists of both search and design routines.

In the Search Routine decision makers go through activities to generate alternatives from ready made or in the past successfully employed solutions. Decision makers look at past experiences of the organization, wait for alternatives to appear, activate other companies, and develop new alternatives.

22. How and When did you start to generate alternatives?
24. What were the desired characteristics of the alternatives looked for?
25. When generating alternatives
   we focused on alternatives that would reduce our contributions and increase our benefits from the IOCV.
26. When generating alternatives
   we focused on alternatives that would improve the distribution of contributions and benefits of the partners in the IOCV.
27. What appeared to be more important in the search for alternatives, to
   a) focus on alternatives that would improve our cost/benefit ratio in the IOCV?
   b) focus on alternatives that would improve the distribution of contributions and benefits among the partners in the IOCV
In the Design Routine, alternatives have been identified and now are modified to fit the problem. If no ready made solutions are found, new solutions are designed. An example of a modified ready made solution would be the adaptation of equipment for special-purpose applications - adapting a general purpose aircraft for a specialized use; the modification of a general contract, to the specific business deal. A new custom made solution would be the construction of a custom designed aircraft, or the construction of new headquarters building, or the writing of a contract from scratch.

28. How and When did you begin to modify the alternatives?
29. Were you personally involved in the design for alternatives? Please describe how.
30. How would you characterize the modifications of the alternatives that were critical?
31. When modifying the alternatives
   we focused on those aspects that related to our cost/benefit ratio in the IOCV.
32. When looking for alternatives to select from
   we focused on those aspects related to the distribution of contributions and benefits of the partners.
33. What appeared to be more important when the alternatives were modified
   a) aspects that related to our cost/benefit ratio in the IOCV?
   b) aspects related to the distribution of contributions and benefits of the partners.
Selection Activity

the selection activity consist of a screening, an evaluation-choice and a selection activity.

In the Screening Routine, the total number of alternatives is reduced to a small number of alternatives that will later be evaluated in detail. It is a superficial routine, more concerned with eliminating what is feasible than with determining what is appropriate.

34. How and When did you begin to reduce the number of alternatives?
35. Were you personally involved in the screening for alternatives? Please describe how.
36. What were the characteristics of the alternatives eliminated?
37. When eliminating alternatives in the screening procedure:
   we focused on selecting those alternatives that did improve the ratio of contributions and benefits of our business in the IOCV?
38. When eliminating alternatives in the screening procedure:
   we focused on selecting those alternatives that did improve the distribution of benefits and contributions among the partners in the strategic IOCV.
39. What was more important in eliminating alternatives in the screening stage
   a) selecting those alternatives that did improve the ratio of contributions and benefits of our business in the IOCV?
   b) selecting those alternatives that did improve the distribution of benefits and contributions among the partners in the strategic IOCV.

In the Evaluation-Choice-Routine, one alternative is selected among the remaining ones. There are three modes used in making this step: Judgment, Bargaining and Analysis. In judgment, one individual makes a choice in his own mind with procedures that he does not, perhaps even cannot explain. In bargaining selection is made by a group of decision makers with conflicting goal systems, each exercising judgment. In analysis, factual evaluation is carried out, generally technocrats, followed by managerial choice and bargaining.

40. How and When did you select the best alternative?
41. Were you personally involved in selecting the “best” alternative? Please describe how.
42. What were the selection criteria to prefer this alternative?
43. When selecting this alternative:
   we selected it as it was the most interesting one in terms of the benefits we would gain and the contributions we needed to make to the IOCV.
44. When selecting this alternative:
   we selected it as it was the most interesting one in terms of the distribution of benefits and contributions of the partners to the strategic IOCV.

45. When selecting this alternative it was more important that the alternative was the most interesting one in terms of
   a) the benefits we would gain and the contributions we needed to make to the IOCV.
   b) the distribution of benefits and contributions of the partners to the strategic IOCV.

   In the Authorization Routine when the individual making the decision does not have the authority to commit the organization to a course of action and the decision moves up the organizational hierarchy until it reaches a level where the necessary authority resides.

46. How and When did you authorize the alternative?

47. Were you personally involved in the authorization phase? Please describe how.

48. What were the criteria for the authorization to accept this alternative?

49. When authorizing this alternative:
   we authorized it as it was the most interesting one in terms of the benefits we would gain and the contributions we needed to make to the IOCV.

50. When authorizing this alternative:
   we authorized it as it was the most interesting one in terms of the distribution of benefits and contributions of the partners to the strategic IOCV.

51. When authorizing this alternative it was more important that the alternative was the most interesting one in terms of
   a) the benefits we would gain and the contributions we needed to make to the IOCV.
   b) the distribution of benefits and contributions of the partners to the strategic IOCV.
Outcomes

Did this decision have an important impact on any of the following?

Task-Characteristics

52. What are your objectives in the IOCV?
   Has this changed? When & How?
53. What are your partner’s objectives in the IOCV?
   Has this changed? When & How?
54. What is your contributing to the IOCV?
   Has this changed? When & How?
55. What is your partner’s contribution to the IOCV?
   Has this changed? When & How?

Management Characteristics

56. What is the ownership structure of the venture?
   Has this changed? When & How?
57. Are there specific contractual clauses?
   Has this changed? When & How?
58. Who is on the board of directors of the IOCV?
   Has this changed? When & How?
59. Who are the key managers in the venture?
   Has this changed? When & How?

Partner-Characteristics

60. Please characterize the strategic IOCV partner in comparison to your company?
   Has this changed? When & How?

Relationship Characteristics

61. Communication Behavior - Has this changed? When & How?
62. Conflict Resolution Techniques - Has this changed? When & How?
APPENDIX: CASE STUDIES
CASE STUDY 1: TRANSPORT

Company Background: TRANSPORT

In 1996 TRANSPORT was a holding company with headquarters located close to Barcelona. The company’s key business activity was in the road transport industry. The group focused on transporting cars, merchandise and oil products. Additionally, the company had less important operations in agriculture, construction, hotel, and the logistics service industry. Besides, the holding administered some of the private participations of the owner.

TRANSPORT was founded on August 31, 1954, by A.B. His goal was to form a business that would provide all types of road transportation in the Spanish market. Initially the company grew as a transport company for finished cars and parts for a key customer in the Spanish automotive industry. In 1974, through the acquisition of B-COMPANY, TRANSPORT diversified within the transport sector into oil transportation. In 1996 TRANSPORT had three independent divisions in the road transport area, separating merchandise and transport of finished cars into two independent profit centers. The third profit center was dealt with road transportation of petroleum products.

Industry

TRANSPORT concentrated its most important activities in the road transport industry. TRANSPORT was competing within the goods transport and logistics industry in Spain and Europe. The road transport industry in Europe was highly fragmented. Each of the different market segments developed, driven by the demand conditions in its respective market. One of the key segments of the TRANSPORT group was the transport of finished cars for car producers. In this market segment the importance of international traffic increased with the internationalization of the automobile industry during the 1980s and 1990s.

In Spain, as of 1994, 80% of freight was transported by road. This volume had grown from 110 billion t/km in 1985 to approximately 172 billion t/km in 1994. There were about 250,000 road vehicles in use in the Spanish market. The majority of the competitors (68.7%) operated one vehicle. Less than 0.5% of the companies in the industry had more than 20 vehicles. This made TRANSPORT one of the most important players in the industry. In the transport of finished goods in the automotive industry, the company was the largest competitor.

The Spanish transport industry was fragmented along different types of transport services (which were offered by the competitors) due to the requirement of different operating structures. Different transport services required specific transport equipment, which could not be used in other transports and the operation of different networks. For example the transport...
of oil and gas products required vehicles other than those required for the transport of merchandise, food or cars. While some goods were transported on a regional basis others were transported on a national and international basis. Therefore market segments were separated according to different necessities of investing into transport equipment and to operating different route networks. Another important difference among transport companies was the size. Large operators operated route networks and made longer-term contracts with clients to transport their goods. Smaller transport companies worked as subcontractors for the larger companies, providing services exclusively to a company or providing services to their customers on a daily basis.

The industry was characterized by slow restructuring. One of the key trends for the Spanish market, that affected most transport companies, was the growing importance of subcontracted logistic services and in-house logistics services. This development was still in its infancy in Spain during the middle of the 1990s. However, future prospects for this sector were very positive. The potential for growth of logistics services in Spain was especially good in the areas of local and regional warehouse facilities, management of inventories, and management of merchandise distribution through operators with their own logistics facilities.

The second important development within the industry was the emergence of integrated logistics services providers. These were collaborations between different service supplies, often including rail transportation service suppliers and road transport companies, or several car transport companies that offered their transportation services together to a client. As a result the client only needed to deal with only one, and not multiple, service providers.

Most market segments followed specific developments, as customers demanded different services in each segment. For example, the transport of finished goods in the car industry was characterized by a slow internationalization of the car industry’s activities. As the multinational car assemblers began to coordinate their production across European markets, international transport volume gained in importance. Also, by the middle of the 1990’s, traffic patterns within the European market changed. Due to this the ability to provide transportation services across the European continent became important for the companies to compete in the market for the transport of finished goods within Europe. Additionally, transport of finished goods in the car industry was also influenced by the growing importance of logistics services. Finished product transport companies began to offer logistics services to car assemblers, taking up activities at assembly facilities where car manufacturers produced their cars. Also, road transport companies provided services, such as car pools and sales preparation, to car dealers.
Strategy of TRANSPORT as a Holding Company

TRANSPORT was competing in the road transport industry. The company was one of the largest road transport companies in the Spanish market. TRANSPORT focused on several market segments such as, transport of petroleum products, merchandise for several industries and finished cars from assemblers to the dealers. These businesses were related to a limited extent, as they covered different geographic areas and used different transport equipment. The key interrelationship between these businesses was that the same management team overlooked different operations. The company operated their fleet of trucks, had some subcontractors working exclusively for TRANSPORT and subcontracted loads on a daily basis.

The management describes TRANSPORT as marketing and service driven competitor in the industry. The company invested more into its own loading capacity and used less of daily subcontracting. This had to do with the company philosophy that its own fleet was critical for the company’s success. The group put much attention into the technical conditions of the overall fleet, investing in new vehicles and assuring regular maintenance of its vehicles. Also, the company was marketing oriented. The managers describe the company, not a route network operator, but as a transport company that would also accept traffic outside its own network, if it was profitable. In addition TRANSPORT offered logistics services to its customers, in order to increase the transport volume it could capture for its transport divisions.

Transport of petroleum products was undertaken in the geographic area of two Spanish regions in the north east of Spain. The company was transporting products from specified pickup points to delivery points as required by its customers. TRANSPORT serviced mainly one Spanish customer, and had the exclusive rights for the zone where it was providing its services. The transport equipment used in this area was specific to the purposes of the business. Operations in this market were different from the other market segments. As the geographic area of transport was relatively small individual loads could be planned in advance and transport equipment, except for the towing machines, could be exclusively used in this market segment.

In the area of merchandising TRANSPORT generated 60% of its business in transports for one industry. Of some importance to its business was the transport of chemical goods, paper and canned products. In the same industry TRANSPORT also offered logistic services to its customers, such as consolidation and de-consolidation of loads that were supplied by other companies. In this business TRANSPORT had invested a limited amount of its assets. Most of the trucks for this activity were provided by subcontracted drivers. Further, in this segment TRANSPORT competed with integrated logistics services.

In the transport of final products for the automotive industry TRANSPORT served the Spanish market. It operated a joint venture to cover several European countries and had a partner for the German market. In this business TRANSPORT also offered service to both
organize automobile producers and their distribution channels. The company provided on site services to car producers, focusing on the handling of the car once it could be driven within the plant. TRANSPORT also offered pooling and car preparation services to car distributors.

Its services were critically related to the merchandise and car transport divisions. They were organized in a third division (with exception of those operations managed together with the joint venture partner that were part of the IOCV), called the service division.

The remaining business units of the holding were of little importance for the development of the group. The agricultural division was part of the private property of the founder and owner of the company. He had inherited it from his parents. Also his private assets were part of TRANSPORT. The company also owned a small hotel on located in the vicinity of the Spanish logistics facility. This hotel catered to its truck drivers. This business generated sales of 250.000 EURO per year. Finally a construction division provided necessary construction services to the company. It generated a sales volume of about 200.000 EURO per year.

**Organizational Structure of TRANSPORT**

TRANSPORT was organized as a management holding. Within the holding different businesses were organized as separate divisions. All the divisions were managed by the same team. The management was organized according to functional area and business activities (i.e. finance, human resource management, marketing, production, organization and systems, repair and truck-maintenance area) and operated across different businesses. For example, the head of finance managed the financial activities for the area, the same was true for the marketing manager and the operation managers. Each of the business areas had its own organizational structure and was independent in its day-to-day operations. The activities included mainly marketing and dispatching of vehicles and transporting loads. The truck maintenance area was a central service offered the different divisions of TRANSPORT.

The key managers of the organization were the top management team. It made key decisions regarding different business areas and coordinated across between them. The attention of the management team was focused on the road transport business. It was free to make its decisions in the management of the company. It could make all decisions related to the entry into new business activities and new market segments as long as this did not imply the purchasing of trucks or the construction of facilities. Decisions relating to purchase of trucks, terrain and construction of facilities were made at the board of directors level which was under the direct involvement of the owners of the company.

TRANSPORT used few formal coordination and planning mechanisms. The most immediate coordination mechanisms were the use of financial budgeting across the business areas, an annual review of productive capacity and prediction of the overall transport volume.
Other internal planning and coordination mechanisms did not exist within the organization. The budgets were used for the purpose of coordination. Managers were paid a fixed income. Objectives were determined amongst the managers at the beginning of the year. The objectives had been achieved in all occasions. If a business area generated negative results the management undertook corrective measures. However, so far it had not been necessary to undertake drastic measures.

Overall TRANSPORT relied mainly on informal coordination mechanisms and coordination amongst the managers through regular meetings with the General Manager of the group. All managers, with the exception of the head of operations, had worked in TRANSPORT before the founder had left day-to-day management and focused his activities at the board of directors level. The TRANSPORT group was managed relying very little on formal systems. Most of the decisions and day-to-day management issues, beyond operating management was undertaken informally among the management team. Little organizational structure and management systems were used in the holding.

**Family Involvement at TRANSPORT**

Family involvement of the group was limited to the founder being in the board of directors and a daughter that collaborated in tasks related to the board of directors. Family members did not get directly involve in operating issues of the business areas and the managerial tasks. Especially in the transportation business, day-to-day management was left to the management team and did not involve the activities of the group. The owner reviewed the purchasing of new transportation vehicles and larger construction works for the overall company. These decisions were reviewed in the board meetings, as the management proposed to undertake these investments.

The owner of the business had two children, one son and one daughter. The daughter worked in the group and supported the board of directors in their activities. She was responsible for organizing the board meetings. The son studied economics at a University in Spain. After finishing he was to enter the business of his father. The owner had the intention that the company would remain under his control and that his children would take over his leadership role in the company. However, how the sun was to be integrated into the company and the succession of the father was not determined in 1996.

The influence of the founder in the business was still perceptible. The management team, except for the head of operations, had already worked at TRANSPORT when the owner had been more involved in the management of the group and the road transport business. The importance and the influence of the founder in the business was still perceptible in many aspects the business was conducted. There were certain rules that were widely accepted among the managers of the business. For example, the company tended to invest more into
owned trucking capacity relative to its competitors. This was based on the strict belief of the owner that this was critical for the success of the company. Also the approach to offer service to the clients, in order to grow the sales from single client accounts, was based on the business philosophy of the founder.

**IOC**

TRANSPORT had no explicit joint venture, or IOC strategy, for the group (or its companies). Top management pursued opportunities for IOC as it saw fit. The company had several collaborative ventures in the road transport areas. The most important one was a joint venture with the German company GERMAN PARTNER in the transport of finished products in the automotive industry all over Europe.

TRANSPORT had formed several contractual IOCs to provide transportation services together with other transport companies to its clients. The management underlined the growing importance of IOC and coordination of several transport suppliers to the final customer. The ventures were important as they allowed to generate operating synergies between the transport companies and to offer a better service quality to the customer. In 1996 these IOCVs were not critical for the overall business activity of the TRANSPORT group, but their importance was growing steadily.

At the same time, collaborative agreements between road and rail transport companies were gaining in importance, in order to offer integrated transportation services. For this reason the company had formed an IOCV which included a large national railroad company and several other companies.

In forming IOCVs, the management was mainly concerned with gaining access to additional marketing opportunities and client contracts. Through these IOCVs the company wanted to grow its customer base. Therefore TRANSPORT was interested in the collaboration to become a part of the several integrated service suppliers to leverage its road services.

In addition, and most important to the group, TRANSPORT had one joint venture in the area of the transport of finished goods for the automotive industry with a German transport company. This joint venture competed in the European market and owned subsidiaries in several European countries. It was critical to the company’s car transportation business and allowed the company to be an important international competitor. This joint venture had grown out of prior business relationships with the partner.
IOC Management

As most management tasks, all inter-organizational collaborative contracts and ventures were managed through the management team. The owners and family members did not get involved, with the exception of investments in trucks, terrain and construction. The management selected the IOCV partners and negotiated IOCV agreements. The plans to form joint ventures or other collaborative initiatives were presented to the board of directors and the ownership of the company.

There was no specific structure applied to the management of the joint ventures and IOCVs, they were treated as they belonged to the different business areas.

The attitude of management towards the different IOCs was not uniform. The joint venture with GERMAN PARTNER was perceived and described as a long term partnership, which was critical to the development of the company in the car transportation business. The management underlined the problem resolution characteristics of the meetings and the relationship with the partner that had developed over the years. Issues related to negotiations and termination of the joint venture were not explicitly discussed by managers.

On the other hand the management underlined that the other inter-organizational collaborative relationships were different and more competitive in nature. These ventures were described as necessary relationships, TRANSPORT had to enter as it was important for the overall development of the company. The relationships were competitive and of short term nature between the partners. Also, the management underlined that in these situations they had little control over the decision making in these IOCVs. The management also pointed out that this was not the way it preferred to do business.

Joint Venture Studied in Detail

The oldest, largest and most active IOCV of TRANSPORT was the joint venture with the German company GERMAN PARTNER. This joint venture had grown from a market relationship, the repeated exchange of traffic between the partners, into a long term contract to exchange traffic. Later the partners founded a joint venture, purchased trucks and invested in operations in third countries together. This was the most important IOCV for TRANSPORT as it covered all the international activities in the transport of finished products for the car industry. The IOCV as such was successful, as it had outgrown initial expectations and had undergone several changes in strategy and focus. In 1996 the joint venture was important to the overall performance of the company, as it was critical to the company’s operation in the transport of final products for the automotive industry. In 1996, the joint venture was undergoing
restructuring. TRANSPORT’s management was confident that the joint venture would continue in the future.

Pre IOC:

Before a business relationship between TRANSPORT and GERMAN PARTNER was formalized through a contract, both companies had been exchanging traffic in the transport of cars between the German and the Spanish market.

The underlying business rationale for this exchange of traffic had been that TRANSPORT transported finished cars for one of Spain’s most important car producers (from Spain to Germany) and at the same time the German company did the same in the opposite direction (for one of Germany’s most important car producers). In order to have competitive transportation costs, the load factor for the transport equipment is critical, as it determines the profitability of the individual loads and the overall profitability of the route. This implied that it was important to both companies to have a load on both ways, one on the trip from Germany to Spain and one on the trip from Spain to Germany. As both companies were the largest transporters of finished cars on the routes between Germany and Spain and had asymmetric traffic volumes, the Spanish trucks often went to get loads from the German company and the German trucks often obtained loads from the Spanish company. This exchange of loads occurred in an uncoordinated and informal manner. When a truck driver of any of the two companies did not have a return load, he would get in touch with the other organization to obtain a load on short notice.

Long-term Contract between TRANSPORT and GERMAN PARTNER

In 1982, TRANSPORT (Spanish) and GERMAN PARTNER (German) decided to sign a long-term contract regarding the exchange of truck loads. This allowed the two companies to coordinate transportation volumes that both companies contracted on the routes between Germany and Spain. This allowed both the companies a more competitive and predictable price for the Spanish German Route.

In this context each partner contributed part of the transportation volume to the contract. The Spanish (German) partner received the price that he had sold to the Spanish (German) car assembler on the route from Spain to Germany (Germany to Spain). When the Spanish (German) partner transported loads from Germany to Spain (Spain to Germany) he obtained a negotiated transfer price from the German (Spanish) partner.

From an operations perspective, the global transport volumes of goods were coordinated through the company’s annual coordination meeting. In addition, when a Spanish truck entered the German geographic area, it would be automatically assigned a return load through the German companies load dispositioning department. The same was true for the
German trucks in the Spanish market which would get the load assignment from the Spanish load dispositioning department.

Initially the partners used safeguards to manage the business relationship. The partners agreed that all business papers needed to be signed by one manager from each of the two companies, such that each partner could monitor all the activities that were going on within the venture.

**Start-Up and Initial Growth of the Joint Venture**

This exchange of loads between the two organizations worked over a time span of six years. In addition to the agreed safeguards the German partner assigned one employee to monitor its truck movements in Spain, thereby closely monitoring the load assignments as undertaken by the Spanish partner. This employee did not get directly involved with the dispositioning department of TRANSPORT, but managed the trucks independently and additionally to TRANSPORT's load assignments.

During this initial phase the IOC grew significantly. With better load factors on the Spanish-German route the partners were more price competitive, which allowed them to obtain additional traffic on these routes. In addition the internationalization of the automotive industry and the foreign direct investment in Spain, led to growing traffic on the route between the German and Spanish market.

During the initial phase the two partners got to know each other better, as they became familiar with the way they operated their business. A better understanding between them resulted in the first redefinition of the IOCV.

**First Redefinition of the Venture into a Joint Venture**

After 6 years, in 1988, the partners decided to redefine the contractual relationship into a joint venture. In order to strengthen their relationship they decided to found the joint venture company. This company started with the purchase of 16 trucks, eight purchased through the German partner and 8 purchased through the Spanish partner. These trucks were operating as a part of the fleet between Germany and Spain. The trucks, however, were dispositioned through the German and the Spanish disposition units.

This decision was not so much based on business rationale. Both partners could have just assigned more trucks on a day to day operating basis to the traffic between the German and the Spanish market. Management argued that the objective was to create an operating unit and to undertake an investment together to form a relationship between the two companies. This redefinition was the beginning of a series of decisions to restructure the operations of the IOCV.
Second Redefinition of the Joint Venture

Until 1990, both partners had undertaken only limited investments within the IOCV, except for the 16 trucks there were no assets directly assigned to the joint venture and it had been mainly a legal structure. This changed during 1990, when both management teams decided that they would coordinate all their European activities within the joint venture. This drove the two management teams to undertake several investments together in the IOCV. Operations were set in different European countries for the coordination of traffic flows within the IOCV. In order to expand the traffic network and to obtain a better coordination of traffic, the two companies decided to operate marketing, sales and coordination offices in France, Portugal and Hungary.

Opening a French office was important to both partners, as this office lay between the German and the French operations. The Portuguese office was important for the Spanish partner, as the traffic between Portugal and Spain and the European community intensified. The existing traffic network allowed the companies to pursue and compete in Portugal competitively. The opening of the Hungarian office reflected the interest of the German partner. With the fall of the wall in 1989, it became important for the German competitor to operate in the Eastern Europe market as the traffic volume into that direction increased significantly.

Initially all these offices were of limited importance, as the traffic on these routes was rather limited. However with the opening of Eastern Europe and the changing of within Europe Transport agreements, traffic patterns began to change significantly. Initially the traffic operated like a bottleneck between Spain and Germany. With the changing in traffic flows in the industry, traffic patterns changed in more multipoint and net structure traffic routes. This change made traffic flows in other form and to other European countries more important.

Third Reconfiguration of the Joint Venture

These developments and slow changes in traffic patterns made the investment in other locations and facilities more important. Therefore the partners of the joint venture agreed that they needed to become more active in the French market. This would allow the load factors to increase on the routes between Germany and Spain. Therefore the partners began to undertake important marketing activities in this market. This resulted in several important contracts within the French market and to the generation of sales and profits within the French subsidiary. Similar, but less important attempts were undertaken in other regional markets.

Forth Reconfiguration of the Joint Venture

Within the Joint Venture the partners undertook several of these initiative over time. With the development of commercial and coordination offices in the different national European markets, the companies also obtained important contracts in these countries. This lead the
companies to also set up operations in these countries to provide services for their client companies. This lead to a steady increase on the diverse European routes of the joint venture.

Until that time the organizational structure, each national market operation was owned 50% and 50% by the two parent companies, and none of the two parent companies had so far invested large amounts into the joint ventures. Each of the different joint venture companies had its own management staff and its own operating structure. These did not include many assets, the key asset in the national joint ventures were the contracts signed.

This caused significant administrative difficulties and complicated the integration and operation of the different companies. At this point of time the two management teams decided that it was necessary to simplify the administrative structure of the overall IOCV, giving the overall administrative structure into a holding. This would control the overall subsidiaries, and the parent companies would hold a 50%-50% participation in the holding company structures.

Overall, this was not much of a change from an operating perspective, as the specific allocation of trucks still was undertaken in the two disposition centers for the northern half of France in Germany and for everything South of this border in Spain. However, from a legal perspective this implied that the companies developed a new degree of interdependence, from multiple joint ventures in different locations into a single joint ventures with multiple locations. This is a symbolic change in the quality of relationship between the partners in the IOCV.

**Further Changes in European Traffic Structure**

With the development of an international subsidiary network the structure of the traffic flow within the joint venture changed slowly. Initially traffic flows were between the German and the Spanish market. With investment in new offices and new traffic contracts, the traffic flows changed significantly. Now the companies were in the assignment of trucks, no longer dealing with traffic between two areas (i.e. Germany and Spain), but with traffic in an overall structure.

**Fifth Reconfiguration of the Joint Venture**

The fifth and so far last major change in the IOCV is also the most important one. It was triggered, as the German partners family management was succeeded by professional managers, who redefined the organizational structure and introduced management systems within the organization of the German partner.

The first step undertaken by the new management team with regard to the IOCV was a transfer of employees at GERMAN PARTNER to the joint venture subsidiaries in Germany, without communicating this assignment to its Spanish partner. This led to an important crisis between the partners. The crises was resolved as the German management team reversed its decisions and agreed to the prior established status quo.
Later, after the German management team had introduced the new organizational structures and systems, it found out that the transfer price it received from the joint venture did not cover its operating costs. This was related to the fact that the German cost for transportation was much higher than the cost of the Spanish partner, due to aspects related with the location of the German company.

Knowing that the partner had problems in obtaining competitive cost structure, the decision, that the German partner would slowly retreat from all operations south and west of Germany and that the joint venture would be converted into an independent company, which had to generate profits for its two parent companies, was made together.

This implied a complete change in the economic model of the IOCV. Before the joint venture did neither generate profits nor loses. It was implicitly run as a cost center. The two partners received profits and losses through the transfer prices for their services on transport contracts. This would now change fundamentally, as the two partners agreed to operate the joint venture as a profit center.

**Continuous Development**

Since this decision had been taken the two partners were pushing their IOCV forward in two directions. On one hand, they tried to improve the position of the joint venture in the French market, in order to increase traffic volume on the routes between south and central Europe. On the other hand, the partners were negotiating the implementation of the joint venture as a profit center.

In the latter, two aspects were critical. First of all, the partners needed to transfer assets from the German company to the French subsidiary of the Joint Venture. With the retreat of the German fleet from the joint venture activities, the joint venture needed its own fleet. On the other hand, the German partner had too many trucks than necessary for its German traffic. Therefore, one decision was to transfer these trucks from the German partner into the joint venture. This would become the biggest decision to invest into productive capacity within the joint venture.

Also, until 1996 the two partners did not use the same statistics, cost and sales-information in decision making. Until then there had been no common cost system concerning the transportation cost of the joint venture partners. Therefore the partners planned to work on the development of a common information system.

Overall, TRANSPORT’s management was well aware of the changes to come in the IOCV. They were optimistic that the IOCV would persist in the future, as it was for both partners interesting to be able to provide transport service to the car industry across Europe. This common interest was perceived as the key reason for the continuity of the joint venture in the future.
Revisiting TRANSPORT in 2002

In 2002, 5 years after the initial study was undertaken, we went back to gather additional data on the development of the IOCV. In the case of Transport this proved unfeasible, as the founder of the company had died and the management team had changed significantly. The initial contacts had left the company. Access was not granted. We therefore relied on public information to complete our data.

Since 1997 the IOCV remained in operation. The integration of the different activities had been completed. It was still operated by the TRANSPORT group and still managed with the GERMAN PARTNER. Also the venture had expanded in related services like transport preparation services and other related value added activities.

This change was implemented, as an external manager took control and managed the business as the family members were not ready to succeed the founder of the family business.

However, other changes were not discernable within the family business and with the joint venture.
CASE STUDY 2: CARPARTS

Company Background

In 1996, CARPARTS group was a holding company, with headquarters located in Barcelona. The key divisions operated in the automobile sector. They focused on the provision of components to internationally competing automobile assemblers. In addition, the CARPARTS group had some less important operations in the naval, construction and machinery industry.

Over its corporate history, CARPARTS had developed from a small, single-plant operation to an international competitor in the production of car parts. The company was founded in 1949 by members of the two families A. and B. It started as a manufacturing shop for the production of wires for cars. The company expanded continuously and, in 1976, regrouped into a holding structure. The shareholders of the individual operations sold their shares to the holding, which coordinated different divisions from that point on. In 1985, CARPARTS was the market leader for several automotive components in the Spanish market. In that year, CARPARTS began to internationalize its operations. Initially, the geographic expansion covered the European market. Later the company decided to become a global competitor. In the late 1980s and early 1990s, the company made several investments outside of the Spanish market, mainly in the UK, France, Portugal, Germany, Brazil and Mexico. In the mid 1990s, the CARPARTS group had managed to increase its international sales by more than 50% and was poised to enter the US market.

Industry

CARPARTS concentrated the majority of its activities and assets in the automotive components industry. During the 1980s and 1990s, the industry was undergoing a restructuring, as the automotive industry internationalized and changed its industry structure. As a consequence, car component suppliers changed their product market strategy. They increased their degree of vertical integration and invested in technological capabilities.

In the past, the car manufacturers developed the individual component of the final product and provided their suppliers with detailed plans for the manufacturing of these components. The suppliers produced the parts according to specifications and shipped them to the car producers. The components producers competed among each other and with the independent divisions of the car assemblers that produced car components. The assembly of parts into modules and sub-components was undertaken by the car manufacturers. These modules and components were later incorporated into the final products.
Beginning in early 1980s, the international automotive industry and the components industry underwent significant change. These changes began to affect the Spanish market for car components in the second half of the 1980s. The key aspect of this change was a redefinition of the relationship between parts suppliers and car assemblers. The assemblers started to coordinate their purchasing across their internationally subsidiaries. The car producers coordinated purchases of individual subsidiaries and concentrated their purchasing volume on a smaller number of domestic and foreign suppliers. Also, the car assemblers reduced their degree of vertical integration, as they began to source more parts from outside suppliers and reduce their internal sourcing. In addition, car producers demanded the assembly of modules and sub-components from the component suppliers. Finally, the car producers asked their suppliers not only to be involved in the production of components, but also to contribute with technological know-how in the development of components for new models.

This development led to an important restructuring of the car components industry. As the car assemblers concentrated their purchasing, the number of suppliers for each part declined from two or three in each country to two or three at the European level. This led to an important consolidation and concentration in the supplier industry. In addition, the component providers needed to be able to deliver their products across different geographic markets.

As car assemblers demanded that their suppliers become active in the assembly of car components, the degree of vertical integration of the suppliers needed to change. They needed to integrate forward into the assembly of modules and subassemblies.

Finally, as the car assemblers demanded that the suppliers participate in the development of components, the car part providers needed to invest in assembly capabilities. The component producers had to be represented close to the research and development centers of the multinational automotive producers with their own R&D centers. In this way, they were able to develop components together with the producers and, later, market these components.

These trends left the car parts producers with two strategic options. They could either pursue an expansion strategy for becoming an international player in the industry through expansion of their operating activities and investment into upstream technological capabilities and downstream pre-assembly operations, or they could sell their operations to a competitor who was pursuing a growth strategy. Other strategies showed little viability.

In Europe, the trend towards industry restructuring started in the early 1980s. The trend began to affect the Spanish market in the mid-1980s. Before the mid-1980s there was little competition within the Spanish market for car components. The market was dominated by two or three Spanish suppliers for each component. This was due to national regulation within the Spanish market and the purchasing practices of the Spanish car assembly operations. Heavy import duties on car parts made competition through imports from international competitors
economically unfeasible. Also, the purchasing decisions of the car assemblers were still decentralized for their Spanish operations. Therefore, the subsidiaries of car manufacturers sourced their supplies in their respective local markets. This geographical proximity to the assembly subsidiaries and the regulatory environment resulted in a competitive advantage for the Spanish car component suppliers. However, compared to their international counterparts, the Spanish car parts suppliers were not competitive.

Since the middle of the 1980s industry restructuring, these regulatory and location related advantages of the Spanish competitors disappeared. As such the Spanish component providers were exposed to the same competitive pressures as other car producers in the European market.

**Strategy of CARPARTS as a Holding Company**

In 1985, the CARPARTS group was the market leader in its line of components in the Spanish market. It was one of the largest Spanish competitors in the industry. Prior to the mid-1980s, the group had focused exclusively on the Spanish market. To cope with the changing industry structure, CARPARTS changed its strategy. The group's management decided to expand internationally and invest in technological capabilities.

CARPARTS had traditionally competed in several components (wires and mirrors) based on cost and quality. It focused on delivering reliable high quality products to its customers. In the past, the company had produced according to the blueprints provided by its customers and added little technological know-how to its products.

CARPARTS operated several decentralized plants. The plants' locations were chosen in such a way that labor and terrain for the production facility were cheap, and the labor climate was good. The production facilities operated modern machinery. The group followed a focused factory approach so that the operating units themselves were not large and had less than 200 employees. The plants had a comparably high degree of vertical integration, as several of these transformed raw materials into final output or were vertically related to one another. This facility concept allowed the CARPARTS group to be very cost competitive compared to German and French competitors in the changing industry environment during the late 1980s and the early 1990s.

With the internationalization of the automobile industry, especially the investments of several large multinational car producers in Spain, the Spanish market started to go through the same structural changes as the international car components industry. In this context, CARPARTS's management decided to pursue an internationalization strategy using IOCVs and direct foreign investment to enter new markets and/or to gain access to technological know-how.
To promote internationalization, the company changed its name from CARPARTS to "CARPARTS International". The company maintained its holding structure, and its corporate center continued to provide central financial, legal and marketing services to its subsidiaries. The corporate center maintained the financial control of the individual operations.

CARPARTS invested in plants in the UK, Germany, Portugal, Brazil, Mexico and France. In addition, the holding began to dedicate investment funds into R&D centers located close to CARPARTS's clients in France, UK, Germany and the US. The objective of these independent design centers was to develop components together with the clients. In this way, the company intended to gain new contracts for its operating divisions.

**Organizational Structure of CARPARTS**

Since the late 1970s CARPARTS had been organized as a decentralized holding. Within the holding structure, the group had several divisions that managed the production facilities. The divisions and production facilities were managed by autonomous divisional managers. Before internationalization, operations were distributed across several locations in Spain. With internationalization, the group began to invest in plants outside of Spain. In 1987, the group had fewer than 25 independent units in Spain. In 1994, it had about 50 independent units across Europe and Latin America.

The CARPARTS holding focused on several activities. It managed financial issues across the different subsidiaries, the sales process at the top management level, such as the signing of key contracts, as well as coordination across the different facilities. The divisions were very independent, each having its own production facilities, engineering locations and sales forces.

The role of managers at the divisional and operating unit level was crucial for the organization. These managers played a key entrepreneurial role within the organization. They were responsible for marketing and production decisions within their divisions. All production units and divisions were profit centers. Their managers were in charge of finding, evaluating and pursuing market opportunities in their divisions' areas.

The director and managers of each division presented an annual budget for five years and monthly budgets for the coming year to their immediate superior at the holding company (divisional managers or board members of the CARPARTS group). These budgets would be approved on the bases of corporate objectives. Every manager assumed the risk of investments, as he was responsible for success and failure of his division. The directors were evaluated based on their ability to achieve budgetary goals. There was no participation of managers in the profits of their units, nor was there incentive pay. However, managers received salary raises for good performance.
Managers argued that the most important characteristic of the CARPARTS group was the high degree of decentralization in the company. Managers were very independent in their activities, there was no assignment of tasks, but managers undertook activities as they saw fit. Aside from the budgetary planning process and the board's supervision of the individual holding companies, only a few coordination mechanisms existed between the holding and operating divisions.

**Family Involvement at CARPARTS**

CARPARTS was a closely held family business, 90% of the company's capital was held by the two founding Families, A. and B. The remaining 10% of shares was held by the directors of the company and friends of the families. The owners had no intention of giving up their control over the business. However, in 1996, they were considering a reduction of their participation in the company through floating a minority participation in the Spanish stock market, as financial resources became scarce with the expansion of the company.

CARPARTS was a Family Business in its second generation. It had been founded by Mr. A. and Mr. B., who were brothers-in-law. Later, the company incorporated 4 children of Mr. A. and 4 children of Mr. B. Of the two founders, Mr. A. was still active as the president of the group. Mr. B. had retired. The members of the second generation of the A. Family held positions in the corporate center of CARPARTS and were either managers of the different divisions or managers of plant operations for the divisions. The members of the second generation of the B. family held positions as divisional manager of the mirror division, plant manager of mirror plants, or they were working at the corporate headquarters.

According to Mr. A., the president, the company was run professionally and had only what he called "the positive characteristics of a family business". He pointed out that the company was run on a professional basis using an internal planning system. Decision making was highly decentralized to the divisions and operating unit managers and the company was managed professionally. He pointed to the issue that all management assignment decisions were based on the qualification of the individual managers, not on their membership in one family or the other. Family members were placed as their qualifications and abilities coincided with the necessities of the company. The most adequate person was placed in the most adequate position. Overall, management pursued a merit-driven organization. Mr. A. also pointed out that the CARPARTS group was able to create a sense of commitment to the company among the managers. Good human relationships represented an aspect in the management of the CARPARTS group that derived from the company's being a family business.
IOC at the CARPARTS Group

In 1996, CARPARTS was involved in 6 international joint ventures, all at different stages and all carrying out different activities in terms of their past development. The company had some prior experience with other IOCVs. CARPARTS had two joint ventures in Spain, one in France, one in Argentina and two in Brazil. In addition, the group was negotiating one IOCV for the Brazilian market and one for the US market. All these IOCVs had their specific characteristics and were different in their set-up and management mechanisms. There was no typical CARPARTS group joint venture. Every IOCV had specific needs and varied depending on the partner and the task of the IOCV.

Before formulating an IOCV strategy, the CARPARTS group had formed two joint ventures in the Spanish market with two German partners at the beginning of the 1980s. These joint ventures had been opportunistic responses to immediate business opportunities, as the potential partners approached the group to form these joint ventures. The group took advantage of these opportunities to diversify its product portfolio in the Spanish market.

In 1986, when CARPARTS was the market leader in several components for the Spanish market, top management and owners believed that they had two alternatives in confronting the changing industry. They needed either to pursue an aggressive growth and internationalization strategy to become one of the top three suppliers for single components in Europe or sell the company. The owners of the company opted for the first alternative.

To grow internationally, CARPARTS’s management saw several possibilities. CARPARTS could either develop the new businesses internally, form alliances or acquire other companies and operations in the car parts industry. CARPARTS believed that rapid growth was crucial to increase market share and, thus, it did not think that there was sufficient time for internal development. In addition, the financial means of the company were limited. Therefore, the formation of IOCVs was considered an important option for the growth and expansion of the group.

As CARPARTS internationalized, one of the objectives was to maintain and improve the position of the company in its domestic market. Inter-organizational collaborative agreements were considered important in controlling the entry of foreign competitors into the Spanish market and obtaining technical know-how for the Spanish subsidiaries through partnering with technologically advanced companies. However, no new possibilities appeared within the Spanish market.

The IOCVs outside of Spain followed a different logic. In these cases, CARPARTS wanted to contribute production technology to the IOCVs as well as its existing relationships with buyers in the European market. In exchange, the CARPARTS group would obtain knowledge from the partner to assist in setting up a production facility in the respective country. At the beginning of the 1990s, CARPARTS was able to form one such IOCV with a French
partner and started to participate in two IOCVs with Brazilian partner. It also entered into another IOCV with an Argentinean partner in early 1993 as part of its internationalization strategy.

In forming IOCVs, management was concerned with several issues. First of all, the company wanted to be in control of the joint venture. CARPARTS’s management wanted to achieve control through holding the majority of the joint venture ownership and providing the management for the joint venture. Second, it was important that management define the product market of the joint venture clearly. CARPARTS tried to avoid agreements wherein the joint venture would sell only in the Spanish market. Management tried to negotiate agreements where the IOCV could sell its products outside of the Spanish market. Finally, management wanted to maintain control of the family business. Therefore, it did not agree to stock swaps or other measures that might lead to a hostile acquisition of CARPARTS on the part of an outsider.
In partner selection, management tried to find the most attractive partners available for the IOCV. It did not matter to management whether the partner was a family business or not. In choosing a partner, it was critical that the partner was able to contribute skills and resources to an economically successful venture. The main objective of management was the creation of a business unit with a solid business level strategy. Besides these business aspects of the venture, dividend distribution and investment horizons in the development of the IOCV were critical to management. CARPARTS wanted a partner that had a long-term investment horizon
and did not demand the direct distribution of dividends. Instead CARPARTS sought a partner who would make the successful development of the venture a priority.

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### IOC Management

In its IOCVs, CARPARTS’s management promoted a partnership approach with its partners. It insisted that it was important that both IOCV partners were committed to the venture and that both partners promoted the venture. This approach to IOC resulted from
experiences in past IOCVs with an American partner that behaved opportunistically within the venture, had short term expectations regarding the results of the IOCV and was not willing to invest and stand by the investments in the joint venture. In its joint ventures, CARPARTS’s management was looking for the development of a solid business unit, with the long-term goal of expanding the unit. Management had little interest in short-term projects.

The international joint ventures of the different divisions were managed as divisions or operating units within the divisions that were similar to CARPARTS’s other operating units. In this context, the standard planning methodologies were applied to each of the collaborative ventures. For example, the GERMAN PARTNER IOCV was treated as an independent division, as CARPARTS had not been active in this market segment before. The head of GERMAN PARTNER, Mr. C., was the divisional manager of the CARPARTS group. Mr. C. had similar responsibilities, as did other divisional managers of CARPARTS. The corporate center got involved in the decisions related to the formation of the joint venture and in latter investment decisions as well as assignments of managers to the venture.

The GERMAN PARTNER JOINT VENTURE

One of oldest and most active IOCVs was GERMAN PARTNER JOINT VENTURE. CARPARTS had formed GERMAN PARTNER JOINT VENTURE together with the German company GERMAN PARTNER in 1983. This joint venture was successful, as it had outgrown initial expectations and changed its geographic market focus from the Spanish to the European market. However, in 1996, at the moment the study was undertaken, the future of the joint venture was not clear. The reason for this lay in the different interests of the partners concerning the internationalization of the joint venture. CARPARTS opted for a globalization of the joint venture; however, GERMAN PARTNER was exploring options to internationalize without the collaboration of CARPARTS. Therefore, the future development of the joint venture was not clear.

Joint Venture formation

In 1983, at the beginning of the restructuring of the automobile assembling industry, a multinational car assembler decided to introduce one of his models which, until then, had been produced in one of its German plants for production in its Spanish subsidiary. To source car parts, the assembler asked his German suppliers to follow him from Germany and set up operations in Spain.

As a result, GERMAN PARTNER, a German supplier of door locks and car security systems, decided to follow its customer. The assembler suggested that GERMAN PARTNER did not enter the Spanish market on its own but rather form a joint venture with one of the assembler’s established Spanish suppliers. To facilitate the selection of a partner, the car
assembler provided GERMAN PARTNER with a list of potential Spanish partners it had maintained business relationships with and which appeared to be interesting as potential partners for a joint venture. CARPARTS was one of the companies proposed by the multinational company.

When GERMAN PARTNER and CARPARTS entered into negotiations regarding the formation of a joint venture, the objective was to start up a facility to produce door locks and security systems to supply the international car assembler’s Spanish facility. After two meetings and two weeks of negotiations, it was agreed to start a joint operation in Spain, and the basic setup of the joint-venture was mapped out.

In the joint venture, the German partner contributed product technology for the door locking systems and necessary engineering support, including a team of engineers to work in the joint venture. The Spanish partner agreed to provide facility management and market knowledge of the Spanish car industry to start up the production facility, supervise the production of the components and handle the relationship between the joint venture and the assembler’s operations through the assignment of a management team. Both partners contributed 50% of the overall equity to finance the operation. In exchange for their contributions, the partners received equal royalties for their individual contributions as well as an equal share of dividends paid by the company. Both partners were also equally represented by two members on the IOCV’s board of directors and the joint venture’s management team.

The IOCV was operating in such a way that it was purchasing the basic raw material from an independent outside source. The raw material was transformed and assembled into the final product, which then was shipped directly to the Spanish customer. This made the joint venture independent from the parent companies from an operations perspective. The technology used in the joint venture was mature and of limited sophistication. The product market of the IOCV was defined as the Spanish market of car locks and door security systems for small to medium sized cars. The joint venture was restricted from competing on contracts outside of the Spanish market, limiting its geographic product market to Spain.

**Start-up and Initial Growth of the Joint Venture**

After the basic agreements had been reached, the partners set up the joint venture’s operations. There were no major problems or surprises in setting up the plant and producing the door lock system. Everything complied with the initial plans. The plant took up operation within the scheduled time and performed according to the initial expectations of the partners.

The joint venture developed successfully over the next few years. As the automotive assemblers began to introduce more models from their European locations for production in their Spanish plants, new opportunities for the joint venture emerged. The joint venture bid successfully on new contracts for door locks and car security systems in the Spanish market. Over the years, the joint venture achieved constant sales growth, making investments in new
production equipment necessary. The new equipment was financed through internally generated funds. No significant dividends were paid to the joint venture’s partners. The partners participated in the development of the IOCV through a constantly growing stream of royalties generated by the venture. After several years, and with further internationalization of the car assembly industry, the car producers concentrated an important part of their production of small to medium sized cars in Spain. The joint venture had grown to become a key supplier of components to several of these MNCs.

**First Redefinition of the Joint Venture**

In the mid to late 1980's, the internationally operating car assembler, through a more centralized purchasing system, began to coordinate the purchasing of car parts across their locally-dispersed assembly operations. They started to concentrate their purchases on their most competitive suppliers and demand better prices. During this development, an important customer approached the joint venture and asked it not only to supply its Spanish operation, but also to supply its German assembly facilities.

This was a critical decision for the joint venture partners CARPARTS and GERMAN PARTNER. To sell products directly to the German facility of its customer implied that the joint venture would supply directly to the German market. This represented a clear violation of the initial definition of the joint venture and made a reevaluation of the agreement between the partners necessary.

Initially, the German partner was against such a redefinition of the joint venture’s geographic market, as they were not willing to give up the sales volume from their German facility, which would be cannibalized through these sales. On the other hand, economic studies undertaken by the partners comparing the cost in the joint venture and the German partner’s German production facility indicated that there was an important cost disparity between producing the car parts in GERMAN PARTNER’s German production facility and doing so in the joint venture’s Spanish facilities.

The Spanish partner came to the conclusion that it was so much cheaper to produce the car parts in Spain, that the German partner would gain a higher profit through his 50% participation in the joint venture than through producing the parts himself in Germany. After several meetings, and within a couple of weeks, a business proposal by the managers of the joint venture and negotiations between the partners had yielded a resolution. The German partner agreed that the joint venture could supply the German operation of the MNC and enter in other contracts outside the Spanish market. The divisional manager of CARPARTS underlined the fact that these negotiations were characterized by mutual understanding of the partners’ and the venture’s situation and the problem resolution style of negotiating between the partners.
For the joint venture, this decision was equivalent to a redefinition of the geographic product market. The joint venture diversified geographically from the Spanish market to the European market. These changes did not affect the legal structure of the IOCV or any other aspects of the IOCV. Royalty payments and responsibilities remained as they were defined in the initial contract.

**Further Growth of the Joint Venture**

The decision to expand the joint venture's geographic product market resulted in a new phase of growth. As the joint venture was cost competitive and experienced in the production of car locks for a growing market segment, it gained additional contracts in the Spanish and foreign markets. This growth required the reinvestment of the funds generated in the joint venture and insignificant dividend payments to the partners from the joint venture. As before, the partners continued to participate in the growth of the venture through royalty payments.

**Second Redefinition of the Joint Venture**

Within approximately ten years after the joint venture's foundation, its plant had reached a size of about 1500 square meters and had a labor force of about 200 employees. It had grown from an initial 500 square meters and a third of the workforce. With this growth, the production facility of the joint venture had reached a critical size for the management of CARPARTS. The company’s management followed a focused plant strategy for the group’s facilities and did not have plants with more than 200 employees. Therefore CARPARTS’s management suggested starting another facility when the joint venture facility had reached this critical size. In addition, CARPARTS believed that Portugal was a good location to start such a production facility. The group had already established a production facility there, and management believed that the human resources necessary for an efficient plant operation were available and the location was cost competitive.

These suggestions met resistance from the German partner. This was related to the fact that the partner did not follow a multiple plant concept but, instead, had all its production capacity concentrated in one facility in Germany. In addition, the German partner had no experience with Portugal as a location for a production facility. Finally, the German partner did not perceive any need to establish a facility to provide the Portuguese market, as the potential for the Portuguese car industry to be an important client was small compared to other countries.

In order to convince the German joint venture partner that a new facility for the expansion of the joint venture in Portugal would be an interesting solution, CARPARTS invited the managers of its German partner to visit several Portuguese plants and prepared a complete proposal for a new facility. The divisional manager argued for the start up of a new facility, presenting project plans and market estimates. After about 18 months of negotiations
and presentations, the Spanish partner convinced the German partner of this proposal to start a second production facility in Portugal.

For legal reasons and in order to receive financial subsidies from the Portuguese government, a joint venture was established between the joint venture and a small Portuguese minority partner. In the overall management and decision making in the Portuguese operation, the Portuguese partner was rather unimportant. After eight months of construction, the new facility went into operation. As before, the legal conditions of the overall joint venture were not changed, and both partners maintained their 50%/50% stakes in the IOCV. The investment into the new facility was financed from the profits retained in the Spanish joint venture company, government subsidiaries and debt so that the partner did not have to invest additional funds in the joint venture.

Further Growth of the Joint Venture

The investment in creating a second production facility was a success, as several improvements in the production process itself could be achieved with the new plant. New machinery allowed for the production of higher quality products. The lower input cost at the Portuguese location allowed the joint venture to become more cost competitive. Both partners, therefore, were very satisfied with the Portuguese facility. This led to another phase of growth for the joint venture. And again, the IOCV developed successfully.

The Joint Venture in 1997

In 1996, CARPARTS's management evaluated the joint venture as an important success. However, with the pursuit of a globalization strategy for the CARPARTS group as a whole, the group's management believed that it was important that the joint venture globalize as the group's other divisions had done in order to introduce its products to new geographic markets, not only in the European market. However, CARPARTS was not sure whether the German partner would follow such a proposal, as the German partner had already undertaken steps towards globalization through investing in facilities in the USA, UK, Mexico and Asia without involving CARPARTS in these business activities. This was a pending issue to be dealt with between the partners in the future.

The president of CARPARTS evaluated this as an important development, as this issue would determine the position of the joint venture within the CARPARTS group. Whether the joint venture would service a specific market segment within the European market or whether it would expand globally would determine how far it would fit into the overall corporate strategy of the CARPARTS group. Should the venture not develop into a globally operating competitor, it would not fit into the portfolio of CARPARTS's divisions. They would lose interest in the joint venture, and it would become a side issue for the company.
Revisiting CARPARTS in 2002

In 2002, 5 years after this study was undertaken, we went back to gather additional data on the development of the IOCV.

Since 1997 the IOCV remained in operation but had changed little. It was still operated by the CARPARTS group and still managed with the German partner.

The German partner had taken the decision to internationalize his operations not with the Spanish partner, but to undertake the internationalization on its own. This implied that the IOCV was of less importance to CARPARTS, as it did not meet the objective of the group for globally expansion of the business model.

However this did not imply a change in the actual strategic positioning of the IOCV: it continued to focus on the European market and relied on two production facilities. However, CARPARTS’s management was skeptical regarding their willingness to further invest into the IOCV, as the venture did not fit the corporate focus. This made, in the perception of management changes in strategy less probable, as there would be little willingness to undertake the necessary investments. Still the profitability of the IOCV was such, that it was interesting to maintain the operation.

However, other changes were not discernable within the family business and with the joint venture.
CASE STUDY 3: LEATHER

Company Background

In 1996, the LEATHER Group was a holding company, with headquarters located in a small city in the north-east of Spain. The company competed in the leather tanning industry. The group focused on the processing of small animal skins for clothing, footwear, gloving and leather goods.

LEATHER was founded in the 16th century, when LEATHER family was awarded its “professional diploma” by the Leather Makers’ Guild of the City. From its foundation until the early 1990s, LEATHER was owned and managed by the LEATHER family. The company was one of the first to export leather during the nineteenth century. The group consolidated and expanded in the 1940s, when the company began to grow into an industrial group. The LEATHER group acquired shares in several tanneries in the region, each of them focused on the production of specific animal skins and final products. In addition, the LEATHER group acquired shares in several Spanish raw material suppliers to assure a steady supply of materials for its tanneries. During the 1950s, the company began to expand internationally through the formation of joint ventures. These joint ventures were intended to market the final products in different national markets, to get access to raw materials or to operate a tannery in a foreign country. Due to the downturn of the industry in Europe and several important management mistakes, the LEATHER group went through a difficult decade in the 1980s. As a consequence, several shares in joint ventures were sold, and several wholly-owned subsidiaries were closed. In 1992, the family sold a 37% stake in the LEATHER group to outside shareholders. The family kept several management positions. However, the seats on the board of directors were shared with outside investors. In 1996, the LEATHER group was made up of 17 companies employing some 950 people.

Industry

The LEATHER group competed in the sector of tanning small animal skins for confection. This industry includes the transformation of sheep and goat skins (and sometimes pig skins) into leather which is used as raw material in several downstream industries. The tanning industry had been undergoing slow restructuring as production shifted from European countries to the developing countries. In these countries, raw material and cheap labor were readily available, and environmental regulations were more permissive. Also, the developing countries undertook initiatives to capture more added-value in the tanning industry through the
regulation of animal skin exports. As a consequence, international trade patterns in the tanning industry were changing. Besides imports of final products from developing countries to the developed countries, an international market for semi-finished products had developed. The European producers lost market share to the competitors from developing countries. However, it was expected that the European competitors would remain competitive in the production of high quality skins, as technical knowledge and a qualified workforce were critical to compete in this market segment.

**Raw Material**

After killing an animal, the skin does not maintain its natural form but needs to be transformed into leather through an industrial operation. This leather is the raw material for the production of shoes, handbags, gloves and other related goods.

In an analysis of this sector, it is important to understand the supply of raw materials, i.e. animal skins. Animal skins represent about 50% of total cost for the companies in the tanning sector, making skins the primary input. Many aspects of the industry are directly related to the characteristics of this key input.

The supply of animal skins is primarily related to the production of meat and wool. Animal skins represent less than 20% of the value of the animal for the breeder. Therefore, the supply of skins for the industrial production does not depend on demand for leather, but depends on the demand for meat and wool. Therefore, the supply of animal skins is price inelastic, which introduces important restrictions on the raw material supply for the tanning industry. This very dilemma led to important price fluctuations for raw materials and made inventory management in raw materials as well as intermediate and final products critical to the operation of the LEATHER group.

Another important aspect for LEATHER was that animal skins were a natural input. This had important implications for the production process, its automation and the trade in semi-finished goods. As the basic material came from a living animal, no two animals were equal, making it difficult to find two similar skins. This inconsistency of the raw material limited the introduction of technology in the production process and left large parts of the production process subject to human labor.

Another important aspect was the uneven geographic distribution of the supply of raw materials. Only in a few countries do there exist animal stocks large enough to make the industrial collection of animal skins economically feasible. With declining herd sizes the developed countries were losing importance as raw materials suppliers. In contrast, the developing nations were gaining importance. During the 1980s and 1990s, the developing nations were the prime suppliers of animal skins. This led to changes in trade patterns for raw materials.
A factor that gained increasing importance in the overall tanning industry involved the trade policies adopted by the developing countries for the commercial exchange of animal skins. On one hand, governments in these countries imposed restrictions on the export of animal skins in such a way that only intermediate products could be exported. On the other hand, these governments promoted the export of semi-finished goods at a low degree of transformation. This policy was adopted to increase the amount of added-value captured in these countries and to promote their national tanning industries. Countries of importance that had imposed restrictions were: Argentina, Bangladesh, Brazil, China, Colombia, Korea, Egypt, Ethiopia, India, Kenya, Mexico, Morocco, Nigeria, Pakistan, Taiwan, Tunisia, Uruguay and Zimbabwe. This created incentives for direct foreign investments of tanning companies in these countries.

Finally, the heterogeneous nature of animal skins and the differences across herds led to important quality differences across animal skins. The quality of a lot depended on the homogeneity and quality of its animal skins. To determine the quality of a lot it was necessary to systematically classify the animal skins after every production step. This complicated trading of animal skins between production stages, as quality was difficult to determine in the lots sold on international markets.

**Market for Final Products**

The tanning industry's most important client was the confection industry, as it purchased about 75% of the leather. At the end of the 1970s, almost all the products in the sector were sheep skins. After the appearance of leather closing, fabrication reoriented towards new products: Ant, Napa and "doble faz". The design became a progressively important element in the marketing of the final product. At the beginning of the 1990s, this made production technology and technological innovation two important factors for the tanning industry.

In the product market for animal leather, several segments could be differentiated. The market could be separated into segments that were fashion sensitive and those that were cost sensitive. The fashion sensitive segments required from the tanneries the presentation of collections of leather to the downstream industries. These collections changed with trends in fashion. They required that the tanneries were responsive to the trends of the downstream industries.

The product market was characterized by a growing importance of international trade in its final products. For example, Spain exported in average 40% of its total leather production. Also, at the beginning of the 1990s, imports into the Spanish market for leather had reached around 40%, much of which originated from developing countries.
**Competition**

Competitors could be distinguished in two groups by company size. The large majority of companies in the leather industry were small, highly specialized competitors with less than 50 employees who supplied a single market segment. The second group of companies was industrial groups that had been constructed through the merger and acquisition of small companies. The latter group took advantage of the coordination of production activities along the value chain.

Competition from the developing countries had increased in the past and was expected to grow steadily during the 1990s. The European competitors were abandoning the lower product segment, focusing on the upper market that required quality products and technological know-how. In this market segment, the European industry had a competitive advantage with respect to their competitors from the developing countries. The growing importance of design and the application of new technologies were the primary entry barriers for those competitors from the developing countries.

**Strategy of LEATHER as a Holding Company**

The LEATHER Group competed in the quality segment of the market for animal leather. The market definition of the group was to produce animal skins that corresponded to market trends. The LEATHER Group maintained a close relationship with its customers through representation at fashion fairs, etc. Also, the group had invested in modern technology and recruited human resources for the production of quality leather.

The group focused on the production of leather for four downstream industries: clothing, footwear, gloves and leather goods. The manufacturing process began with the selection of sheepskins, goatskins and pigskins. These skins could be sourced as raw material or semi-finished inputs at different production stages. The main source for the LEATHER Group was untreated animal skins. The company bought and sold some semi-finished products as “pickled”, “wet blue”, and “crust”. The majority of the LEATHER Group’s final product, about 80%, LEATHER was sourced through its own LEATHER raw material divisions and sold through its own LEATHER marketing divisions. In addition about 80% of the material that was bought through LEATHER’s raw materials division was sold through the group’s marketing division.

The final product was leather in a large variety of different styles (suede, napa, nubuck, double face, split, embossed, printed and skivers), implying different production and finishing processes in the production of the leather. In addition, the final product varied in terms of top finishing and coloring. This led to a large product range of varying styles, thickness, surfaces,
shines, and contrasts. Demand for the final product changed seasonally and dynamically with changes in fashion in the final customer markets.

Every year, the LEATHER group presented an innovative collection. Production lots were produced to suit customer orders. Products were marketed directly through the group’s marketing and distribution companies in a wide variety of foreign markets across all continents. Within the Spanish market, the company was one of the largest competitors. In specific market segments, the company had market leadership. The group was also the largest exporter of animal skins in Spain.

**Organizational Structure of the LEATHER Group**

The Group was organized in a holding of vertically related companies. This holding was structured into five functional areas. The head of the raw materials department was responsible for all the subsidiaries that supplied raw materials to the company. This included national and foreign subsidiaries, wholly owned subsidiaries and joint ventures. The production department was responsible for all the subsidiaries that were active in the transformation of raw materials in the tanneries.

<table>
<thead>
<tr>
<th>Production (Tanneries)</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td>Sub A</td>
<td>City in the north-east of Spain</td>
</tr>
<tr>
<td>Sub B</td>
<td>In north-east Spain</td>
</tr>
<tr>
<td>Sub C</td>
<td>Kano (Nigeria)</td>
</tr>
<tr>
<td>THE VENTURE</td>
<td>Patrás (Greece)</td>
</tr>
<tr>
<td>Sub D</td>
<td>Osset (GB)</td>
</tr>
<tr>
<td>Sub E</td>
<td>Saida (Libano)</td>
</tr>
</tbody>
</table>

The production department included national and foreign subsidiaries, wholly owned subsidiaries and joint ventures.

<table>
<thead>
<tr>
<th>Raw Material Suppliers</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub 1</td>
<td>Dublin (Ireland)</td>
</tr>
<tr>
<td>Sub 2</td>
<td>Lamia (Greece)</td>
</tr>
<tr>
<td>Sub 3</td>
<td>In north-east Spain</td>
</tr>
<tr>
<td>Sub 4</td>
<td>Manchester (GB)</td>
</tr>
<tr>
<td>Sub 6</td>
<td>In north-east Spain</td>
</tr>
<tr>
<td>Sub 7</td>
<td>In north-east Spain</td>
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<tr>
<td>Sub 8</td>
<td>In north-east Spain</td>
</tr>
<tr>
<td>Sub 9</td>
<td>In north-east Spain</td>
</tr>
</tbody>
</table>
The final products division coordinated the marketing and sales activities and managed the wholly owned marketing and sales subsidiaries.

<table>
<thead>
<tr>
<th>Marketing</th>
<th>Location</th>
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<tbody>
<tr>
<td>Marketing Sub a</td>
<td>Tokyo (Japan)</td>
</tr>
<tr>
<td>Marketing Sub b</td>
<td>Sovigliana-Vinci (Italy)</td>
</tr>
<tr>
<td>THE VENTURE</td>
<td>Athens (Greece)</td>
</tr>
</tbody>
</table>

The financial department coordinated financial management and controlled the different departments, subsidiaries and joint ventures.

In addition, the holding company provided technical services and management consulting to its subsidiaries. It supported the divisions by offering feasibility studies, planning for facilities, construction of tanneries, management of initial production set up, technical assistance to facilities, management of tanneries and training of tannery managers. These services were provided centrally to all subsidiaries and joint ventures as solicited by the units.

The role of the top management team was critical to the functioning of the overall organization. The heads of each of the functional areas were the key liaisons between headquarters and the Group's subsidiaries and joint ventures. Depending on which division was responsible for the subsidiaries and joint ventures, the department head held a seat on the board of directors of the subsidiary in order to coordinate major decisions across his area.

Relationships between divisions were important, as the raw material division operated as supplier to the tanneries and the tannery and production divisions supplied to the marketing divisions. Coordination between these divisions was very important. All final goods were produced on customer order. This implied that when the marketing and sales department received an offer, this offer was related to the raw materials divisions for purchasing and the production department for production. Two aspects complicated this horizontal coordination. On one hand, as market prices changed rapidly, inventory build up between the different production steps could result in important financial losses due to changes in the values of inventories. Therefore, it was important that the goods proceeded rapidly through the production system. On the other hand, the quality produced by the downstream divisions depended, to an important extent, on the quality of inputs from the upstream divisions. Initial poor treatment of animal skins could lead to important quality losses, which then can not be corrected in the following production steps, making the provision of a quality final product to the division's customer difficult.

The transfer pricing mechanisms between the divisions was an important topic for the functioning of the overall group. All divisions could purchase and sell their products inside and
outside of the group. However, in the case where a group member offered the same price for sale and purchase, the group member had preference over outside companies. Overall upstream and downstream integration was important for the downstream divisions, as about 80% of the Group's final products came from its raw material divisions. A similar percentage of the production divisions were sold through the marketing of arms. This made the coordination along the value chain an important issue for the functioning of the overall group.

Within their operating units, the managers of the different organizational units were rather independent in their decision making. They could sell and buy as they saw fit, and they could build on inventories as they recognized the necessity to do so. They could also focus on the production of units as they saw fit. The interrelationship of sales and purchases between the units was based on the formal and informal relationships between the unit managers.

**Family Involvement at the LEATHER GROUP**

From the foundation of the company in the eighteenth century up to the beginning of the 1990s, the LEATHER Group had been owned 100% by the family, and key management positions were held by the LEATHER family. Several generations had led the company. Family members had been employed within the group as managers at different levels of the organization. The last long-term management team had been made up of three brothers, who managed the company from the 1960s to the 1990s. Until the 1990s, outside shareholders had not been involved in key decision making and other aspects of the business.

Between the 1960s and the 1990s, three brothers had been the key managers of the LEATHER group, as they had been the top managers of the overall group. In addition, other family members had been working at multiple levels of the organization as divisional managers and plant managers.

However, the relationship between the family managers was not very harmonious, and the company was characterized by much political decision making. A. L. was one of the three key managers of the group. He had a unique position within the management team. He was not accepted by his two brothers for his business style, and the two brothers wanted him to be involved as little as possible in domestic operations as possible. Therefore, A.L. was asked to manage the international activities of the LEATHER Group in order to keep him away from the domestic operations.

In addition, overall business seemed to suffer from important difficulties that are common to family businesses. For example, the decision making among brothers was reported to have been underlined by interpersonal conflicts many times, and sometimes important agreements among the brothers were broken. There was anecdotal history of difficulties among the brothers in the top management of the group. In addition, important governance mechanisms did not work in the overall organization. For example, the board of directors did not function
beyond the legally required minimum. Overall, interview partners recognized that the overall group was rather poorly managed and had many of the deficiencies the believed typical to family businesses: A combination of conflict among family members, reliance on direct supervision in the management of the business, and a lack of functioning governance mechanisms at the board and the business unit level.

At the beginning of the 1990s, the picture changed, as the LEATHER family needed to sell 37% of its ownership to outside shareholders to overcome a financial crisis of the overall group. The structure of the management team changed as professional managers who had once worked in the LEATHER group took control of the key management positions of the company. Still, several family members kept their management positions within the group.

**IOCV Strategy**

In 1996, the LEATHER group held several shares in joint ventures in the production and raw materials department in Spain and abroad. These joint ventures were the result of joint venture and internationalization strategies pursued over the course of the previous 30 years.

Under the initiative of Andres LEATHER, one of the key owners and family managers of the LEATHER Group from 1950 until the 1990s, the LEATHER Group had undertaken an internationalization and growth strategy during the 1960, 70s and 80s. One important step in this internationalization was the formation of joint ventures to enter new geographic markets for raw materials and final products.

The idea to internationalize through the use of joint ventures was promoted by A. L. He had formed a small team at the corporate center of the LEATHER Group which was responsible for the study of the feasibility, formation and management of joint ventures. Based on the good reputation of the LEATHER Group as one of the international industry leaders, the Group was successful in finding and attracting joint venture partners. Once a potential partner for forming a joint venture was found, the management team undertook all activities to enter into a joint venture and avoid having negotiations with the potential partner break off. Managers described that IOCV formation as driven by the vision and commitment of A. L. to grow internationally. The collaborators of A. L. pointed out that once an opportunity to establish a joint venture was found, it would not be rejected. The LEATHER Group would form a joint venture come what may.

Although the company had no explicit IOC strategy, most of the joint ventures were similar. Using joint ventures to expand the LEATHER Group's business activity LEATHER was an extension of the domestically applied collaborative approach used in the procurement of raw materials and in tanning activities. In their set-up, these joint ventures were very similar to the joint ventures the LEATHER Group had in Spain.
The set up of the joint venture varied significantly depending on which department the joint venture operated under. The Group had several international joint ventures in the area of raw materials. These joint ventures collected animal skins from slaughterhouses and butchers (depending on the structure of the meet production in the respective market), performed an initial preservation treatment and classified the animal skins in homogeneous production lots. In these IOCVs, the LEATHER Group contributed by financing the operation of the partner and provided technical know-how to its partners. In addition, the LEATHER Group wanted to purchase raw materials from the joint venture. The joint venture partner contributed an already established operation and/or his ability to manage the operation, as well as his knowledge of the regional market for animal skins. These joint ventures did not require important investments into production facilities, and they were relatively small. The objective of the LEATHER Group in pursuing these joint ventures was to gain access to additional sources of raw materials for its downstream divisions and to earn some returns from providing technological know-how through the generation of royalties. Through these joint ventures, the partners obtained financing of their venture, access to technological know-how and assistance, and access to an important customer for their products.

The LEATHER Group also had several joint ventures in the production area. Besides its production subsidiaries, the group had several joint ventures for the tanning of animal skins in Spain and abroad. These subsidiaries and joint ventures operated tanneries. In these joint ventures, the partner contributed a tannery and often managed the tannery. The LEATHER Group provided the partner with capital and technical expertise to improve the efficiency of the tannery. In addition, LEATHER Group management wanted to receive semi-finished or finished products from the tannery to supply its Spanish downstream finishing operations and to complement its product line. The tanning facilities were the most capital and technology intensive ones. They required important investments in production facilities. The objective of the LEATHER Group in pursuing these joint ventures was to gain access to a supplier and to leverage its technical know-how. Joint venture partners received access to technical know-how, a strong partner to finance the large investments into their production facility and access to an important buyer for their final products.

Finally, the marketing and sales division had several joint ventures. All these IOCVs had been terminated before 1996, and the LEATHER Group controlled all marketing operations as subsidiaries. In these joint ventures, the partners had contributed their market knowledge of the given foreign market for final products. The LEATHER Group assured the provision of quality products for sale in the respective geographic markets of the joint ventures. In the past, with the further internationalization of the industry, the downstream divisions had undergone significant change, and all of the joint ventures had been absorbed or closed.
IOC Management

The LEATHER Group's management stance towards their IOCVs was characterized by its rather legalistic approach. The team that managed the IOCVs was composed of several lawyers who concentrated on the negotiation of the contractual terms of the joint ventures. In addition, there existed anecdotal evidence for a history of contractual disputes and contractual negotiations were critical for the development of the collaborative ventures. Also, the corporate managers of the joint ventures spent most of the time working on issues of conflicting interest, problems in monitoring IOCV performance and problems in the overall development of the venture organizations. In general, the interaction between the LEATHER Group and its joint venture partners was conflictive and legalistic in nature. Much emphasis was put on the legal aspects and the control of the joint venture by the LEATHER Group. Less emphasis was put on the operational coordination of the IOCVs.

On the other hand, the relationship between the joint ventures and the overall organization of the LEATHER Group was an issue of the joint venture operating management. The joint venture management team at the LEATHER Group's corporate center LEATHER did not get directly involved in the day-to-day management of the joint ventures and their relationship to the overall LEATHER Group. This was the exclusive task of the joint venture management and the heads of other subsidiaries. The joint venture manager was regarded as another operating unit within the LEATHER Group. Overall, the joint venture team saw itself more as a deal-making and crises management organization than as a unit involved in the day-to-day operations of the organization.

Most of the joint ventures in which the LEATHER Group did not have control through ownership of the majority of the venture equity were described as having conflictive relationships. There were similar conflict patterns in the joint ventures related to the balancing of the vertical integration between the joint venture operation and the LEATHER Group. The critical issue was the transfer of goods from the joint venture to the LEATHER Group. With erratic changes in the demand for the final products and the supply of raw materials, the transfer of goods between subsidiaries and joint ventures often proved to be difficult. In times of little demand, the upstream divisions pressured the downstream divisions to purchase their outputs. In times of lack of raw materials, the downstream divisions demanded preferential treatment through the raw material subsidiaries and joint ventures. However, each division was free to set the transfer-price at market levels. Overall, there was little cooperation among the divisions.

However, the transfer-price of goods was not the only issue in the management of the joint ventures. Another important aspect was the homogeneity and quality of the lots delivered by the upstream divisions to the downstream divisions. Many of the downstream divisions did not purchase semi-finished products from the international joint ventures, as the downstream
Joint ventures did not deliver the expected quality consistent with that of the wholly-owned subsidiaries of the Group. This was more often than not related to problems in operations management within the joint-venture. There was much anecdotal evidence supporting the fact that the joint ventures had problems developing the necessary operating capability to deliver the required quality levels. Therefore, in most of the joint ventures, the goal to integrate the operation into the stream of semi-finished and finished products of the overall group failed, making them mainly financial participations of the LEATHER Group.

Finally, many of the joint venture relationships were characterized by their contractually-driven dealing with the partners. In several situations, the joint venture partners of the LEATHER Group were accused of a certain degree of opportunism, as they used all their means and loopholes in the contract to extract profits from the joint venture. In addition, the relationships with most of the partners were characterized as rather conflictive. Problems were resolved through haggling between the partners.

**THE VENTURE - Joint Venture**

The LEATHER Group had formed a large number of IOCVs in its history, some of them in the Spanish market, many others in foreign markets. The use of joint ventures had started during the 1940s and 1950s in the Spanish market until the first international joint ventures were formed in the 1960s. The oldest and most dynamic collaborative venture was a joint venture that had been formed in 1956 in Greece, together with a Greek entrepreneur and a Greek government-owned bank. Later, the entrepreneur sold his participation to the Greek bank. At times, the joint venture had performed poorly, and at other times the joint venture had performed very well. However, the joint venture was generally not successful, as it did not achieve initial objectives like most of the LEATHER Group’s joint ventures. However, due to political context of the joint-venture, both partners had an interest in maintaining the operation so that the joint venture continued to operate into the 1990s.

**Joint Venture Formation**

The joint-venture was formed on the initiative of A. L. The LEATHER Group was generally interested in a joint venture in the Greek market, as Greece was characterized by the availability of good quality and competitively priced raw materials of sheep skin, which would open the LEATHER Group a very competitive source of raw materials.

The initial contact between LEATHER and the entrepreneur was made through a German agent that had some business contact with LEATHER and a Greek tanner. He informed LEATHER’s corporate managers, that there might be some interest in the formation of a joint venture on the side of a Greek tanner. LEATHER’s corporate manager studied the opportunity and found that there was, indeed, a small Greek tanner interested in the formation
of a joint venture. After this initial information, A. L. and one of the employees from the joint
venture management team at the corporate center went to visit the Greek partner. The
corporate management team also found that a Greek government bank with the task to
promote the export of Greek goods was interested in the formation of a joint venture and would
participate in the venture. Several months later LEATHER the three partners agreed to form a
joint venture.

In the joint venture, the Greek entrepreneur contributed his knowledge of the local
market for animal skins, his existing operation, and his ability to manage the operation.
LEATHER contributed capital and technical know-how and, therefore, could purchase products
from the joint venture operation at the different stages of the production. The Greece bank
contributed with 30% of equity capital to the financing of the joint venture and helped in
resolving administrative and government related issues involved in the start up of the joint
venture. The control was split among the three partners, with LEATHER holding 51%, the
Greek entrepreneur holding some 19% and the Greek bank owning some 30% of the joint
venture’s equity.

The formation process was characterized by important initial misunderstandings about
contractual issues. Managers remembered vividly an antecedent when the parties met to sign
the final contract. In the last moment, final changes in the contracts needed to be made, as
important difficulties in the translation of specific clauses and the validity of specific clauses
between the partners resulted in new and improvised negotiations. Finally, new clauses
needed to be added in handwriting at the last moment. One of these phrases included the
promises that the Greek entrepreneur would resign from his position as joint venture manager
in the case where operating problems occurred. However, not all issues could be resolved at
the last moment. Without a complete resolution of these contractual issues, the contract was
signed and the joint venture was started.

The joint venture was a fully integrated operation that could operate independently of
LEATHER Group if necessary. The joint venture’s production activities started with the
purchasing of raw animal skins in the Greek market. These would be treated in the company’s
tannery and could be finished in the joint venture operation. The technology operated in the
joint venture was mature yet more advanced than the technology at the disposal of the Spanish
partner.

The joint venture management could produce for the Greek and the international
markets, as it saw fit. In addition, it was agreed that the joint venture would supply LEATHER’s
other units at the negotiated transfer price. This was left to the joint venture management and
LEATHER’s other subsidiary managers, as the corporate center’s managers did not get
involved in these decisions.
Unfavorable Development of the Joint Venture

The Joint Venture got off to a rather poor start. The Greek entrepreneur proved incapable of getting the production facility to operate and was not able to sell the products to international markets. On the other hand, LEATHER's sister subsidiaries were not willing to accept the production from the Greek facility, as the output did not meet the delivery and quality requirements of the downstream divisions. The other divisions of the LEATHER Group were also unwilling to purchase from the joint venture to ensure its overall survival. Overall, within 6 months, the joint venture had lost half of its equity and was about to go bankrupt within another six months. This triggered LEATHER's joint venture managers at the corporate center to get involved. Initially, this included providing some assistance to the joint venture manager, the Greek entrepreneur. However, within a short time frame, LEATHER's managers believed that the joint venture was not sustainable based on the way it was performing at that time.

Redefinition of the Joint Venture

An initial redefinition of the joint venture occurred, as the LEATHER management was not willing to accept the poor performance of the venture. The first measure taken was the substitution of the Greek entrepreneur as manager of the operation by a manager from the LEATHER Group.

This caused some difficulties, as the Greek entrepreneur was not willing to resign from his position as the general manager of the joint venture. He was ousted through an agreement of LEATHER with the Greek bank. Later the bank purchased the stock of the entrepreneur in the venture so that LEATHER had a 51% participation in the venture and the bank had a 49% participation in the venture.

With this structure, the nature of the venture changed completely. The bank assumed the role of a financial partner in the joint venture, and LEATHER took complete control of the overall joint venture's management. The Greek bank was primarily interested in the profits and exports generated through the joint venture. The latter was critical to the Greek bank, as the promotion of exports was government mandated. Also, the joint venture was perceived as important to the overall reputation of Greece as a location for multinational companies.

The LEATHER group took full control of the joint venture, transferring a manager from its Spanish operations to the Greek plant. The decision to continue the joint venture was considered politically important in the attempts to internationalize LEATHER, especially since A. L. had staked much of his influence on this first international joint venture.

Recuperation of the Joint Venture

Within several months, the immediate crisis of the joint venture was resolved and bankruptcy was avoided. The operation continued to operate as it had been redefined between
the partners. LEATHER’s operating management undertook several improvements in the operation which allowed it to improve the plant. Royalty payments and profit transfers were made as agreed upon between the partners. Later, with the overall development of the joint venture, several managers managed the operation. Over a long time frame, the joint venture developed with the overall cyclically of the industry. In some years, the venture generated good returns, and in other years the venture generated poor results, following the industry cycle.

**Development of the Joint Venture**

Since the reconfiguration of the joint venture, the venture has remained as it was, the partners have remained LEATHER and the Greek bank, and the continuing changes have been mainly of an operating nature. The joint venture has been operated by a LEATHER manager, who has had full decision making authority within the operation. Trade flows between the joint venture operation and the Spanish subsidiaries of the LEATHER Group have been limited. Two incidents, which are not strategic and unrelated to the typical industry fluctuations have influenced the performance of the joint venture negatively. These merit commentary in the context of the joint ventures continued development.

**Unfavorable Development of Joint Venture**

In the mid 1970s, a family member was to take over the joint venture operations of the LEATHER Group. This was by no means a wise decision, as the family member selected for the position was very young, and it was not clear whether he could manage the operation. Before the arrival of the family member, a large additional investment into a new plant was undertaken so that, when the family member arrived at the facility, a new and very modern operation was installed.

This initiated the second serious crisis at the joint venture facility. The family member was not capable of managing the operation for a number of reasons. One of the reasons for this crisis was his inability to manage the joint venture. On the other hand, it was discovered that the facility was also oversized and too large for the business purposes in Greece. This led to another period of poor returns in the joint venture. This issue was resolved after several months, as the management of the facility was again changed, and the predecessor of the family member returned to take over the facility and limit the crisis.

**Relocation of the Plant**

One of the key difficulties with the initial plant location was that the permission to establish a production facility at that location was later revoked. The key point was that the facility did not have the permission to be put into operation at that location, and the company needed to relocate. Initially, management did everything possible to postpone such relocation. Over many years, the bank and the management of LEATHER had agreed that they would
think about relocation the following year in order to comply with Greek regulations. Only after this had gone on for about 10 years was this relocation undertaken.

The relocation was made to a new facility, where the partnering bank provided the construction facility and also took charge of the issues involved in constructing the necessary channel system for the residual waters that would take care of the water for the plant.

Moving the facility and making the investment into production capacity at a new facility led to a very unfavorable performance. The new facility did not function properly, as there were many problems in the management of the residual water system. The construction proved to be insufficient, as important engineering mistakes had occurred.

Interestingly, the management team did not totally agree with this evaluation. It was admitted that the venture was not very successful in the long term though very successful during certain short time frames, and this was accepted as natural in the market. Overall, the repatriated profits were evaluated as limited and not very important. However, the company perceived a gain, as with the reevaluation of the peseta accounting, but no real profits were recognized. These issues were still unresolved at the time this study was undertaken.

**Revisiting LEATHER in 2002**

In 2002, 5 years after this study was undertaken, we went back to gather additional data on the development of the IOCV.

Since 1997 the IOCV remained in operation but had not changed much. It was still operated by the LEATHER group and still managed with the Greek partner. However its structure was changed somewhat, as it did not markets its products any longer independently, but the products were marketed by LEATHER.

This change was implemented, as external management took further control at LEATHER, as the family had further reduced its stake in the company, and non-family ownership and management had taken control of the business. One of the changes introduced by the new ownership/management was the implementation of a central marketing unit, which would coordinate the activities along the value chain, avoiding the difficult transfer problems in the business, and assuring rapid processing from raw materials to final products.

However, other changes were not discernable within the family business and within the joint venture.